

**ECONOMIC PROSPERITY AND SOCIAL COHESION:
THE ROLE OF ENTREPRENEURSHIP AND INNOVATION
AN OECD PERSPECTIVE**

**Speech by the OECD Deputy Secretary General
Mr. Aart de Geus**

Dear Sheik, Dear participants,

I am honoured to be here today to discuss entrepreneurship and innovation, a topic which is crucial for economic and social development. This is especially true for Bahrain, one of the fastest-growing countries in the Middle East, but which still relies heavily on oil, financial services and construction as the key pillars of the national economy.

Let me be clear in saying that nobody can doubt how oil extraction and processing have positively shaped the modernisation of Bahrain. It is equally doubtless that Bahrain's futuristic skyscrapers leave all of us nose up and mesmerised, wondering about the very meaning of the word 'development'.

And yet sustained economic development requires diversification, which is precisely where entrepreneurship and innovation play their role contributing to economic prosperity and to social cohesion. Indeed, these two objectives cannot be divided if a government is to deliver increased welfare to its people.

Economic prosperity

The contribution of entrepreneurship and innovation to economic prosperity has grown with the shift of the global economy towards a mode of production in which knowledge has become a key input.

The challenges of the knowledge economy originally interested the most advanced economies, but are now critical to growth in emerging economies as well. Vigorous entrepreneurship and SME development are among the most important conditions for successfully meeting the challenges.

It is worth recalling the main factors underpinning the shift to an entrepreneurial economy in which new and small firms are critical components:

- Firstly, increased competition, growing incomes and new technologies have reduced the average lifetime of products and reduced the possibilities for product standardisation and large-scale production. The development of the telephone is an example. Whereas until the 1980s there was only one standard type of home telephone for landline communication, the introduction of mobile phones in the 1990s has come with an enormous diversification of the product in feature phones such as music phones and camera phones and more recently in the new wave of smart-phones, not to mention all accessories related to the main product such as cases and holders, hand-free devices, ringtones, etc.
- Secondly, the growing importance of knowledge as a factor of production means that innovation is ever more related to creativity, and the latter fits better the *modus operandi* of entrepreneurs and small firms. To remain with the example of mobile phones, the rise of smart-phones has allowed creative people and firms to develop and sell new applications, from games to software allowing free communication. We can talk of a new app-market that is today being developed by entrepreneurs.
- Thirdly, business innovation has become increasingly open and collaborative, as opposed to the traditional 'closed' in-house innovation model of the R&D labs of large corporations. This 'distributed' model creates new opportunities for small firms, which can benefit from participation in knowledge-based partnerships and networks. This is reflected in current innovation policies that rely a great deal on network policies such as cluster development programmes, collaborative research agreements, university-industry labour mobility, and so forth.
- Fourthly, new non-technological forms of innovation such as new marketing strategies and organisational improvements that do not require large investment in R&D enable small firms

to participate more actively in the innovation process, enhancing their contribution to productivity.

In the entrepreneurial economy new firms support innovation in manifold ways.

- They upgrade the overall productivity of the economy by replacing inefficient firms.
- They exploit knowledge that would otherwise be left commercially ‘unused’ by universities and existing companies.
- They sometimes produce breakthroughs, especially in knowledge-intensive industries.
- And they exchange knowledge with customers, suppliers, universities and other organisations, generating knowledge spillovers that are beneficial to economic growth.

However, the picture is not so idyllic and thinking that all new and small firms are equally innovative would be misleading. ***Significant barriers hinder the innovation of the average small firm***, including access to finance, poor management and entrepreneurial skills, lack of qualified personnel, short-term perspective, limited awareness of innovation needs, etc.

Government policies are therefore needed and these should be based on a sound understanding of how new and small firms innovate. ***The OECD experience suggests that what makes these firms different from large corporations in their ‘road to innovation’ is their strong emphasis on collaboration.***

Small businesses rely more often than large and established companies on co-operation with other organisations such as suppliers, customers, universities, and public agencies for their innovative activities. Knowledge spillovers, both from public research organisations and other firms, strongly contribute to the innovativeness of small enterprises.

Interestingly, cooperation does not replace direct investment in innovation. Recent OECD analyses show that enterprises that spend more on research & development, information and communication technologies and training, all inputs in the innovation process, are also those more likely to cooperate with other firms in their innovation activities. This implies that collaboration is rather undertaken to

extend the scope of a project or to complement the competencies of firms more than to just save on costs. Moreover, in most countries, collaboration with foreign partners is often as important as domestic cooperation. To mention some examples, the share of innovative firms that engage in collaboration ranges from 57% in Finland to 12% in Italy, whereas China and Korea have the smallest share of innovative firms collaborating with foreign partners.

