

Chapter

5

Essential Conditions

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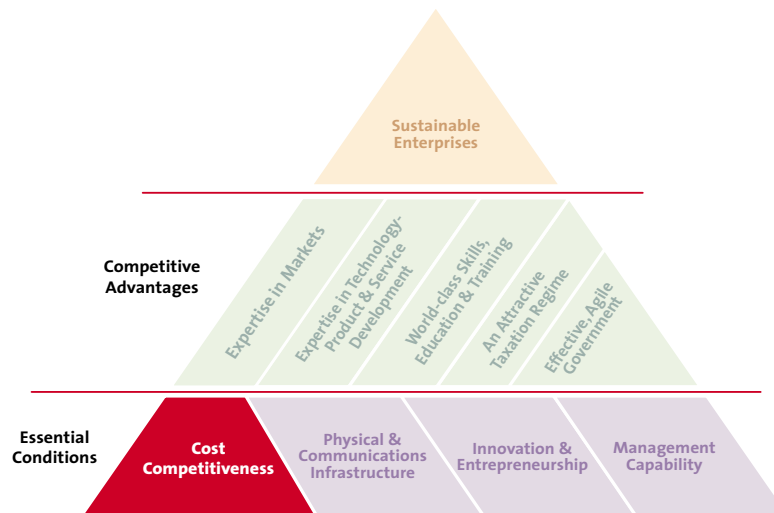
Ireland's future depends on an enterprise sector that is knowledge-based and market-led, operating in a distinctive competitive business environment, as set out in Chapter 4.

Certain conditions, while not conferring competitive advantage, are essential to the success of the strategy – they are basic requirements for international competitiveness. These are discussed in this Chapter.

This Chapter comprises four main sections, as follows:

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5.1 Cost Competitiveness



Even high value innovation-driven enterprises ultimately have to compete on costs. In Ireland, however, many costs and price levels are considerably higher than those of our main competitors, as noted in a number of reports including the National Competitiveness Council's *Annual Competitiveness Report 2003*. In Ireland, the costs of insurance, broadband, electricity, office rental, waste disposal, transport and professional services – to name but a few – are significantly higher than in competitor countries.

As many of these specific areas are already being considered by the National Competitiveness Council and others, this report focuses on a number of deep-seated structural factors that contribute to Ireland's cost profile, which must be addressed because they pose a fundamental threat to Irish national competitiveness:

- » A lack of effective competition policies
- » Excessive or inappropriate regulatory policies
- » An inability to promote and reward workplace productivity
- » Higher housing costs.

Each of these factors is described in turn.

5.1.1 Competition Policies

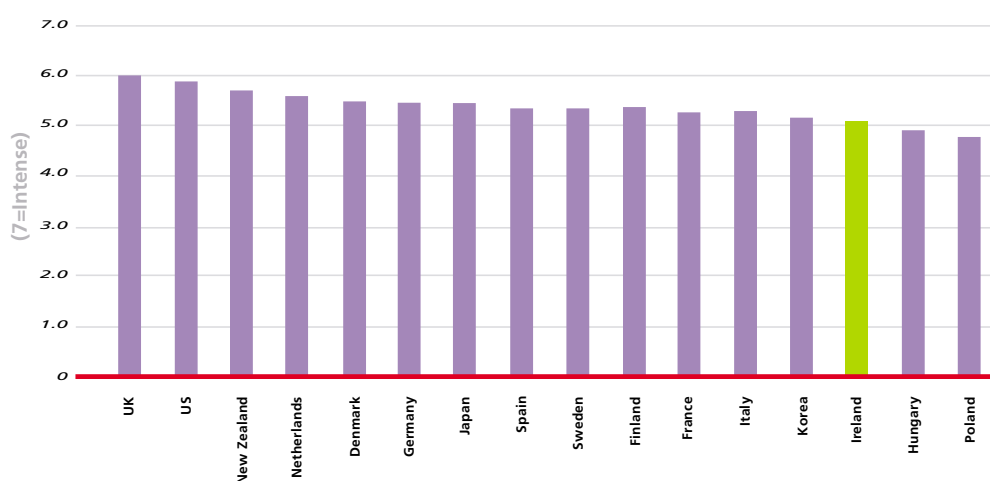
In the past, Government policies in many spheres have inhibited competition and thereby prevented the emergence of more efficient, innovative and responsive industry structures that would lower costs and improve services for business and consumers. These policies have resulted in:

- » Direct and indirect barriers to entry to markets (for example, through restrictive state licensing schemes, or through the customs and practices engaged in by some of the self-regulated professions)

- » The absence of competition in the provision of economic infrastructure via statutory and other monopolies
- » The sheltered status enjoyed by many areas of business activity through legal protections of one kind or another (for example, claims that particular sectors are ‘special’ and that normal market disciplines should not therefore apply).

The low level of competition is particularly notable in the case of goods and services that are not traded internationally. A World Economic Forum study of the intensity of local competition in 16 countries ranked Ireland in 14th place.

Figure 5.1
Intensity of Local Competition



Source: World Economic Forum, *Global Competitiveness Report 2003-2004*

The restriction of competition allows dominant companies to produce goods and services inefficiently and/or to inflate prices artificially. This affects the cost base of enterprise and limits the range and quality of choice available, thus impacting negatively on the international competitiveness of companies requiring such goods and services as inputs to their businesses. Higher prices also have an indirect effect on the cost base of industry in that they put upward pressure on wage demands and make the country less attractive to skilled immigrants. In general, therefore, regulation that inhibits competition operates against the best interests of consumers and ultimately against the well-being of the economy.

With increased powers under the Competition Act 2002, the Competition Authority has challenged anti-competitive practices across a number of sectors. However, they and others, continue to highlight a range of sectors where consumer interests are secondary to those of producers.

