



# Executive Summary

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## Introduction

After a decade of sustained economic growth, Ireland in 2004 boasts higher numbers in employment than at any time since the birth of the State and enjoys living standards, as measured by gross domestic product (GDP) and gross national product (GNP) per capita, which exceed the European Union (EU) average. Government indebtedness has been reduced from the highs of the 1980s and now ranks second lowest in the euro-zone. The economy proved resilient through the global downturn in 2001-2003 and continued to grow, albeit more slowly than during the late 1990s. More recently, in its *Medium-Term Review 2003—2010*, the Economic and Social Research Institute (ESRI) projected an average annual GNP growth rate of 5.4% for the Irish economy in the second half of this decade. This projection is supported by the Department of Finance in its *Economic Review and Outlook 2003*.

Economic Performance Indicators	1993	2003
Unemployment %	15.7	4.7
Government Debt as % GNP	93	34
Corporation Tax %	10/40	12.5/25
Personal Tax % (lower and higher rate)	27/48	20/42
Irish GDP per capita as % of EU-15 GDP per capita	69	125
Irish GNP per capita as % of EU-15 GDP per capita	75	101

*Department of Finance and AMECO, 2004*

Ireland's economic progress over the past decade was the result both of good planning and of providence.

- » Membership of the European Union afforded Ireland significant regional aid, combined with ease of access to substantial markets
- » Consistent, long-term partnership and policies delivered a favourable corporate tax, fiscal and wage setting regime and a well-qualified workforce
- » Global trade expanded at an unprecedented pace. In particular, advanced sectors such as information and communications technology (ICT) and life sciences, with which Irish economic growth has been closely tied, boomed through the mid and late 1990s
- » Ireland's demographic profile facilitated the swift pace of economic growth.

As a result, Ireland achieved sharply higher living standards. However, to retain and further enhance them, we face a number of major challenges:

- » The exponential change in the scale of globalisation; India and China, for example, have a combined population in excess of two billion people. These countries offer low costs, an ample supply of skilled labour and are now part of the global competition for markets and mobile investment
- » The Irish cost base has increased substantially
- » Ireland's low rate of corporation tax is being emulated by competitors
- » Despite many excellent individual company performances, few of our indigenous industry sectors have achieved strong growth in exports over the past 10 years
- » Imminent changes in EU state aid limits will place new restrictions on state aid for enterprise after 2006.

In addition, the nature of global trade is changing, and future economic development will be strongly influenced by:

- » The shift toward services as a major driver of GDP growth
- » The increasing role of knowledge as a driver of economic development and an influencer of new products.

In the context of our current success, calls for a new and different enterprise strategy may appear alarmist. However, the current model of enterprise development in this small, open economy must adapt to face these challenges. There are significant areas of opportunity for Ireland to exploit its natural advantages and to develop new areas of competence in pursuit of sustainable enterprises. To position Ireland to exploit these and to grow robustly in the decade to come, there is an immediate requirement to redefine the strategy for enterprise policy and development in Ireland.

## A New Strategic Direction: Opportunities

Opportunities in internationally-traded services across a range of sectors and activities will play a more significant role in Ireland's economy over the next decade, driven by increased international trade and enabled by advances in technology and Ireland's low corporation tax regime.<sup>1</sup> High value-added manufacturing will remain a fundamental component of Ireland's enterprise environment. Through the promotion of competition and innovation, locally-traded services will contribute effectively to the future growth of enterprise.

Enterprise in Ireland will succeed by focusing on and reinforcing niche areas of activity. These can evolve from a number of sources, including natural resources, research and clusters or groupings of companies with specific expertise.

<sup>1</sup> Ireland's corporation tax rate of 12.5%, introduced in January 2003, applies to all trading activities and presents significant potential to pursue new opportunities across a wide range of service activities (most of which were previously subject to a higher rate of corporation tax – progressively reduced from 40% in 1998).

