

Press Release, February 23, 2012

Institute releases Working Paper on small business, entrepreneurship, and innovation

New research by the Institute for Competitiveness & Prosperity shows that public policy should focus on truly entrepreneurial firms to strengthen innovation capabilities in Ontario and Canada

Toronto – Smaller businesses are the backbone of Ontario’s and Canada’s economies. But not all smaller businesses are the same. Our economy would be better served if public policy focused on assisting the relatively small number of entrepreneurial high-growth, high-impact firms that will drive innovation, productivity, and prosperity. Thus the emphasis in taxation and broader economic policy should shift from smaller to growing firms. These are the key conclusions of the Working Paper, *Small business, entrepreneurship, and innovation*, released today by the Institute for Competitiveness & Prosperity. Previous Institute research has focused on the innovation and prosperity gaps in Ontario and Canada – the failure to achieve our full economic potential. In the research released today, the Institute draws the connection between innovation, prosperity and our small- and medium-sized business sector.

“Many observers argue correctly that an important element of our economic progress is the success of small and medium enterprises,” said Roger Martin, Dean of the University of Toronto’s Joseph L. Rotman School of Management and Chairman of the Institute. But the Working Paper concludes that the vast majority of smaller businesses do not drive innovation, productivity, and prosperity any more than other businesses. Martin added: “There is a small percentage of smaller businesses with the drive, ambition, and capabilities to have a high impact on our economy. Identifying and supporting the growth potential of these firms has to be the priority.”

The Working Paper acknowledges that identifying and supporting these firms is a very challenging goal – and there is no special formula for achieving it. But certain factors are associated with the success of entrepreneurs in Canada and elsewhere – education, specific industry experience, maturity, and the benefit of industry clusters. Contrary to popular belief, entrepreneurs who ultimately built today’s global leaders tended to be in their 30s or older when they started up their businesses. They had industry experience relevant to their new venture. And they were much more likely than the average business person to have a university degree, particularly a graduate degree.

The Working Paper recommends some economic policies to be pursued for their positive impact on the economy at large, but also for their specific benefit to entrepreneurial firms. Among these are continued emphasis on post secondary education, including business education, and encouragement of regional industry clusters that have demonstrated vitality. It also recommends policies specifically aimed at helping entrepreneurial firms grow – smarter procurement by governments to improve public services and to provide experience and credibility for innovative firms and tax policies that are beneficial for growing, rather than all smaller firms. In addition, it recommends that governments experiment with programs that focus on the small number of high-potential firms. Martin acknowledged the challenge of such an approach. “Picking winners is not something that we’re

recommending; rather, we're trying to improve the odds for successful entrepreneurs." The Working Paper identifies programs, such as the Ontario's Innovators Alliance and the Ontario Network of Excellence, that aim in the right direction – providing support and advice to growing entrepreneurs. The Institute encourages more experimentation, but also rigorous evaluation.

Actions to strengthen entrepreneurship and innovation

Continue to develop economic policy that promotes innovation and productivity in all sectors

- Invest in post secondary education
- Strengthen the environment for industry clusters

Build on current approaches that are customized to high-potential entrepreneurs

- Experiment with focused support, but with ongoing evaluation of results

Expand smart procurement by governments to create opportunities for small- and medium-sized businesses – and all businesses

- Enhance firms' credibility with reference customers
- Use procurement to drive innovation

Make the tax system as neutral as possible, but explore specific changes to help growth-oriented businesses

- Reduce capital gains at initial public offering
- Encourage capital investment by allowing fast write-offs of maintenance investments
- Shift tax breaks from all smaller firms to growing firms.

About the Institute

The Institute for Competitiveness & Prosperity is an independent not-for-profit organization established in 2001 to serve as the research arm of Ontario's Task Force on Competitiveness, Productivity and Economic Progress. The Institute is supported by the Ontario Ministry of Economic Development and Innovation. Working Papers published by the Institute are primarily intended to inform the work of the Task Force. In addition, they are designed to raise public awareness and stimulate debate on a range of issues related to competitiveness and prosperity.

The complete report can be downloaded directly from:

http://www.competeprosper.ca/images/uploads/ICAP_WP15_Final.pdf

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