

'Ahead of the Curve: Ireland's Place in the Global Economy'

Report of the Enterprise Strategy Group

SUMMARY OF RECOMMENDATIONS

I. Five Areas of Competitive Advantage.

These are areas which the Group has identified can provide enterprise in Ireland with advantages over its competitors if developed and exploited fully.

Expertise in Markets

Irish businesses should focus on building deeper understanding of customers and markets. Ireland's expertise in production and manufacturing has not been matched in the sales and marketing arena. Irish enterprise must develop greater capabilities in market intelligence, international sales promotion, sales and strategic management. This greater knowledge and understanding will help companies in developing market-leading and higher value products and services. The Group recommends

- 1. 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.
- 2. 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.
- 3. 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.
- 4.** Incorporate work placements and modules that focus on the practical capabilities required by firms into marketing and sales curricula. These should also be available to students of technical disciplines.

Expertise in Technology / Product & Service Development

Significant progress in building expertise in science and technology has been made, particularly in the funding of basic research. 'Close to market' and applied technologies must also be promoted. Ireland must focus its limited resources on specific areas. There must be close interaction between industry, academia and the State. Innovation is also important in services and this can relate to changing how things are done, and not just what is done. The Group recommends

- 5. 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.
- 6. 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.

7. **Business 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.
8. Continue funding for the Science Foundation Ireland and Higher Education Authority research programmes on a multi-annual basis beyond the current National Development Plan.
9. Establish a consultative process to identify technology platforms. These platforms should be used to prioritise state expenditure on research and enterprise development.
10. Develop an effective oversight and review mechanism that includes the appointment of a Chief Scientist, to optimise Ireland's national investment in science, technology and innovation. It should provide strategic direction to and co-ordinate national investment and should include structured evaluations of R&D expenditure.
11. Draw up a national research and innovation strategy statement. An integrated approach to policy formulation and implementation should be undertaken that involves all players (enterprise, research community, state agencies, etc) in the national innovation system.

World-Class Skills, Education and Training

Ireland's education system has a strong reputation. Technological development and the sophistication of business demands higher levels of academic achievement and stronger links between education and enterprise sectors. Ireland must continually upskill the general workforce and improve the quality and quantity of graduates. This needs new approaches to funding and governance. The Group recommends

12. **'One Step Up' Initiative**
Establish a national 'One Step Up' initiative, facilitated by the National Framework of Qualifications. While the initiative seeks to engage with the workforce as a whole, it should pay particular attention to the people with low levels of qualification and in low-level occupations, who are least likely to receive sufficient access to learning opportunities.
13. **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.
14. The enterprise sector should play an increased role in the governing bodies of higher education institutions and related bodies such as the HEA. To maximise efficiency and enhance responsiveness, such bodies should be reduced in size and reflect in equal proportions the needs of enterprise, education and society.
15. Devise a funding framework that combines core funding with a competitively based element, allocated on the basis of performance. Actively encourage additional diverse sources of private funds.
16. Establish a competitive innovation fund for higher education institutions, to encourage them to further exploit knowledge and deliver innovative services to enterprise. Ring-fence a proportion of the fund to support the institutes of technology in fulfilling this role. Projects should be evaluated by a panel that is representative of enterprise and expenditure from the fund should be monitored and reviewed on a regular basis.
17. Increase the current Leaving Certificate completion rate to 90%.
18. Provide training for a range of occupations, for those not completing the Leaving Certificate, through new work-study programmes, relevant to the needs of the labour market. Qualifications from these programmes should be equivalent to Leaving Certificate standard.

19. Develop a strategic skills-based immigration policy in order to attract and retain the necessary highly skilled workers from outside the EU who will be required to support enterprise development.

Attractive Taxation Regime

The stable and attractive taxation regime for business, recently extended from manufacturing to all trading income, has been an important competitive advantage, however corporation tax rates are falling internationally. The Group recommends

20. **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.
21. The Government should recommend to the EU to have VAT on B2C electronic transactions charged at the standard rate in the customer's location.
22. Monitor and assess the effectiveness of the planned R&D tax credit in increasing levels of R&D investment in Ireland, and make modifications to the scheme if necessary.
23. Carbon tax should be set initially at a low level and paid by all sectors of the economy and on all fuels.