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This report details areas of activity in which Ireland already has or can most readily develop a position of competitive strength, differentiation and critical mass. Details of these, based on the conclusions of advisory groups operating under the auspices of the Enterprise Strategy Group, can be found on the CD-ROM accompanying this report. They include existing services areas, such as education, software development and tourism, and exciting new services, such as franchise management, intellectual property (IP) management and eClinical trials. In the manufacturing sectors, there are opportunities for example in cardiovascular and diagnostic products, bio-pharmaceuticals and prepared consumer foods.

## **A New Strategic Direction: Realising the Potential**

To capitalise on these opportunities, firms in Ireland must complement their existing production and operational strengths with new capabilities:

- » Developing expertise in international markets, to promote sales growth
- » Building technological and applied research and development (R&D) capability, to support the development of high-value products and services.

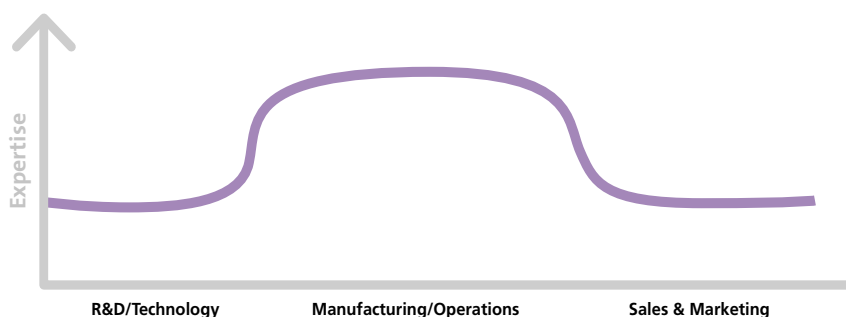
A focus on these two areas would represent a new orientation for Irish enterprise.

Until now, Ireland's principal enterprise strengths have been in the operational aspects of manufacturing and services, rather than in markets and product development. This is particularly true of the foreign-owned sector, which accounts for most of our exports and which, for the most part, produces goods that were designed elsewhere, to satisfy market requirements that were specified elsewhere, and sold by other people to customers with whom the Irish operation has little contact and over whom it has little influence. It is also substantially the case in the indigenous sector. Food, which accounts for over 55% of indigenous exports, has been primarily production rather than market led. Overall, indigenous exports have not grown significantly in real terms over the past decade.

For many firms, building in-house R&D capacity is a challenge. They lack resources, not only to conduct research and development, but even to absorb new developments coming from outside. Investment in R&D and innovation by enterprise in Ireland is relatively low. At 0.88% of GDP, Ireland's Business Expenditure on R&D (BERD) is only 73% of the EU average and 57% of the OECD average.

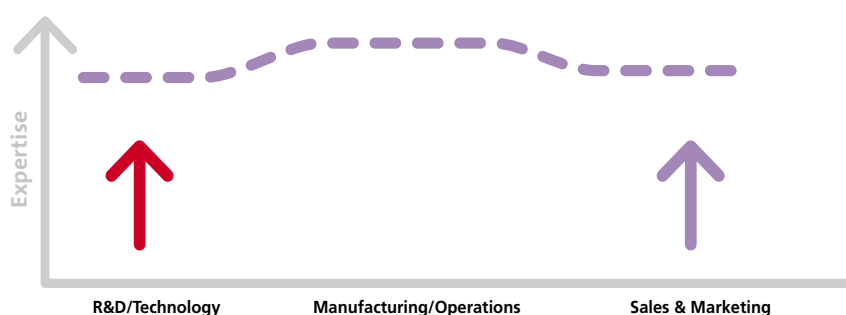
The current profile of enterprise expertise in Ireland looks broadly as follows, with significant expertise in manufacturing/operations and limited capability in R&D and sales and marketing:

