

Innobarometer 2009

Summary

Fieldwork: April 2009

Report: May 2009

This survey was requested by Directorate General Enterprise and Industry and coordinated by Directorate General Communication

This document does not represent the point of view of the European Commission. The interpretations and opinions contained in it are solely those of the authors.

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Innobarometer 2009

Conducted by
The Gallup Organization
upon the request of DG Enterprise and Industry

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Survey coordinated by the Directorate-General
Communication

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THE GALLUP ORGANIZATION

Introduction

The current Innobarometer on *Strategic trends in innovation 2006-2008* was conducted during April 2009 in the 27 Member States of the EU, Norway and Switzerland, under the framework of the Flash Eurobarometer surveys.

The current wave of Innobarometer (2009) placed the focus on innovation spending (including the effects of the current economic downturn), the role of innovation in public procurement tenders, the effects of public policies and private initiatives to boost innovation, and other strategic trends. The reference period of the various activities surveyed was that between 2006 and 2008 (if the question concerned financial issues), or until the time of the survey (2009 April).

Firms with at least 20 employees, from specific innovation-intensive industry sectors¹, were randomly selected to be included in the survey. From among these, Innobarometer screened those where innovative activities took place in the past three years (2006-2008) and inquired about specific experiences related to recent examples of innovation.

The survey sample was selected randomly, but disproportionally, according to three criteria: country, company size (20-49, 50-249, 250+ employees) and activity sector within the industries listed in the footnote on this page.

The targeted number of main interviews varied somewhat by the size of the respective country; however, the default sample size was 200 in most EU Member States. In the smallest Member States (Cyprus, Malta, and Luxembourg), the sample consisted of 70 enterprises. In non-EU countries, the sample target size was 100 (Switzerland and Norway).

Overall, Gallup interviewed 5,238 enterprises across Europe, between April 1 and 9, 2009, using fixed-line telephone methodology. (For the country breakdown of the actual number of interviews achieved, please refer to “Survey details” in the Annex of the Analytical Report.) Eligible respondents were senior company managers responsible for strategic decision-making. Typically, they were general managers, owners and financial managers.

Post-stratification weights were used to restore the artificially-distorted proportions according to company size and industry sector. When discussing EU-wide or other supra-national summary estimates, interviews are weighted to correct for the disproportional selection of countries in the starting sample. A technical note indicating the manner in which the Gallup partner institutes conducted the survey can be found at the end of the Analytical Report.



The reader of this summary is reminded that the enterprises interviewed in Innobarometer were sampled from sectors that are likely to be innovative. Thus, the results obtained in Innobarometer are not representative of the entire business community of the specific countries or of the EU itself.

¹ Aerospace engines, Aerospace vehicles, Defence, Analyt. Instr., Constr. Equipment, Apparel, Automotive, Build. Fixtures, Equip., Services, Business services, Chemical Products, Communications equipment, Construction / Materials, Distribution services, Energy, Entertainment, Fishing and fishing products, Footwear, Furniture, Heavy construction services, Heavy machinery, Hospitality and tourism, Information technology, Jewellery and precious metals, Leather products, Lighting and electrical Equipment, Lumber & Wood Mfrs, Medical devices, Metal Manufacturing, Oil and gas products and services, Other, Paper, (Bio)Pharmaceuticals, Plastics, Power Generation & Transmission, Processed Food, Publishing and Printing, Sport and Child Goods, Textiles, Transportation and Logistics, Utility

Main findings

Innovation profile

- One in 10 companies (from innovation-intensive sectors, with at least 20 employees) are reliant on innovation as a primary source of sales income (9%). A quarter see innovation as a significant source of income and over half (57%) are involved in innovation but do not gain significant revenues from its products directly.
- Hungary was by far the country with the most of such firms reporting no innovation (30%). In contrast, one in five firms active in the surveyed sectors in Cyprus and Finland are dependent on innovation as a *primary* source of income.
- Innovation as a primary or significant source of income does not vary dependent on company size. But roughly 1 in 10 small companies do not innovate, and that is only the case for 2% of large companies.
- Companies that increased spending in innovation and companies that spent on in-house or outsourced R&D were more likely to say innovation was a primary source of income.
- The more a firm's sales are dependent on innovation, the more likely they are to have rapidly increasing or decreasing turnover.