Effective, Agile Government

Ireland's small size is a potential competitive advantage in that enterprise can be placed at the heart of Government, implementing a coordinated approach to enterprise policy and thereby being faster, more efficient and responsive than competitor countries. The Group recommends

24. **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 (Enterprise, Trade & Employment; Education & Science; Finance; Communications, Marine & Natural Resources; Transport; Agriculture & Food) and approximately four senior figures from the enterprise sector.

II. Four Essential Conditions.

These are areas which are unlikely to confer unique competitive or strategic advantage, but which are prerequisites to the development of the advantages already outlined.

Cost Competitiveness

Even high value, innovation driven enterprises ultimately have to compete on costs. Many related issues are being considered by the National Competitiveness Council and this report focuses on deep-seated structural factors. The Group recommends

- 25. Competition**
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.
- 26. Regulation**
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.
- 27. Rewarding Workplace Productivity**
Enterprise should use employee financial participation schemes (not just at management level) to promote employee commitment to business goals, increased productivity and reduced costs.
28. The Government and the social partners should urgently address the question of taxation of gain sharing related payments, in order to expedite implementation.
29. Implement a regime of civil sanctions for infringements of competition law in conjunction with the Competition Authority.
30. 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.

Infrastructure

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

- 31. Infrastructure**
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.
32. 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.

33. 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.
34. 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 infrastructure projects and third-party planning appeals.
35. Examine the potential for infrastructural development required to promote trade between Ireland and Northern Ireland and make concrete proposals to the two Governments.
36. Accelerate the remaining phases of the Broadband Action Plan (particularly to key NSS centres) and promote emerging communications technologies that could accelerate the uptake of high-speed broadband services in homes and businesses.
37. 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.
38. 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.

Innovation and Entrepreneurship

Ireland's economy is very open, and businesses must accept change as a fact of life. Those that accommodate, adapt to and initiate change will thrive in the years ahead. The Group recommends

39. **Innovation**
In the context of public service innovation, the Strategic Management Initiative / Delivering Better Government programme should be re-energised 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.
40. **Entrepreneurship**
Entrepreneurial skills should be included in the syllabus for the senior cycle and any necessary curricular changes made at primary and junior cycle levels.
41. 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.
42. 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.
43. Maintain the income tax relief afforded by the Business Expansion Scheme / Seed Capital Scheme (BES/SCS).
44. 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.

Management Capability

Management skills are critical to the success of an enterprise, and these skills will become increasingly important in a knowledge economy, characterised by innovation, services and customer focus. There is considerable improvement to be achieved in this area and many of the previous recommendations will deliver this over time. The Group also recommends

45. **Management Capability**
Business networks should articulate the management development needs of their members. These networks could act as a focal point for delivery of targeted training.
46. Businesses should recognise the importance of and assume responsibility for, management capability building. This area should be a major business development priority.
47. The enterprise development agencies should place increased emphasis on the Board and management capabilities of firms to which they are providing support.

III. Role of the Agencies.

The State's primary responsibility is to ensure that the broad environment and essential conditions for business are in place and agencies should only intervene to address market failures. They should focus on

- Facilitating access to overseas markets
 - Encouraging R&D and technology application
 - Attracting foreign direct investment
 - Fostering entrepreneurship
 - Training for those in the labour market
48. **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.
 49. The enterprise activities of Shannon Development should be brought within the remit of Enterprise Ireland and IDA Ireland.
 50. The City and County Enterprise Boards (CEBs) should be integrated into the mainstream enterprise development system by establishing a Central Coordination Unit in Enterprise Ireland. This unit should provide central direction, technical support, shared services and quality assurances, to further enhance the effectiveness, efficiency and impact of the CEBs.
 51. There should be an increased focus by FÁS on training for those in the labour force. Funding should be allocated to reflect this reorientation of FÁS's remit. The Government should review its approach to the delivery of the community employment and training initiatives. These should not be a priority for FÁS.
 52. Develop sector expertise in the enterprise agencies by:
 - Organising in each agency around groups of clients with common interests, with these groupings as consistent as possible across the agencies
 - Recruiting specialist expertise from outside the agencies in order to drive the export sales and applied technology agendas across enterprise.