Adequate competition is a prerequisite for efficient markets and efficient markets are vital to driving down the cost of doing business. Legislation in this area must be backed by enforcement. Unlike most EU countries (such as the UK, Germany and France), Ireland has no civil sanctions for infringements of competition law. As only a small set of competition matters can be successfully pursued through criminal enforcement, the absence of civil penalties weakens the ability of the State to enforce existing competition laws. We recognise that further work is required by the Government and the Attorney General to assess the constitutionality of civil sanctions.

Recommendations

Review and dismantle the many legislative shelters which serve to protect existing operators and restrict competition. In particular, quantitative restrictions of any kind that limit market entry and shelter incumbents should be removed. (Government)

Implement a regime of civil sanctions for infringements of competition law in conjunction with the Competition Authority. (Government)

5.1.2 Regulation Policies

Better regulation is increasingly being used across the developed world to create competitive advantage in the race for investment, jobs and innovation. While regulation is necessary and often valuable, it must be balanced against the costs to enterprise. Regulatory compliance has a price – not only in financial terms, but also in terms of time and management attention. This can have a significant impact on small businesses.

In the past, new regulations, both European and Irish, have been written into law without detailed consideration of their impact on small business. Going forward, when adopting new regulations, our guiding principle should be: *think small first*. If regulations are designed so that compliance is relatively easy for small firms, it is also likely to be easy for larger companies.

The regulatory environment must also be kept under review and any unnecessary, dated, unduly burdensome or impractical regulation should be repealed. In 2003, the Dutch Government committed itself to a 25% reduction in red tape by 2007. The Dutch Bureau for Economic Policy Analysis estimated that this would result in a 1.5% increase in Dutch GDP.

The Irish Government's White Paper, *Regulating Better*, (2004) spells out the first steps on the road to regulatory reform.¹⁰³ We welcome this initiative. It needs to be implemented and we need to go further.

Regulatory Impact Analysis

In many OECD countries (18 out of 28), an assessment is made of the expected consequences of any proposed new or changed regulation prior to its introduction. This is known as Regulatory Impact Analysis (RIA). While the proposed introduction of RIA in Ireland is welcome, a range of further actions are required if RIA is to be implemented in a meaningful way to improve the environment for enterprise development.

Recommendation

The Regulatory Impact Analysis (RIA) process must be fully transparent. RIAs should be published (subject to freedom of information confidentiality rules). While individual government departments and agencies should have the primary responsibility for conducting the RIAs, the Department of the Taoiseach should have a strong screening role and the power to reject RIAs due to inadequate analysis or enterprise consultation. (Government)

The White Paper *Regulating Better* acknowledges the importance of the RIA process and sets out a series of high-level steps toward its implementation. The following additional steps should be taken:

- » Special consideration should be given to whether the proposed measure will encourage entrepreneurship and when reviewing the impact on SMEs, the RIA should include a detailed assessment of the effects on their cost structure, as well as the administrative burden. In cases where there is a significant cost to SMEs without a corresponding gain in terms of the national policy objective of the draft regulation, consideration should be given to simplifying the regulation for smaller firms or creating a block exemption.
- » There is a particular dearth of information on SMEs¹⁰⁴ and the services sector. The National Statistics Board's strategy¹⁰⁵ to develop a network across government departments to generate official statistics from administrative records should be implemented.¹⁰⁶
- » Clearly not all administrative changes and ministerial orders can be the subject of a full RIA. This would represent an impossible requirement in terms of resources apart from introducing unnecessary delays in government. For regulations not subject to RIA, a simpler assessment process should be developed to ensure they meet basic quality criteria and that their broad impact is fully understood. Consultation and transparency procedures should be just as open as for larger-impact regulations.

Improving Sectoral Regulation

There are a number of issues associated with sectoral regulation in Ireland:

- » The proliferation, cost and lifespan of regulators
- » The lack of co-ordination between regulators and the Competition Authority, despite the existence of a range of bilateral co-operation agreements
- » The continued dominance of single companies in most sectors
- » The increases in prices of regulated services
- » The perceived inability of the regulatory regime to achieve national development objectives, such as broadband usage in telecommunications
- » Ireland's small market size and geographical location
- » Effective barriers to trade in many of the sectors in question
- » Rapid technological change.

104 *Despite the fact that SMEs account for 99% of all enterprises, two-thirds of all private sector employment and 50% of GDP in the EU.*

105 *National Statistics Board, Strategy for Statistics 2003-2008.*

106 *The introduction of a unique identifier code for businesses (to provide a linking mechanism for the data gathered across all administrative schemes) and a postal code system (to provide disaggregated local data) are key steps in this process.*

It is appropriate that the existing structure of sectoral regulators be reviewed, given the resources involved and the increasing importance of regulation. The White Paper *Regulating Better* commits the Government to “...*assess, on an ongoing basis, the possibilities for rationalisation of sectoral regulators including through the merger of existing regulators and/or through the sharing of common services*”.

Merging a number of regulators to create a larger multi-sectoral regulatory body could yield significant benefits, including:

- » The development and utilisation of more specialised resources and skills (legal, economic, etc) to promote competition and an ability to shift resources more easily away from sectors declining in importance
- » A greater ability to identify and deal with convergence in technologies, markets and other cross-sectoral regulatory issues more effectively
- » The development of a common approach and consistency of regulation across sectors
- » A reduction of costs to regulated sectors, as larger agencies can be more efficient through economies of scale, especially in advocacy, legal work and back office functions
- » An enhanced ability to deal with legal or political challenges to their independence.

