

Irish firms outperform most European counterparts in innovation performance

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Forfás recommends supporting small businesses to engage in innovation

A new report analysing Ireland's innovation performance shows that although Irish firms continue to outperform most of its European counterparts in terms of engagement in innovation, an opportunity exists to stimulate export-led growth in small firms by encouraging innovation activity in the sector as a priority so that indigenous companies can grow and successfully exploit overseas markets.

Analysis of Ireland's Innovation Performance, published today by Forfás, Ireland's policy advisory board for enterprise, trade, science, technology and innovation, shows that just 38.9 per cent of small firms with between ten and 49 employees engage in either product or process innovation compared to 75.8 per cent of companies with 250+ employees. Similarly, 24.8 per cent of small firms engage in marketing innovation compared to 35.3 per cent in medium firms and 36.9 per cent in large firms. A considerable difference is particularly notable when it comes to organisational innovation where 28.4 per cent of small firms engage in this form of innovation, compared to 43.7 per cent of medium sized firms and 65.9 per cent of large firms.

There are a number of factors that contribute to these different levels of innovation activity. Larger firms are more likely to have an allocated budget for product and service development, as well as having a greater number of operations and processes into which innovation, particularly process innovation, could be applied.

Smaller firms are often lacking the resources - financial, physical and human - to engage in innovation. They also engage more in process innovation than product innovation, and to a greater extent than their counterparts in larger firms. This could reflect the fact that process innovations such as logistics or support activities are often on a smaller timescale, and often less capital and labour intensive, than many forms of product innovations.

Presenting the findings of the report at the CSO's 3rd Business Statistics Seminar in Dublin Castle today, Jonathan Healy, Senior Policy Analyst, Forfás said: "Now more than ever, Ireland's small businesses need a supportive and competitive business environment so that they can thrive and grow. Developing innovation policy that will support small indigenous firms to begin and, in many cases, continue to innovate is imperative. Our analysis indicates that there is further potential for policies to encourage non-technological modes of innovation such as marketing and organisational innovation, which could be more effective and more affordable for small firms, essentially achieving more value for less investment."

The report also analyses innovation activity in various sectors across the Irish economy. From a sectoral perspective, firms are more likely to engage in innovation if they are exposed to international competition. For example, the manufacturing sector has seen a reduction in total numbers employed over the past decade, but maintains high levels of product and process innovation. 33.9 per cent of manufacturing firms, the highest percentage across all sectors analysed, are engaged in improving their methods of production. In

contrast, the wholesale and retail sector, which is a domestically-trading sector, records levels of product and process innovation consistently below the economy-wide average, with only 19.6 per cent and 28.3 per cent of firms in these sectors engaged in product and process innovation respectively.

In terms of organisational innovation, a considerably higher than average proportion of firms in more highly-skilled service sectors such as information and communication, financial and insurance services, and professional, scientific and technical activities, are active in this innovation mode.

The proportion of firms engaged in marketing innovations are fairly evenly spread across all the major sectors, with the exception of the information and communications sector, where a higher concentration of 43.7 per cent of firms are engaged in some form of marketing innovation.

It is intended that the findings arising from the Forfás analysis will provide an important input to the overall assessment of the return of State investment in science, technology and innovation. It will also support the targeting of innovation policy into the future.

The full report, *Analysis of Ireland's Innovation Performance*, is available to download from the Forfás website, www.forfas.ie