Trends in innovative activities

- About half (45% to 50%) of companies reported that they have been introducing each type of innovation included in the survey (e.g. improved products, services, processes, marketing strategies *or* organisational changes, etc.) in the period 2006-2008. Over 80% of companies reported that they have introduced at least one type of innovation of those surveyed.
- Slovenian, Finnish, Swiss and Swedish companies were the most likely to introduce at least one kind of innovation (91%-93%) and also some of the most liable to introduce products and services innovations (74%-78%). Cyprus scored consistently highly in the areas of introducing marketing, organisational and process changes, while Hungary and Bulgaria were often at the low end of the distributions.
- Enterprises that reported an increase in innovation investment between 2006 and 2008 were much more likely to introduce a product- or service innovation (81%) compared to those with stagnant (62%) or decreasing (60%) innovation investments. The same is true for firms where the sales revenue has been increasing between 2006 and 2008 (73% vs. 56%-64% for those where no increase was seen).
- Since 2006, almost half (46%) of EU enterprises have introduced new or significantly improved business processes (e.g. in production, distribution, support). Such innovations are most characteristic of manufacturing firms: 57% and 55%, dependent on the sector. In contrast, only 43% in the service sector (regardless of technology-intensity) have introduced such innovation.
- A similar number (45%) of EU enterprises have introduced a new or significantly improved marketing strategy since 2006. In particular, the less knowledge-intensive service companies have done this: 52% in this sector confirmed adopting new or improved strategies.

- Since 2006, 49% of surveyed enterprises have introduced new or significantly improved organisational solutions (e.g. in knowledge management, workplace organisation, external relations). Such innovations were most prevalent in the knowledge-intensive service sector (53%) and somewhat lower in manufacturing (regardless of the level of technology, 47%).

Spending on innovation

- A quarter of enterprises surveyed in the EU (26%) spend more than 5% of their turnover on supporting innovation. However, most enterprises spend less than 5% (59%) or do not spend any of their turnover on innovation (6%). One in 10 managers could not, or did not want to, provide an estimate in this regard.
- Those companies that rely on innovative services and products in their sales were the most likely to spend more than 5% of their annual budget on innovation (41% vs. the EU average of 26%); and 9% of these companies spent more than 25% in 2008.
- *Acquisition of machinery, equipment or software* was the most widespread form of innovative investment (76% of firms in 2006-2008). This type of spending was also the most common among those firms that had increased spending on innovation in the same timeframe (65%). This translates to 49% of all enterprises interviewed.
- *Training* with the goal of supporting innovation was the second-most widespread investment that enterprises reported: 50% had such expenditure and 63% of these enterprises increased the amount spent when comparing 2008 to 2006.
- Spending on innovation activities other than R&D is fairly widespread across all size segments: almost all large enterprises (94%) have spent money in this area, as have all other sizes of enterprises (82%-92% depending on the number of employees).
- The more a company relied on sales income from innovative products or services, the more likely it was to have boosted its budget for non-R&D innovation between 2006 and 2008 (63% of those where sales of innovative products is only secondary vs. 82% of those who see this as a primary source of income).
- Manufacturers (high- and low-tech) were more likely than service providers to invest in R&D: enterprises in high-tech industries were most likely to report such expenditure (55%) as well as having the highest proportion of increased R&D budgets (62%). The firms that were the least likely to have invested in technological innovation were those in the less knowledge-intensive service segment (37%).
- Exactly twice as many of the largest enterprises (74%) than those in the smallest segment (37%) have invested in R&D since 2006.

Trends in innovation investment

- Over a third of enterprises interviewed reported an increased spending on innovation in the past three years but only 12% anticipated a boost in their innovation budgets for 2009. On the contrary, 28% of managers thought their 2009 innovation budget would shrink, although only 9% indicated that such a pattern existed between 2006 and 2008.