Recommendation

The existing regulators for networked sectors (for example, electricity, gas, telecommunications and broadcasting) should be replaced by a new regulatory body covering all networked sectors. (Government)

5.1.3 Rewarding Workplace Productivity

Firms have to continually increase their productivity – either by reducing input costs or by increasing output value – in order to remain competitive and profitable and to pay employees real wage increases. Productivity is in everyone’s interest. Increases in productivity are best realised in a work environment that is flexible, and in which the creativity, knowledge, skills and experience of the workforce are channelled and rewarded. The majority of firms in Ireland lack the structures for this to happen. Over the next few years, firms that rise to this challenge and modernise their organisations will gain a distinct competitive edge.

Financial Participation and Reward

Employee financial participation (EFP) and reward systems, such as profit-sharing, gain sharing, share ownership schemes and savings-related schemes have been demonstrated to benefit the company through higher productivity, cost savings, improved quality of work and reduced staff turnover.¹⁰⁷ Profit-related remuneration has the added advantage that it is not a fixed cost, so that the company has greater flexibility in uncertain financial environments.

107 | NESI, *Profit Sharing, Employee Share Ownership and Gainsharing: What can they achieve? Research Series Paper No. 4, May 2000.*

Employees benefit tangibly, in terms of financial rewards and intangibly, in terms of job satisfaction.

Progress has already been made in Ireland on:

- » Approved profit sharing schemes (APSS)
- » Approved save as you earn schemes (SAYE)
- » Approved share option schemes (ASOS)
- » Employee share ownership plans (ESOPs)
- » Gain sharing.

Recommendations

Enterprise should use employee financial participation schemes (not just at management level) to promote employee commitment to business goals, increased productivity and reduced costs. (Enterprise)

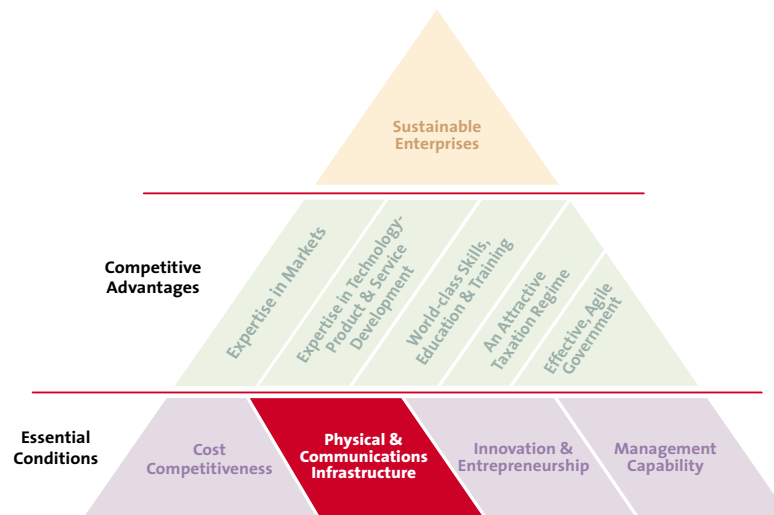
The Government and the social partners should urgently address the question of taxation of gain sharing related payments, in order to expedite implementation. (Government, Social Partners)

5.1.4 Housing Costs

High house prices are a significant contributor to increased wage demands. Strong economic growth in recent years, coupled with demographic changes, is creating very strong demand for housing, which is not matched by supply. This imbalance caused steep price rises – house prices in Ireland rose by an estimated 219% between 1995 and 2002.

The gap is narrowing somewhat: in 2003, 69,000 house completions were recorded – the ninth successive record year for house building. However, house prices continue to increase. Containment of growth in house prices is critical to ensuring wage growth stability and in enabling Ireland to compete for high-skilled immigrant labour. This is an issue that needs to be urgently addressed.

5.2 Infrastructural Requirements



The recent expansion and strong performance of the enterprise sector in Ireland has exposed deficiencies in Ireland's physical infrastructure. These deficiencies add substantially to business costs and impair their efficiency. They also affect business decisions regarding investment and location.

In recognition of these deficiencies – which result partly from the rapid development of the economy in the 1990s and partly from decades of under-investment – the National Development Plan 2000-2006 (NDP) committed to significant investment in infrastructure such as national roads, public transport and environmental infrastructure. While the next few years should see considerable improvement in physical infrastructure, substantial elements of the NDP will not be completed before 2006 – for example, the roads programme is behind schedule and over budget.

Five aspects of infrastructure are dealt with in this section:

- »» The requirement to invest in infrastructure ahead of demand in key centres
- »» The need to prioritise infrastructure investment decisions based on the current and future needs of enterprise
- »» The management of infrastructure projects
- »» The opportunities for North-South co-operation on infrastructure
- »» The need to develop infrastructure.

5.2.1 Investing in Infrastructure Ahead of Demand

While the economic advances of the past decade have had nationwide impact, job creation and new business activity have not been geographically balanced: the Greater Dublin Area has benefited disproportionately from the growth. The concentration of economic activity has been driven by factors such as the size and strength of the existing enterprise base, growing levels of accessibility (for example, international transport and telecommunications links), availability of a large skilled

workforce and a well-developed social infrastructure that promotes business networks. Research and educational facilities also play an important role in sustaining and promoting growth.

Weak infrastructure in the regions presents a barrier to their economic development. The key mechanism for enabling regional development is to enhance their infrastructure. Regions will attract enterprise only if they have the infrastructure and facilities that allow them to compete with Dublin and international regions for trade and investment.