### Profile of Expertise in Enterprise in Ireland, 2004



Our over-arching strategy for Ireland is to develop strengths across the entire value chain. By implementing the recommendations contained in this report, Ireland will build new competences in the development and introduction of new products and services and in international sales and marketing, re-balancing its enterprise expertise as follows:

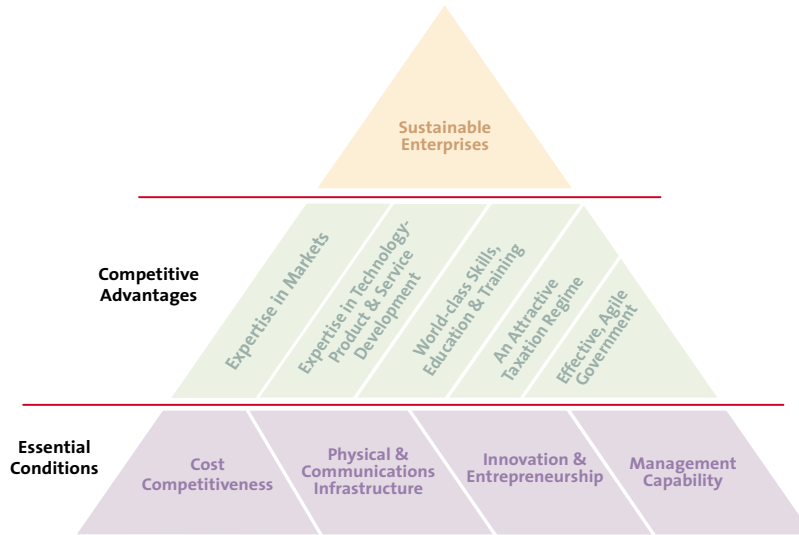
### Required Profile of Expertise in Enterprise in Ireland, 2015



To enable this transition, we envisage a growing role for the private sector in driving initiatives through networks of companies with common interests. Strong enterprise-led networks are required that will establish the strategic agenda for their areas of activity. These networks will increasingly facilitate knowledge transfer, disseminate market knowledge, foster innovation, inform the research agenda and identify infrastructure needs specific to sectoral development. Increasing focus must be placed on supporting the emergence of such networks to inform the effective orientation and delivery of state supports.

This report identifies a series of actions to deliver future enterprise development in Ireland. The priority recommendations are set out in this Executive Summary. Further recommendations appear throughout Chapters 4, 5 and 6 of the main report.

## Making It Happen



We have identified five sources of competitive advantage, which, taken together, can enable enterprise in Ireland to achieve this vision. Three of these build on areas of national competitive advantage in which Ireland has already, in the past, competed and excelled. These are our education and training systems, our stable and advantageous taxation regime and our reputation for effective and agile government, which have been responsive to the needs of enterprise. In these areas, it is now necessary to regain our leadership position. An additional two sources of competitive advantage, focusing on expertise in sales and marketing and on the application of R&D and technology to the creation of new products and services, now require comprehensive and intensive development and will mark the decisive new orientation of Irish enterprise policy.

The characteristics of the five sources of competitive advantage include:

Competitive Advantage	Characteristics
<b>Expertise in Markets</b>	Development of international marketing and sales expertise to bring enterprise in Ireland closer to customer needs.
<b>Expertise in Technology-Product and Service Development</b>	Development of world-class capability in focused areas of technology and in innovative techniques, to drive the development of sophisticated, high-value products and services.
<b>World-class Skills, Education and Training</b>	Building on Ireland's historic commitment to education with a renewed focus on excellence and responsiveness to deliver skills appropriate to the needs of enterprise.
<b>Attractive Taxation Regime</b>	An ongoing commitment to our competitive tax regime, promoting enterprise and driving business growth.
<b>Effective, Agile Government</b>	A single-minded national consensus on the enterprise agenda, driven from the highest level and across all of Government, together with governance systems which enable swift decision-making and execution.

