



# Executive Summary of the First Session of the Gazelles Innovation Panel

## 1. Introduction

The Gazelles Innovation Panel was held on March 29, 2006 in Brussels. The following experts participated

Chairman: **Erkko Autio** (HEC Lausanne)

Members: **John Hill** (Pera Group), **Miguel Palacios** (Universidad Politecnica de Madrid), **Thomas Oberholzner** (Austrian Institute for SME Research), **Thomas Liljemark** (VINNOVA), **Jack Malan** (Centre for Strategy & Evaluation Services LLP), **Emmanuel Leprince** (European Federation of High-Tech SME's), **Maria Clara Torrens** (PROGRAMMA INNOVA, UPC), **Frédéric Soudain** (Europe's 500 Entrepreneurs For Growth).

Presenter of the Scoping Paper and Rapporteur: **Werner Hölzl** (WIFO)

## 2. Issues related to the Sectoral Scoping Paper

The general assessment of the scoping paper was positive. The panel considered that the scoping paper was a good representation of action in relation to gazelles and the difficulties related to policy formulation. The proposed definition of gazelles was accepted. It was suggested that some discussion on clusters, external effects including the crowding out of competitors, and possible skill shortages should have more prominence in the paper. A number of detailed comments were made and these will be taken into account in the revised text.

Particular emphasis was placed on the aspect of skills. It was stressed that not only are the education and skills of the entrepreneur important but also the workforce must have the required level of skills. It was pointed out that the lack of skilled labour was cited by companies as one of the most common barriers to growth. Lack of skilled labour is frequently seen as being more of a handicap than lack of finance.





Public policy should concentrate on other aspects than reducing barriers to entry, which might increase firms' turnover but would not necessarily lead to a higher share of gazelles. Framework conditions related to the liberalization of protected markets, the provision of a skilled workforce and entrepreneurial (management) education schemes are likely to provide greater benefits.

The education system is important as the availability of skilled labour is an important barrier hampering SME's growth. While the general education system affects the availability of skilled labour generally for small and medium sized enterprises (SMEs), university spin-offs and incubators are important for high-tech SMEs. However, it is the size of the market (niche) that ultimately determines whether such firms have the potential to become gazelles.

The importance of gazelles for job generation is well documented. There is consistent evidence that the top 5% of firms generate 75% to 80% of new jobs creation. However, there is still lack of robust evidence on a number of determinants of gazelle's behaviour. The available evidence suggests that the link between the aggregate level and the firm level is weak. For instance, there are gazelles in declining industries, e.g. textiles. The availability of skilled labour was considered important for fostering firm growth. The link between gazelle behaviour and formal R&D is weak. However, gazelles almost certainly do engage in non-technical innovation, which gives them a competitive edge. New distribution systems, new marketing methods and production organisation are examples of non-technical innovation. Thus, there are clearly different kinds of gazelles, which highlights the need for a typology of gazelles.

This makes it difficult to base policy on a particular selection of firms. It might be better to target sectors rather than firms. It was pointed out that offering help to businesses that will, in any case, be successful is not good industrial policy. Industrial policy and public intervention should be based on sound principles such as market or system failures. Thus, it is important to get the framework conditions right. Increasing the openness of markets, removing barriers to growth, and eliminating the regulatory barriers to entry should all be part of a public policy aimed at fostering gazelle behaviour. Competition policy is important to guarantee a level playing field between large established companies and growth-oriented SMEs. A central policy issue is the availability of skilled labour. A number of issues, such as the provision of an IPRS regime, are clearly sector-specific so that no general assessment can be made.

Policy should therefore be focused on providing the right framework conditions to encourage gazelle type behaviour. It was emphasized that policy that aims at spectacular successes needs also take into account the possibility of spectacular failures. Fostering entrepreneurship involves encouraging both successful and less successful entrepreneurs. It was also pointed out that Europe has many examples of high-

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growth firms including IKEA, Zara, H&M, and high growth companies such as Skype. The Europe 500 list includes a number of examples of outstanding success.

Nevertheless, there is clearly a need for representative studies of gazelle behaviour. For example, it was pointed out that the embeddedness of gazelles in clusters, and the interrelationships between the dynamics of clusters and gazelle behaviour are not well understood. Research based on harmonized longitudinal datasets will be necessary in order to explore the phenomenon of gazelles in depth, and to provide a basis for a typology. Unfortunately, such data are not currently available. Providing researchers with such data would help to gain more insight into gazelle behaviour.

### **3. Issues related to the Aho Report**

The Aho report conveys a sense of urgency. On the positive side the report emphasizes that centrality of R&D and innovation to the European economy. However the report does not address the division of labour at EU, national and regional levels. It is well known that innovation policy is in large part a national policy. Subsidiarity needs to be explicitly taken into account when addressing these issues.

It was emphasized that harmonization of regulation is important, especially with regard to making the single market work and in relation to small entrepreneurial firms. Public procurement and the ambitious use of standards are likely to be important for gazelles. With regard to IPRs it was emphasized that different sectors have different needs. It is important to recognize the incentives as well as the costs, in the shape of creating monopolies, offered by IPRs.

With regard to the mobility of researchers it was emphasized that the most important output of universities is the people who work in industry, in research or who set up their own firms. It is important to increase mobility across boundaries. However, setting numerical goals is not considered to be an appropriate strategy.

It was emphasized that venture capital (VC) is likely to be very important for gazelle activity especially in sectors with high intangible capital. However, it is difficult to assess whether VC market failure is demand driven or supply driven, and this should be identified. On the one hand it was pointed out that the so called European Paradox was not a reality. Compared to the US European universities are "inefficient". It was also pointed out that the high concentration of US VC in projects may be related to the fact that in Europe some is publicly provided. It was emphasized that the weakness of European VC is also related to regulation, which inhibits the exploitation of economies of scale, and the enterprise and equity culture. In addition, it may also be related to entrepreneurial skills in VC firms.





As little is known about the relationship between clusters and gazelles this is impossible to assess. However, it was pointed out that conservative clusters may have a negative effect on gazelle behaviour. Similarly, large scale strategic actions may not be suitable for fostering gazelle behaviour, even though in the context of specific sectors they may seem relevant.

#### **4. Issues related to Intellectual Property Rights (IPR)**

As gazelles are distributed across sectors with different characteristics and needs, no general conclusion about the use and importance of IPRs can be made. Although in some sectors (e.g. biotechnology) IPRs are crucial for new firm and product generation, in more traditional sectors SMEs are at a disadvantage when it comes to costly patent disputes. Moreover, it was pointed out that patent applications from SMEs have on average a higher rejection rate than applications from large firms, which may be related to the fixed costs involved in patenting.

It was concluded that the use of IPRs must be considered within the strategy of appropriation of innovation gains within industries. IPRs should not be used as a way of creating possibilities for rent-seeking activities but only to foster innovation. The fostering of markets for technology would help to reduce the possible disadvantages related to overly strong IPR protection.

There was some controversy about the usefulness of encouraging academic and university patenting. On the one hand, the costs of patenting are substantial and most universities cannot be expected to earn much money from licensing as the value of patents is distributed in an extremely skewed fashion. On the other hand, it was argued that university patenting could help to overcome problems of technology transfer. It was concluded that there is not enough evidence to allow firm conclusions. Nevertheless, with regard to collaborative and cross-national research there needs to be a harmonization of universities' patenting regulations.