The National Spatial Strategy

The National Spatial Strategy (NSS), published in November 2002, sets out a 20-year plan for greater regional balance. It identifies a number of gateways and hubs around the country into which it is intended to channel growth in the years ahead. In the absence of such policy intervention, it is estimated that the population of the Dublin and Mid-East regions would increase by approximately 750,000 by 2031.¹⁰⁸ We believe that if the gateways and hubs identified in the NSS are to provide business with a viable alternative to Dublin and compete with leading regions overseas, it is essential that they have the necessary infrastructure. The physical infrastructure and services must be able to support a critical mass of population and enterprise.

Recommendation

Invest in infrastructure ahead of demand in key locations. Investment should be prioritised in NSS designated gateways and hubs to enable them to achieve their regional potential. (Government)

5.2.2 Prioritising Infrastructure Investment Decisions

Funding for infrastructure and enterprise services is traditionally allocated to Government departments and agencies as an increment on past investment levels, rather than on an assessment of current and future enterprise requirements.

As the country increasingly moves towards a knowledge-based economy, the relative importance of different types of infrastructure is changing. Infrastructure that supports the mobility of people (for example, air services, national roads) and ideas (broadband networks) will increase in importance, while the relative demand for other types of infrastructure may diminish. It is important that such changing needs are reflected in investment decisions.

While significant progress is being made, the current key infrastructure priorities for enterprise include:¹⁰⁹

Broadband Telecommunications

Advanced telecommunications services are critical for the attraction of foreign direct investment, for the development of indigenous industry and the promotion of the knowledge economy. Relative to leading and competitor countries, broadband services in Ireland are more expensive for relatively low speed products, with restricted availability. Ireland ranks 11th in the EU-15 in terms of the monthly rental cost of ADSL, 30% above the EU-15 average.¹¹⁰

108 CSO, *Regional Population Projections 2001-2031*.

109 These priorities are based on an Inter-Agency Submission to the NDP Mid-Term Review, 2003, www.forfas.ie/ncc/reports/ncc030701/webopt/ncc0307_interagency_submission_NDP_midterm_review.pdf

110 ComReg Quarterly Market Report March 2004. This ranking is based on the cheapest offering in each country for a service equivalent to 1Mbit.

National and Non-national Roads

High-quality inter-urban infrastructure is critical for promoting regional development. We recommend that the following inter-urban routes be prioritised:

- » Dublin-Border motorway
- » Cork-Dublin motorway
- » Waterford-Dublin motorway
- » Cork-Limerick-Galway corridor
- » Galway-Dublin motorway
- » Limerick-Dublin motorway
- » Completion of the M50 South-Eastern motorway

By 2006, only the Dublin to Border (M1) route is scheduled for completion.

Funding also needs to be prioritised for non-national roads to improve access to these centres.

Waste Management Facilities

As many existing waste disposal facilities are reaching the end of their useful life, waste management needs to be urgently addressed. New facilities will have to be built to cater for hazardous and non-hazardous waste.

Air Services

Air services are particularly important for knowledge-intensive industries. For businesses operating internationally, proximity to an airport (in terms of time to access) coupled with cost effective, timely international connections is a prerequisite for a competitive location. To promote critical mass, the development of Dublin (including the provision of a second terminal) and Shannon, which can service the southern and western regions, should be prioritised. Road links between the airports and the regions they serve should also be improved.

Energy

There are significant concerns over the ability of the energy sector to cater for further economic expansion. The main objectives of energy policy in Ireland over the next 5-10 years should be to achieve security of supply while ensuring that costs are competitive with those of Ireland's main trading partners and to minimise the impact of energy provision and consumption on the environment.

Recommendation

Develop a strategic infrastructure investment programme for the period beyond 2006. Based on the current and future needs of industry, the programme should prioritise investment in broadband, national roads, waste management, air services and energy. (Government)

Increasingly, the private sector is working with the State to provide a range of economic infrastructure (for example, motorways and waste management facilities), both directly and through public-private partnerships. The State should ensure that the business environment is conducive to private sector investment in infrastructure and should invest only where there is market failure (as, for example, in the case of broadband).

5.2.3 Management of Infrastructure Projects

Many of the major infrastructure projects in Ireland have been subject to delays and overruns in time and cost. While the development planning process is the cause of some delays, project planning, budgeting and project management appear to be inadequate when compared with other countries.¹¹¹ In some projects, too many state bodies are involved without the required level of co-ordination.

Recommendations

Each infrastructure project should be the responsibility of a single department or agency. Specific guidelines for consultation between agencies should be developed to clarify their respective remits and responsibilities. Government departments and agencies should ensure that they have adequate planning and project management skills to manage infrastructure projects. (Government)

Develop a mechanism to enable strategic national infrastructure projects to be processed quickly through the planning system and a special division of the High Court should be established to deal with judicial reviews of major infrastructural projects and third-party planning appeals. (Government)

5.2.4 North-South Co-operation

Both parts of the island of Ireland share many of the same natural resources (eg groundwater, sea, rivers, lakes, air, etc) and face similar environmental and economic challenges with respect to infrastructure development. As the Good Friday Agreement provides for increased interaction between institutions North and South, greater consideration should be given to the development of a shared infrastructure agenda.

The creation of North-South infrastructure would offer advantages to all parts of the island, particularly to exploit the significant economic development opportunities between larger cities and towns, such as between Derry and Letterkenny, Monaghan and Armagh, Cavan and Enniskillen and Dundalk and Newry and through the further enhancement of the emerging Dublin-Belfast economic corridor.