## Expertise in Markets

To secure a strong position in the new global competitive environment, Irish businesses should focus on building a deeper understanding of customers, markets and the wider influences driving product and service life cycles. The Irish enterprise community must develop, and be supported in growing, its capabilities in market intelligence, international sales promotion, sales and strategic management. Of these, capability building in sales is considered to hold the greatest development potential for firms in Ireland and this area is a particular focus of our recommendations.

This expertise is necessary to inform the development of market-leading products and services, and will be delivered by linking customer demand with technology development and application and through innovative, creative work practices. At a national support level, Ireland needs a single point of focus for international market development activities, charged with facilitating access to international and global markets and with promoting Ireland's enterprise brand internationally.

### Recommendation: A Market Intelligence and Export Promotion Structure

Establish, within Enterprise Ireland, a dedicated structure, 'Export Ireland', with its own budget and strong, experienced leadership, to develop a more focused approach to export market intelligence and promotional activities.

### **Recommendation: 1,000 Sales and Marketing Personnel**

Establish a five-year programme, to place, on a cost-sharing basis, 1,000 graduates and internationally experienced professionals in Irish firms to augment the stock of national sales and marketing talent. This initiative should be complementary to existing programmes.

### **Recommendation: Target Sales and Marketing and European Headquarters Projects**

IDA Ireland should target sales and marketing and European headquarters projects from both established multinationals and smaller companies at an early stage of internationalisation.

*Further recommendations relating to expertise in markets can be found in Chapter 4 of this report.*

## **Expertise in Technology – Product and Service Development**

Policy-makers in Ireland have already taken major steps to build expertise in science and technology through Science Foundation Ireland (SFI) and the Programme for Research in Third Level Institutions (PRTLTI). This investment in basic research is essential to further scientific advancement through new discovery as well as to enhance the country's ability to absorb new technological developments from elsewhere. In particular, these investments will help to produce the skilled people necessary to build product development capacity in the enterprise base.

'Close-to-market' and applied research capabilities must also be promoted, to facilitate greater synergy between those who generate knowledge and those who transform it into saleable products and services.

As a small country, Ireland has limited resources and must therefore be selective and specific around the areas in which it chooses to focus and invest. Developing an appropriate focus can be assisted by the identification of strategic technology platforms – areas of technology (for example, biometrics) that draw on basic fields of knowledge (such as mathematics, physics and computing) for application to a range of products. Consultation and collaboration are essential in both the identification and exploitation of such platforms and in particular, close interaction between industry, academia and the State in this area must be fostered. European initiatives in this respect should also be monitored closely. The objective is to achieve a critical mass of leading edge expertise in particular areas or niches.

Not all product development and process advancement is technology-driven. Process improvements, design enhancement and changes in the composition and delivery of a product can be innovations. Non-technological innovation is of particular relevance in services, and achieving a competitive advantage in this area would enhance success in knowledge-based services in Ireland. Policy-makers should consider new ways of supporting innovation in these areas.



**Recommendation: An R&D and Innovation Co-ordination Structure**

Establish, within Enterprise Ireland, a dedicated structure, 'Technology Ireland', with its own budget and strong leadership, to develop a cohesive, strategic and focused approach to market-led applied research and technological development and to leverage increased enterprise investment.

**Recommendation: Increase Applied R&D Funding**

Public funding for applied research and in-firm R&D should be progressively increased to match that invested by the Department of Enterprise, Trade and Employment in basic research. This includes support for in-firm capability development, commercialisation, cluster-led academic research and innovation partnerships.

*Further recommendations relating to expertise in technology – product and service development can be found in Chapter 4 of this report.*

'Export Ireland' and 'Technology Ireland' will require a new focus and energy within Enterprise Ireland and a building of in-depth sectoral knowledge. Enterprise Ireland is currently involved in the process of developing a new strategy.