- However, most enterprises have had a stable or stagnant innovation budget (not counting inflation) between 2006 and 2008 (47%), and 51% expected to maintain their current spending in 2009.
- A “negative turnaround” (i.e. innovation spending forecasted to decrease, despite increases between 2006 and 2008) was most often seen in the low-tech /medium-low-tech manufacturing sector (14%), in the largest enterprise segment (13%) and in countries classified as “catching-up” (13%) by the 2008 European Innovation Scoreboard (EIS) classification.
- When asked about the direct effects of the current economic downturn, most enterprises did not report any change in innovation expenditure during the past six months (59%). However, of those who did change, roughly twice as many companies indicated that they have cut back on innovation-related spending (22%) compared to 9% that have increased their innovation budget. This marks a rapid deterioration compared to period 2006-08 where 35% of companies said they had increased innovation related expenditure while only 9% reported a decrease.
- The “forward-looking” attitude of increasing innovation expenditure in response to the economic downturn was particularly characteristic of high-tech manufacturing firms (13%) but this segment was also – however marginally – the most likely to have cut their innovation budgets (24%).

Strategic initiatives to support innovation

- Regarding the most sought-after *skills to support innovation*, general communication skills and a capacity for team working were the ones that most enterprises looked for (58% and 56%, respectively) when hiring or training their current employees. Creativity and negotiation skills were mentioned by less than half of enterprises surveyed (48% and 46%, respectively) and just under a third (32%) were specifically looking for the ability to communicate with people of other cultures.
- All of these skills were more likely to be a focus of recruitment or training activities in the larger enterprise segments and by enterprises that had an international aspect in their core activities. They were also more sought-after by enterprises active in service sectors than in the manufacturing sector.
- In terms of integrating *internal activities and systems* to support innovation, EU enterprises were most likely to say that they had introduced mechanisms to support the collection of innovative ideas from employees (46%), while 40% have used staff rotations and secondments to bring new perspectives to work processes.
 - The gap between the largest and the smallest enterprises is widest in the extent to which they utilise specialised knowledge management systems (small firms: 32%, large companies: 56%) and the extent to which enterprises create cross-functional/departmental teams in innovation projects (small: 28%, large: 69%).
- Firms are less likely to use *external relationships* to support innovation: they were slightly more liable to involve potential customers or clients in product testing (26%) or in in-house innovation activities (24%), than in actually sharing or exchanging intellectual property (22%).

- Enterprises that increased their innovation spending between 2006 and 2008 were somewhat more likely than others to participate in online discussion forums relevant to innovative activities and to involve potential users in in-house development activities and were much more open to sharing or exchanging intellectual property with a broader development community (31% of companies in this group, 9 percentage points above the EU average).
- In terms of strategic partnerships, these exist particularly within the supply chain: with suppliers (42%) or with specific (presumably large or important) customers or clients (39%).
 - Large enterprises stand out in each type of strategic link tested; this is especially evident in strategic relations outside a company's supply chain: the larger the companies the more likely they were to be engaged in strategic relationships with other companies, research or educational organisations.
- Slovakia, Finland and the Czech Republic were the most successful countries in terms of forging partnerships; Hungary and Latvia were consistently in the bottom three countries in this regard.

International activities in support of innovation

- Roughly 1 in 16 EU enterprises (6%) stated that they made investments in support of innovation in companies located in other countries. One in 10 firms outsourced (innovation-related) tasks to firms abroad and roughly one in six (17%) had another type cooperation with companies in foreign countries. About one in six firms (16%) recruited employees from abroad and 13% test-marketed their innovative products in other countries.
- Of the EU's six largest countries, the UK and Spain reported the most international exposure (40% and 39%, respectively), Poland was slightly above the EU average (36%), but France (23%), Germany (20%) and Italy (17%) were among the countries having the least amount of such cross-border activities.
- Many of the smaller, more open economies reported much more intensive international activity, with Slovenia and Cyprus (both 61%), Ireland (60%) and Luxembourg (58%) topping this ranking.
- The larger the enterprise the more likely it was to have undertaken international activity (to support innovation) in the past three years: 60% of companies in the largest enterprise segment, 48% of medium-large enterprises, 38% of medium-sized firms and 27% in the smallest segment.
- Companies with a significant international focus in their core activities were much more likely to indicate that they performed one of the cross-border activities mentioned to support their innovation (55%) versus 18% of firms who only operate domestically.
- Almost three-quarters (71%) of companies who reported any of the tested international activities said that these remained within the EU, Norway or Switzerland. This means that, overall, about a quarter of *all* firms surveyed by Innobarometer had cross-border relations within the EU (or in Norway or Switzerland) in support of innovation.
- About 1 in 10 (11%) enterprises with international activities to support their innovations indicated cooperation with countries outside the EU (among their two main locations of such activities).