The following areas should be considered for collaborative development:

- » **Telecommunications:** Telecommunications operators should be encouraged to enhance cross-border telecommunications backbone networks to provide greater diversity of supply, competition and choice and to allow the entire island to benefit from Ireland's competitive international connectivity
- » **Roads:** The extension of the M1 has already substantially improved North-South access along the East coast. Access to the North-West requires further investment, as it suffers from poor road connections to Dublin and to centres in Northern Ireland

¹¹¹ *Inter-Agency Submission to the NDP Mid-Term Review, 2003*, www.forfas.ie/ncc/reports/ncc030701/webopt/ncc0307_interagency_submission_NDP_midterm_review.pdf

- » **Air Services:** The number, frequency and schedules of flights should be improved further, especially between Belfast, Derry, Dublin, Cork and Shannon
- » **Energy:** The adequacy of Ireland's electricity supply is in question; Northern Ireland has excess capacity. There is potential to develop an all-island energy market and an all-island electricity grid to the benefit of both economies
- » **Sea Ports:** Sea ports are essential for external trade. Improved access to Drogheda port and to ports in Northern Ireland would improve logistical efficiency.

Recommendation

Examine the potential for infrastructural development required to promote trade between Ireland and Northern Ireland and make concrete proposals to the two Governments. (InterTradeIreland)

5.2.5 eInfrastructure

Advanced broadband services are an absolute necessity for the development of knowledge-based enterprises in existing and emerging sectors, for the creation of an IT-literate society, for achieving more effective government services in areas such as healthcare and education and for Ireland's reputation as a world-class centre for enterprise and research.

Relative to physical infrastructure, such as road and rail, the NDP allocated modest funding to the development of broadband (€150 million – 0.3% of the NDP). Leading countries such as Korea, Sweden, Singapore, Japan and Taiwan, are investing significantly in eInfrastructure.

Although Ireland has excellent international connectivity, the cost of regional connectivity and the lack of access to the 'last mile' reduces competition and choice in the market. Within the public sector, various arms of Government are involved in the rollout of eInfrastructure, including the ESB, Bord Gáis, CIE, local authorities, city councils, HEAnet and the Department of Communications, Marine and Natural Resources. However, there needs to be an integrated vision of what all these constituent elements are to achieve and whether they are being exploited effectively to provide a competitive network infrastructure to meet the Government's broadband targets.

Due to the current competitive dynamic of the Irish market, prices, availability and quality of broadband services in Ireland are poor relative to other countries, especially for residential and small business customers. To address the current impediments to the supply of broadband, greater competition is required between broadband telecommunications organisations and between broadband delivery technologies (such as DSL, cable, fibre and wireless). Competition would stimulate greater choice, wider availability and reduced costs. At present, the aggregated nature of the Government's procurement services does not promote diversity and competition in the market. Significant additional regulatory pressure is required to promote the development of competition.

Government should stimulate demand for broadband by making more government services available online (or by making them more attractive online than otherwise) and by implementing a broadband awareness programme.

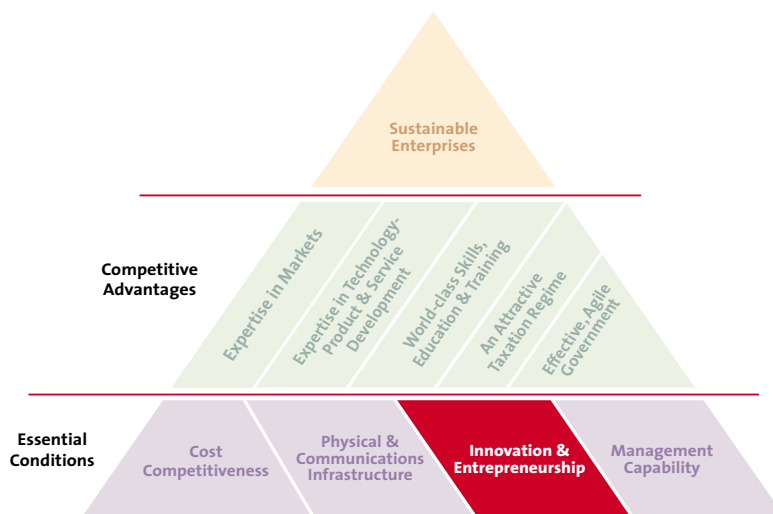
Recommendations

Accelerate the remaining phases of the Broadband Action Plan¹¹² (particularly to key NSS centres) and promote emerging communications technologies that could accelerate the uptake of high-speed broadband services in homes and businesses. (Department of Communications, Marine and Natural Resources)

Establish a competitive single national rate for national backbone access (over state owned networks). This would facilitate uptake of broadband by businesses and consumers in the regions, as well as helping to attract foreign investment to the regions. (Department of Communications, Marine and Natural Resources)

Disaggregate state procurement contracts for telecommunications services to promote the deployment of competing infrastructures and to foster services competition, ensuring long-term value for money. (Department of Finance)

5.3 Innovation and Entrepreneurship



Given the openness of the Irish economy, economic performance is highly sensitive to both Irish and global economic developments. Businesses that accept change as a fact of life and seek to accommodate it, adapt to it and initiate it as a central part of their business strategy will thrive in the years ahead.

Equally, for the state system, innovation is a requirement to sustain and improve standards of living.

This section deals with three aspects of innovation:

- » Innovation and entrepreneurship
- » Workplace innovation
- » Innovation in the public sector.

5.3.1 Stimulating Innovation and Entrepreneurship

Innovation requires a particular mindset that involves curiosity, creativity and problem-solving, the ability to continually question established ways of doing things and the ability to apply knowledge, insights and intuition to change them.

Innovation can be initiated anywhere in the organisation – on the factory floor or in the R&D laboratory.

Entrepreneurship requires this attitude, together with a desire for autonomy. It also requires a range of skills that is neither easy to teach nor learn, including people-management skills, negotiation skills, problem-solving and communication skills.