**Business Networks**

Historically state intervention has been undertaken primarily through the enterprise development agencies. To further facilitate expertise in markets and technology development and to respond swiftly and efficiently to the needs of business, a specific initiative is needed to support the emergence of strong enterprise-led networks. These will be responsible for the identification of common interests, a clear agenda, and action-oriented objectives. State supports should be rebalanced over time between interventions at the firm level and those responding to requirements articulated by networks.

**Recommendation: Enterprise-led Networks**

Allocate a budget of €20 million per annum for five years from existing enterprise development agency resources to support the creation of enterprise-led networks to foster collaboration in defined areas of activity. All-island business networks should be supported where complementary strengths are identified.

**World-class Skills, Education and Training**

Ireland has historically enjoyed a strong international reputation for the calibre of its educational system and the generally high standards of education within the workforce. The rapid pace of technological development and the increasing sophistication of business processes and systems now demand higher levels of academic achievement and greater links between the education sector and enterprise than ever before.

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From an educational perspective, Ireland should recognise the necessity of both upskilling the general workforce and achieving distinction in the quality of graduates from higher education. Ambitious targets must be set to improve education and skills attainment across all levels. Governance of higher education must be reviewed to enable flexible responses to the increasing pace of change in the environment. In view of the aspiration to increase the application of knowledge in enterprise, it will be necessary to increase the number and quality of higher education graduates at all levels.

To realise these objectives, new approaches to the funding of higher education are needed. Priority must be given to defining the differentiated but complementary roles of the universities and the institutes of technology. The Higher Education Authority (HEA) board and governing bodies of the higher education institutions should include individuals from the enterprise sector.

Lifelong skills development will become progressively more important in the decade ahead, as the fast-changing nature of the workplace requires people to be more flexible and adaptable. To support ongoing skills improvement at all levels, a formalised programme of lifelong learning is recommended, to be administered through a national 'One Step Up' initiative. This initiative would encourage greater participation in ongoing learning, by facilitating and motivating employees to continually increase their skills by a further increment.

#### **Recommendation: 'One Step Up' Initiative**

Establish a national 'One Step Up' initiative, facilitated by the National Framework of Qualifications to encourage greater participation in ongoing learning.

#### **Recommendation: Quantity and Quality of Graduates and Post-graduates**

The proportion of graduates in Ireland should be in the top decile of OECD countries and the quality of awards from the Irish higher education sector should be benchmarked internationally.

*Further recommendations relating to the delivery of world-class skills, education and training can be found in Chapter 4 of this report.*

## **Attractive Taxation Regime**

Ireland has maintained a stable and attractive taxation regime for business. In 2003, the 10% rate of corporation tax for manufacturing and a limited range of internationally-traded services was replaced by a single rate of 12.5% corporation tax on all trading income; this substantially expanded the range of activities qualifying for the low rate of corporation tax. As corporation tax rates are falling internationally, future stability and a commitment to the current rate are required to maintain Ireland's international competitiveness, particularly for mobile investment. Strong messages to this effect are required from Government.

Other taxation measures directly affecting business in Ireland (carbon taxes, VAT applicable to Business to Consumer (B2C) electronic transactions etc) must be closely monitored to ensure that Ireland is not disproportionately disadvantaged relative to competitor countries.

#### **Recommendation: Commitment to 12.5% Corporation Tax Rate**

The Government should reiterate its commitment to the current corporation tax rate of 12.5% on trading profits.

*Further recommendations regarding an attractive taxation regime can be found in Chapter 4 of this report.*

### **Effective, Agile Government**

From a government perspective, the small size of the country represents a potential source of competitive advantage. By placing enterprise at the heart of Government and by implementing a co-ordinated approach to enterprise policy, Ireland has the opportunity to outpace competitor countries in the swiftness, efficiency and responsiveness with which it anticipates and meets the requirements of competitiveness.

In light of the increasing complexity of enterprise-related issues and to signal a commitment to maintaining Ireland as a competitive and high-achieving location for business, a Cabinet enterprise review process should be established to set priorities, and to catalyse and oversee implementation of enterprise policy responses commencing with the recommendations set out in this report.