Social cohesion

Entrepreneurship is not just a vehicle of economic prosperity. New personal and collective needs and expectations are emerging that cannot always be met by governments whose action is restrained by budgetary issues. New forms of ‘social’ entrepreneurship and innovation, aiming at fulfilling both social and economic objectives, have risen in importance to address these new needs. *Social entrepreneurship contributes to a progress that is economically and socially inclusive* by reducing unemployment, poverty and social exclusion, particularly amongst disadvantaged and vulnerable groups.

In several OECD countries, and beyond, *a new wave of social entrepreneurs is emerging*; leading entrepreneurs such as Bill Gates, Georges Soros and Sir Ronald Cohen, are devoting not only financial resources but also their entrepreneurial skills to foster entrepreneurship and creativity to tackle social problems.

Far from merely being a fashionable phenomenon, *social entrepreneurship today represents a consolidated and growing trend in most countries.* For example, in the UK in 2010, 1.2 million people, or 3.2% of the working-age population could be classified as social entrepreneurs, whilst in Italy it was estimated that in 2009 there were 15 000 social enterprises employing 350 000 employees, serving 5 million users and with an economic turnover of EUR 10 billion.

The OECD is proud to be making a strategic contribution to the development of social entrepreneurship around the globe. We were the first international organisation to systematically

explore the field. In 1999 the OECD provided the first widely accepted definition of social enterprises, which has raised the profile of social entrepreneurship, informed policy and inspired national laws on social enterprises in the United Kingdom, France and Italy.

OECD policy recommendations on entrepreneurship and innovation

As is clear from what I have said so far, the OECD has a long tradition of work on the themes of entrepreneurship and innovation. The Centre for Entrepreneurship, SMEs and Local Development is a body of the OECD specifically focused on developing policy recommendations for the promotion of entrepreneurship and SMEs at both national and local levels, carrying out a series of country reviews, local reviews and thematic studies that are very informative of how to promote the emergence of an entrepreneurial economy.

I will conclude this intervention by sharing with you some of the major recommendations that stem from these OECD studies, which are set out more fully in the recent OECD publication on SMEs, Entrepreneurship and Innovation.

1. **Promote conducive entrepreneurship cultures and framework conditions.** For example:

- ***Foster positive attitudes*** in society to business start up and growth, including through education and the media.
- Ensure that specific needs and conditions of entrepreneurship and SME activity are taken into account in ***framework conditions and regulations*** affecting business.
- ***Tackle finance gaps*** affecting new and small firms, such as in the early stages of innovation or in the social economy sector.

2. **Embed new firms and SMEs in knowledge flows.** For example:

- ***Strengthen knowledge-based entrepreneurship*** by providing advice and training to start-up entrepreneurs who have strong technological knowledge but lack market and commercial expertise.
- ***Promote innovation partnerships*** among firms, research organisations and government agencies to provide support infrastructures such as science parks and incubators, collaborative research opportunities, services for knowledge transfer, and intelligence functions aimed at anticipating future needs and opportunities.

3. **Strengthen entrepreneurial human capital.** For example:

- ***Build up entrepreneurship education in universities and higher education institutions,*** and link it up to the promotion of company creation by graduates, for instance through providing seed funding, mentors and proof-of-concept programmes. The needs of social enterprises and social entrepreneurs should also be addressed in the delivery of entrepreneurship education programmes.
- ***Embed teaching of an entrepreneurial mindset in schools*** through changes in curricula and introduction of relevant teacher training and teaching materials designed for entrepreneurship.
- ***Increase the use of informal learning sources*** by facilitating collaborations with firms and consultants providing knowledge-intensive services activities, such as through innovation voucher programmes for SMEs.

I would also like to highlight some specific policy priorities for the promotion of social entrepreneurship:

- ***Facilitate the development of a social investment marketplace*** that will provide funds for social entrepreneurs who often find that mainstream commercial finance markets are poorly adapted to their sector. For example, fiscal incentives may be used to attract investors, seed funding programmes may be developed for individuals in the early phases of social entrepreneurship projects, and public procurement measures can include socio-environmental criteria.
- ***Evaluate the impacts of social entrepreneurship and social innovation*** in order to show the policy approaches that work best, making use of properly adapted methods such as Social Return on Investment measures and balanced scorecards.
- ***Create incubators for social enterprises and social innovation intermediaries*** to bring together the skills and expertise necessary to help sustain and develop social projects, provide a space to experiment, support learning across a community of innovators and establish clear pathways for scaling up the most promising models.

In this introductory intervention I have tried to fulfil the hard task of summarising the perspective of the OECD on the ‘role of entrepreneurship and innovation in economic prosperity and social cohesion’. This is a very complex and multifaceted topic that can be tackled and analysed from different perspectives. This indeed is the main purpose of this international conference which I very much welcome. I look forward to some interesting discussions and insights in this very important field.