

Promoting innovative entrepreneurship – challenges for policy makers

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Agenda

- What is innovative entrepreneurship?
- Why is innovative entrepreneurship important?
- What drives innovative entrepreneurship?
- What are the impediments for innovative entrepreneurship?
- Do we have too little innovative entrepreneurship?
- What could and should policy makers do to stimulate innovative entrepreneurship?

What is innovative entrepreneurship?

- It is **NOT only** equal to high-tech and knowledge-intensive entrepreneurship!
- Innovative entrepreneurship = entrepreneurship that generates *creative destruction*, i.e., that
 - *destroys* incumbent firms and even whole industries, and
 - *creates* new opportunities, new firms and even new industries
- Innovative entrepreneurship can take place in any industry but the potential for innovative entrepreneurship varies between industries

Innovative entrepreneurship = “the carrying out of new combinations”

- The introduction of *a new product or a new quality of an existing product*
- The introduction of *a new method or organization of production*
- The opening up of *a new market*
- The opening up of *a new source of input supply*
- The carrying out of *a new organization of an industry*

Why is innovative entrepreneurship important?

- A multitude of innovative entrepreneurial actions generate *a variety of new experiments*
- The continuous competition between these initiatives leads to a *selection of the most viable firms* (and industries)
- Variety, competition, selection and imitation transform and expand the aggregate productive potential, i.e., generate *economic growth*

Economic growth driven by innovative entrepreneurship is

- **NOT** a result of the emergence of gazelle & high-tech firms, but
- the result of the emergence and *diffusion of innovations with many applications* preferably in many industries

What drives innovative entrepreneurship?

- The emergence of *new knowledge*,
- Changes in the *market opportunities*, and/or
- Changes in the *institutional framework*
- *Innovative, flexible, dynamic, risk-taking, creative, growth-oriented and profit-motivated individuals*
- *Rivalry* among incumbent firms
- *Institutional holes*

What are the general impediments to innovative entrepreneurship? (1)

- Substantial *barriers to entry* in many markets, i.e., not least due to *inefficient competition and anti-trust policies*
- High fixed development and *start-up costs*
- *Underdeveloped institutions* resulting in *unclear property rights* and *high transaction costs*
- *Too low R&D investments*
- *Lack of qualified university graduates*
- *All too few elite universities*

What are the general impediments to innovative entrepreneurship? (2)

- *A large public sector, i.e., a high total tax share*
 - *limits the accessible market for new firms,*
 - *reduces the incentives for entrepreneurship by a generous social welfare, and*
 - *aggravates entrepreneurship by making it more difficult to build up personal wealth*
 - *generates “tax wedges”, which influence the volume and focus of entrepreneurship*

What are the general impediments to innovative entrepreneurship? (3)

- The *current financial crisis*
- The functioning of the capital market
 - *high demands for securities for loans,*
 - *too few financial intermediaries*
 - *lack of business angels, risk capitalists, etc.*
- *Incentive problems* due to principal-agent relationships
- The *information paradox*

What are the general impediments to innovative entrepreneurship? (4)

- *Credit rationing* to new firms due to
 - *asymmetric information*,
 - *lack of information* about the *capacity and competence* of the potential entrepreneur,
 - *lack of information* about the strength of the *business idea*, and
 - *no long-term relationship*
- i.e., the *liability of innovativeness, newness and smallness*

What are the individual impediments to innovative entrepreneurship?

- Lack of *own wealth*
- *Risk aversion*
- The existing of *competing alternatives*

Do we have too little innovative entrepreneurship?

- There are *many impediments to innovative entrepreneurship* both in the economy and the society at large
- Thus, we may assume that *the actual level of innovative entrepreneurship is lower than the optimal level*

Policies to promote innovative entrepreneurship

- are
 - **NOT** about small and medium-sized companies (SMEs), but
 - about creating good conditions for entrepreneurship that generates *creative destruction*
- shall concentrate on optimal conditions for *change processes*, i.e., firm entries, firm exits and firm growth

How to promote innovative entrepreneurship? (1)

- Secure *efficient institutions*
 - to secure clear property rights and low transaction costs, and
 - to stimulate *productive* innovative entrepreneurship!
- Implement *efficient competition and anti-trust policies* – important not least for innovative entrepreneurship in the service sector!
- *Reduce the scope of the public sector* as a producer and open up for private provision with public financing!

How to promote innovative entrepreneurship? (2)

- *Allow market selection* to do its own job fully!
- Try to keep start-up costs low **BUT** *avoid* in principle *entry subsidies* that distort both market selection and learning processes!
- There might be *a case for post-entry subsidies* to help young firms to grow and enter the core of the market at home and abroad if there are capital market imperfections

How to promote innovative entrepreneurship? (3)

- Increase at targeted *research universities*
 - the support for *basic research*, and
 - the strength of the *infrastructure* in terms of incubators and science, technology and research parks!
- Create *transfer programs* to transmit scientific, technical and non-technical knowledge from universities and government research institutes for commercialisation in the form of new firm start-ups!
- Support *imports* of knowledge-intensive products!

How to promote innovative entrepreneurship? (4)

- Stimulate *entrepreneurship education* from primary school to the university!
- Create an entrepreneurial culture – Europe must learn to love entrepreneurship and, in particular, innovative entrepreneurs!
- Observe that innovative entrepreneurship is *a localized phenomenon*, which implies that the measures to create *an innovative milieu* must be implemented at the local and regional level!

How to promote innovative entrepreneurship? (5)

- Change the rules of the game to *stimulate innovative entrepreneurship in the public sector* – this is indeed the largest challenge for policy makers who want to promote innovative entrepreneurship!

Thank you for inviting me to give
this presentation!