#### **Recommendation: Cabinet Enterprise Review Process**

To create a shared vision at senior political level of the nature and importance of the enterprise agenda, institute a twice-yearly Cabinet meeting dedicated to enterprise, to debate and prioritise the cross-departmental responses required for enterprise development, commencing with the recommendations set out in this report.

These Cabinet meetings should be supported by an Expert Group on Enterprise, meeting at least quarterly and consisting of the Secretaries General from six departments<sup>2</sup> and approximately four senior figures from the enterprise sector.

<sup>2</sup> Enterprise, Trade and Employment; Education and Science; Finance; Communications, Marine and Natural Resources; Transport; Agriculture and Food.

## Essential Conditions

In addition to the five sources of future competitive advantage already outlined, four essential framework conditions for business are also dealt with in this report. They are detailed here to the extent that deficiencies in each continue to hamper enterprise development. Recommendations relating to these issues are detailed in Chapter 5 of the report. Selected priorities include:

Essential Conditions	Recommendation
<b>Cost Competitiveness</b>	<p><b>Competition:</b> 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.</p> <p><b>Regulation:</b> The Regulatory Impact Analysis (RIA) process must be fully transparent. RIAs should be published (subject to freedom of information confidentiality rules).</p> <p><b>Rewarding Workplace Productivity:</b> Enterprise should use employee financial participation schemes (not just at management level) to promote employee commitment to business goals, increased productivity and reduced costs.</p>
<b>Infrastructure</b>	Invest in infrastructure ahead of demand in key locations. Investment should be prioritised in National Spatial Strategy (NSS) designated gateways and hubs to enable them to achieve their regional potential.
<b>Innovation and Entrepreneurship</b>	<p>In the context of public service innovation, the Strategic Management Initiative/Delivering Better Government programme should be re-energised by prioritising policy goals, by giving managers the autonomy to deploy resources and by developing a more effective system of performance accountability.</p> <p>Entrepreneurial skills should be included in the syllabus for the senior cycle, and any necessary curricular changes made at primary and junior cycle level.</p>
<b>Management Capability</b>	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.

## The Role of the Enterprise Development Agencies

The enterprise development agencies will need to collaborate effectively and to acquire new skills in order to deliver appropriate supports to enterprise. The focus of the enterprise development agencies in future should be on:

- » Facilitating access to overseas markets
- » Encouraging R&D and technology application
- » Attracting foreign direct investment
- » Fostering entrepreneurship
- » Training for the labour market.

To ensure coherence and to facilitate clarity of focus, the following recommendation is particularly emphasised:

### Recommendation: Common Chairperson of Agency Boards

The Boards of Forfás, IDA Ireland and Enterprise Ireland should have a number of directors in common and in particular a common Chairperson.

*Further recommendations relating to the role of the enterprise development agencies can be found in Chapter 6 of this report.*

## Delivering the Strategy

Policy and planning bodies in Ireland are replete with reports detailing challenges and opportunities facing enterprise. We believe that excellence in execution should be a distinguishing feature of enterprise policy in Ireland. To this end, the closing chapter of this report has been dedicated to identifying those that should be involved in the implementation of the recommendations outlined here. Implementation will require broad commitment and a renewed sense of national consensus around the task at hand. The strategy and recommendations in this report identify a routemap to sustainable employment and national prosperity for Ireland. Delivering these is a collective national responsibility.

In the face of significant challenges, Ireland has, over the past decade, exceeded expectations for growth and prosperity. Today, the pace and extent of global competition are intense, but we now boast the skills, capabilities and resources to build sustainable enterprise for the future. Ireland is home to a range of world-class companies, and operates in leading-edge sectors. Our people have the confidence and creativity to succeed and to cement Ireland's place among the leading global economies – progressive, future-focused, and Ahead of the Curve.