These skills and attitudes are necessary for starting and running a business, but they are also assets in an employment context. Only some people actually exercise their entrepreneurial skills by starting a business; others contribute to the success of the business that employs them. Employees who take responsibility for their work and its contribution to the company, who see it as their role to identify problems and solutions, who try to find ways to operate more efficiently and who work with their fellow employees and their employer to enhance the productivity of the business are particularly valuable – and especially so as the business becomes more knowledge-based. Entrepreneurial skills and attitudes deliver benefits to society in many ways – only one of which relates to new business start-ups.

Entrepreneurial skills and attitudes are core requirements in an innovation-driven, knowledge economy and they must be fostered. While the level of entrepreneurship in Ireland is one of the highest in Europe,¹¹³ it is considerably lower than in the US. It is also of concern that the level of entrepreneurship by women is significantly lower than in the most entrepreneurial nations, for example, the US, Canada, New Zealand and Australia.¹¹⁴ Given the significant contribution entrepreneurial behaviour can make to economic development, specific initiatives to promote entrepreneurship should be supported, including:

- » Education for entrepreneurship and developing an entrepreneurial culture
- » Ensuring that finance is available for entrepreneurs and for start-up companies.

Entrepreneurial Culture and Education

Public attitudes towards entrepreneurs in Ireland and particularly the attitude to business failure, have not been particularly positive.¹¹⁵ Although these attitudes are gradually changing for the better, there is a need for more education and awareness raising.

Clearly, the innate abilities of an individual, coupled with the business environment (ease of establishing a new business, access to finance and advice, as well as the prevailing cultural attitudes to entrepreneurship), are extremely important factors in determining whether they start a new business. However, innate abilities can be complemented by training to enhance the likelihood of the new business' survival and growth. Education can contribute to creating a more entrepreneurial culture by helping to build a more entrepreneurial mindset among young people.¹¹⁶

Education and training – both in its content and in the way in which it is delivered – can instil a positive attitude to entrepreneurship among students by:

113 Fitzsimons, O'Gorman; *The Global Entrepreneurship Monitor, 2003 –The Irish Report, How Entrepreneurial is Ireland? 2004.*

114 *ibid.*

115 Goodbody Economic Consultants, *Entrepreneurship in Ireland, October 2002.*

116 European Commission, *Green Paper Entrepreneurship in Europe, COM (2003) 27 final, January 2003.*

- » Providing positive role models and promoting self employment as a long-term career goal and focusing on this area in the curriculum, in transition year and in career guidance advice, with a particular emphasis on potential early school leavers
- » Fostering positive attitudes to personal responsibility, independence, self-directed learning, initiative and risk-taking
- » Teaching the basics of business, finance and communication at primary, secondary and higher levels of education
- » Giving greater recognition to non-academic achievement
- » Ensuring access to entrepreneurial award schemes
- » Providing relevant entrepreneurial training at third level, including a focus on commercialisation of academic innovations.

The applied and practical Leaving Certificate courses and the transition year facilitate this process. Many of the higher education and training institutions provide modules on entrepreneurship and these should be encouraged and further developed. A number of non-statutory organisations also promote entrepreneurship with educational programmes and award schemes, in association with state educational bodies and the enterprise development agencies, particularly the City and County Enterprise Boards. These initiatives make an important contribution. Ideally, they should co-ordinate their efforts to deliver attractive and content-rich modules, programmes and experiences for students, on a more widespread basis. Opportunities for all-island initiatives should be pursued.

Recommendations

Entrepreneurial skills should be included in the syllabus for the senior cycle and any necessary curricular changes made at primary and junior cycle level. (National Council for Curriculum and Assessment)

Support award schemes aimed at encouraging entrepreneurship in order to ensure their widespread availability, particularly at primary and secondary school level. Such support should be primarily private sector led. (Enterprise, Government)

Finance for Entrepreneurs and Start-up Companies

The sources of funding available for indigenous enterprise vary depending on the development stage of the company, the type of business and its risk profile. While there are financing difficulties at all stages of business development, they are generally more acute at the earlier stages, where the market is less willing to provide solutions. Business start-ups – especially those operating in international services and higher risk technology-intensive sectors – have particular difficulty in sourcing finance. Many of these companies are not attractive or suited to venture capital investment for a number of reasons, such as the lack of exit opportunity or the small scale of the project.

The State has recognised this deficiency and has provided a number of schemes to address this issue, including:

- » The income tax relief afforded by the Business Expansion Scheme/Seed Capital Scheme (BES/SCS). These play a key role in attracting equity into early stage companies
- » Public-Private Seed and Venture Capital schemes,¹¹⁷ supported by Enterprise Ireland.

When the State gets involved in financing, it needs to do so efficiently and with a minimum of bureaucracy and it needs to complement the provision of finance with management and marketing support, possibly using mentor schemes.

The State should shift the balance of funding away from direct support for second round financing and leave this segment of the market to the private sector venture capital firms.

Recommendations

The private sector, with co-investment from Enterprise Ireland, should continue to stimulate the development of seed funds to address gaps in the financing of business start-ups. (Enterprise Ireland, Private sector)

Maintain the income tax relief afforded by the Business Expansion Scheme/Seed Capital Scheme (BES/SCS). (Department of Finance)

5.3.2 Workplace Innovation

Few countries have developed a co-ordinated and focused policy for organisational innovation: this is an area where Ireland, with its positive experience of social partnership, can gain early mover advantage. Our past experience of the partnership approach has left us with most of the problem-solving skills and attitudes needed to create a focused workplace development programme. We now need to build on that experience, recognising the productivity and competitiveness gains that can be made through full employee participation and gain sharing.

A number of trends are converging to change the ways in which businesses are organised, in which management and control are exercised and in which responsibilities are distributed. These trends include:

- » Information technology: Information can be made available where and when it is needed. As a result, front-line workers are more equipped to make decisions and work independently of traditional management hierarchies
- » Human resources: Workers are not only skilled at a specific task, but because of education and information technology, they are versatile and creative
- » Changes in employee preferences: Workers now seek more variety and challenge at work than before. They also seek more flexible working arrangements, such as part-time work and teleworking
- » Industrial technology: Large single-purpose machines are being replaced by more flexible, multi-purpose machines. These demand a more versatile, educated and creative workforce.

¹¹⁷ Enterprise Ireland under a new Seed and Venture Capital Programme (2001-2006) committed €91 million to 15 funds leveraging a total of €396 million into the funds as of 31 December 2003. These include funds targeted at technologies, companies in the regions and enterprises arising from the higher education sector.

A New Workplace Model

In the new workplace model, the creativity, knowledge and skills of the workforce are recognised as a primary source of value and are continually developed through structured training programmes. The management style is participative rather than hierarchical and effective leadership is evident throughout the organisation. New ideas for processes, efficiencies, products or services are welcomed and rewarded. The organisation offers flexible working arrangements in order to facilitate better work-life balance.

This type of organisation is more effective. The National Centre for Partnership and Performance (NCP) reported recently that a partnership approach is more effective than a directed management style in:

- » Improving the quality and efficiency of business processes
- » Reducing costs
- » Improving levels of innovation and customer service
- » Improving employee conditions, developing better employee relations and reducing industrial relations conflict
- » Developing more effective responses to organisational change.

Through its work under the Forum on the Workplace of the Future,¹¹⁸ the NCP is engaged in a 12 month programme of consultation, examination and consideration of issues relating to the transition required in Ireland to workplaces that are innovative, dynamic and capable of adapting to change. We endorse this approach and look forward to the conclusions of the NCP Forum on the Workplace of the Future.

Enhancing Workplace Flexibility

Organisations in the coming years will have to recognise the changing needs of the workforce and their own need to retain skilled and experienced staff and to continually upgrade their skills. At present, there are several disincentives for people to move in and out of the workforce – not only the loss of immediate income, but also the loss of position, pension rights and other benefits. This results in a loss of expertise and a low take-up of learning opportunities.

Recommendation

Individuals should be facilitated to manage work, learning and caring commitments throughout their working lives, for example through a restructuring of pensions and other benefit schemes. (Government)

5.3.3 Innovation in the Public Sector

Current Position on Public Service Reform and Modernisation

In recent years, much progress has been made in adapting public service delivery to meet 21st century client requirements. Two major initiatives – the *Strategic Management Initiative*, launched in 1994 and *Delivering Better Government* in 1996 – have been supported in the two most recent national partnership agreements.¹¹⁹ The central objective of these reform strategies is to manage the public service in such a way that it provides services that are excellent in quality, effective and efficient in delivery and responsive to changing requirements. An Implementation Group of Secretaries General was established in July 1997, with a mandate to drive the reform process forward. In March 2002, an evaluation of progress as a result of these initiatives was published. Strong progress had been achieved, particularly around the ‘outward-facing’ themes of openness, transparency and accountability, quality customer service and regulatory reform. The modernisation programme is not yet complete, particularly in the core corporate support functions of managing human resources, finances and information systems. Because of their linkages with the other components, improving these would yield a disproportionately positive contribution to the overall change programme.

Challenges to Creating a More Innovative Public Service

Public service modernisation and efficiency remains a critical challenge for the Government; expenditure has risen by 90% in the five years to 2003, rising to €36.9 billion,¹²⁰ including net pay costs of an estimated €12.5 billion for the 335,800¹²¹ staff employed across a total of 572 departments and agencies.¹²² The delivery of agile, responsive, efficient and cost-effective Government remains both a strategic imperative and a potential source of competitiveness for the Irish economy.

To create an environment conducive to innovation within the public sector, certain interdependent conditions need to be in place for each department and agency. These include:

- » Specific and prioritised goals: Ensuring that goals are clearly defined, prioritised, communicated and understood is a basic precondition to making real progress. Without this, the ability to focus resources to best effect to achieve objectives and to respond to the needs of the organisation and its clients is substantially weakened
- » Empowerment of senior public servants: Public sector managers face particular challenges in creating an innovative, efficient and responsive public service. Secretaries General are required to assume a high level of personal accountability and exposure, while simultaneously resolving competing service demands within a resource-constrained environment. Apart from providing clarity on specified goals and their prioritisation, senior managers within the public sector should be further encouraged to achieve high levels of delivery by ensuring that they have appropriately skilled staff

119 Programme for Prosperity and Fairness, 1999 and Sustaining Progress, 2003.

120 Independent Estimates Review Committee, Report of the Independent Estimates Review Committee on Estimates for Public Services, 2003.

121 CSO, Public Sector Employment and Earnings, September. 2003.

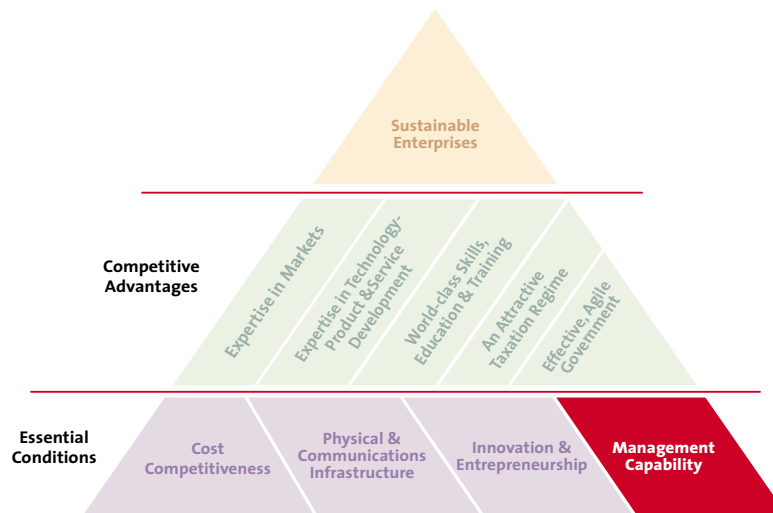
122 Jordon, Enda; The Public Sector Anticipating and Adapting to Change, Presentation to Forum on the Workplace of the Future, 6th October 2003.

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- »» Appropriate resources: The limitation on Secretaries General with regard to the direct employment and dismissal of staff hinders progress towards modernising the public sector. Personnel with the requisite skills must be available to deliver the policy objectives set for the public service organisation and managers should be free to recruit, retrain and reallocate staff to ensure effective performance. Equally, in specific instances of persistent under-performance and following due process, the effects on finite resources of continuing to retain an underperformer in employment needs to be recognised and addressed
 - »» Appropriate and meaningful performance measurement: What is most easily measurable is what is most often measured and valued. At present, public sector accountability is provided primarily through the annual reports of the Secretaries General to the Comptroller and Auditor General. These reports focus on accounting for exchequer expenditure and on value for money. In future, all financial allocations should be linked to expected results and the Secretaries General should be required to report on the effectiveness and coherence of delivery on strategic objectives and should take account of the elements of policy implementation that are qualitative and/or are expected to deliver results in the longer-term.

Recommendation

Re-energise the Strategic Management Initiative/Delivering Better Government programme by clearly articulating and prioritising policy goals, by giving public service managers the autonomy needed to deploy resources as necessary and by developing a more effective system of performance accountability. (Government)

5.4 Management Capability



5.4.1 The Importance of Management

Management skills are critical to the success of an enterprise. The national pool of management talent and expertise has a huge bearing on the country's economic development.

Today's business environment is becoming more challenging from a management perspective: on the one hand, the complexity of the management task is increasing, with the emergence of more sophisticated business models, greater competitive pressures and the relentless advance of technology; on the other hand, the timeframe in which managers must act and make decisions is decreasing.

In short, as Ireland evolves to a knowledge economy, characterised by the primacy of innovation, services and customer focus, management skills will become increasingly important.

The following statement, from a November 2003 survey of senior expatriate managers operating in Ireland and commenting on the management capability of their Irish peers, underscores some considerable challenges in this respect: *"Irish managers are becoming complacent and their weak international skills and lack of strategy and customer focus are putting Ireland's continued success at risk"*.¹²³

The Irish Context

Managers themselves have diagnosed some of the areas in which support and development are required – a recent IMI study,¹²⁴ found that Irish managers wanted guidance and training in a wide range of areas, including the management of change and the development and implementation of strategies.

While management capability is of relevance for all businesses operating in Ireland, indigenous firms, in particular, face a number of difficulties in this respect. The scale and longevity of foreign-owned companies may permit them to cultivate management skills in-house, through secondment of experienced managers from parent or sister organisations, in conjunction with managed career progression and

¹²³ Torc Consulting Group, Cranfield University, Survey of Senior Expatriate Managers in Ireland, November 2003.

¹²⁴ O'Connor, Irish Management Institute, Top Challenges for Managers, 2003.

mentoring of their Irish staff.¹²⁵ Many indigenous firms require external assistance in order to develop their management expertise particularly at the start-up and early stages of internationalisation. SMEs may be inhibited from availing of external training by some of the following:

- » **Tactical Focus:** SMEs generally have an overstretched management structure that is occupied with immediate, operational issues rather than more strategic ones¹²⁶
- » **Training:** Many firms, particularly the smaller ones, have difficulty in accessing appropriate training¹²⁷
- » **Resources:** SMEs have difficulties in meeting the full cost of training.

Skills development in this area should be viewed as a business priority both within the firm and by those responsible for national enterprise development.

Defining the Requirement

In order to maximise the uptake of training opportunities by firms and the resulting benefits, a series of principles should be observed:

- » **Clear articulation of needs:** A clear prioritisation should be made identifying the most pressing needs in relation to management capability building. This should then influence the formulation and delivery of appropriate training programmes
- » **Industry-centric:** Enterprise should play a prominent role in promoting, developing, and delivering training, and disseminating best practice
- » **Focused:** The appeal and value of training to firms can be greatly enhanced if it can be set in their immediate context; the context has a sectoral aspect as well as stage of business maturity
- » **Action-oriented:** Training should emphasise practical skills that can be readily applied in the SME
- » **Flexible Delivery:** Courses must be available at times and locations convenient to firms
- » **Evaluation:** An on-going assessment of the benefits to individuals and firms should be an integral part of all training.

125 | *The diffusion of management expertise from the foreign owned into the indigenous sector may go some way towards addressing the weakness in the latter, however, to date many foreign owned companies have been production orientated, consequently much of the management focus has been on operational issues rather than strategic ones. This may change in the future if some of these companies can be encouraged to locate headquarters and marketing operations in Ireland.*

126 | *Only 30% of Enterprise Ireland clients have a substantial middle tier in their management structures.*

127 | *Expert Group on Future Skills Needs, Report on In-company Training, 2000.*

Recommendations

Businesses should recognise the importance of and assume responsibility for, management capability building. This area should be a major business development priority. (Enterprise)

Business networks should articulate the management development needs of their members. These networks could act as a focal point for the delivery of targeted training. (Business networks)

The enterprise development agencies should place increased emphasis on the Board and management capabilities of firms to which they are providing support. (Enterprise development agencies)