- Segments that were most likely to have engaged in international relationships to support innovation were those in the high-tech manufacturing sector (47% of those performing international activities and 21% of all companies had such relationships with countries outside the EU), in the medium-large (46% and 22%, respectively) and large (43%, 26%) enterprise segments.

Lead Markets

- The vast majority of EU enterprises considered that their lead market is (within) their home country (70%), 10% indicated that it is elsewhere within the EU (or in Switzerland or Norway) and 3% indicated that it is located outside the EU.
- Companies who were the least likely to identify their domestic market as having the most demanding clients (i.e. high-tech manufacturers: 51%, low-tech manufacturers: 54%, those with cross-border core activities: 48%) were also the most likely to claim that there is not a real difference between the various market areas (17%, 18% and 21%, respectively).
- Those companies that named another EU country as their lead market were primarily those in the manufacturing segments (high-tech: 19%, low-tech: 20%), the largest enterprises (15%), the relatively-young ones (established after 2001: 13%) and those that gain most of their revenue from the sales of innovative product and services (16%).

Public procurement

- Just over a quarter of all firms (27%) surveyed have actually *won* at least one public contract in the period since 2006. Overall, 9% of the enterprises surveyed and interested in public procurement, did not win a contract (3% did not even submit a bid and 6% submitted a tender but did not win). At the same time, 42% of the interviewed enterprises explicitly stated that they were not interested in public tenders.
- Knowledge-intensive service companies showed the most interest (44%) and were the most likely to win public procurement tenders (32%).
- Between 64% and 77% of companies interested in public procurement indicated that none of the opportunities - investigated / unsuccessful bids made / contracts they won - provided the opportunity to offer innovative products or services.
- Large enterprises seemed to be much more likely than others to find public call for tenders where they could sell innovative solutions (55%).
- Over a third of companies considered low cost and an innovative component in public tenders to be equally important in terms of making a successful bid. Low cost was considered to be more important than the inclusion of innovative products by 30% of companies, while roughly 1 in 10 (9%) opted for including an innovative component. A quarter of managers did not have an opinion on this subject.

Public policies and other factors influencing innovation

- Nearly half of the enterprises surveyed indicated that demand-side policies had positively impacted their innovation activities (48% reported a positive effect from at least one policy-related change)

- The most influential was new environmental regulations that encouraged or required 35% of EU enterprises to innovate.
- Supply-side policies were less likely to have positively affected enterprises' innovation activities since 2006: just a third of all surveyed companies confirmed that newly introduced public policies in the field of taxation or direct subsidies for innovation provided them with increased opportunity to innovate.
- Variations were especially pronounced in how much enterprises felt that *demand-side policy* changes (i.e. changes in environmental or other regulations or in services provided by intermediaries) positively influenced innovation activities: those in the high-tech manufacturing sector (54%), in the large enterprise segment (61%) and those who felt that innovations can be sold as part of public procurement contracts (63%) were able to capitalise on such changes.
- Demand-pull factors (e.g. pressure from competitors, demands from clients) were more likely than technology-push factors (i.e. emergence of new technologies or opportunities to cooperate with knowledge centres) to positively influence innovation activities between 2006 and early 2009. Almost three-quarters (72%) of enterprises indicated that at least one of the demand-pull factors tested in the survey influenced their innovation activity in a positive manner.
- Opportunities or demands in the private sector had a primacy over public demand: about half of enterprises confirmed that increased pressure from competitors (53%), increased demand from existing commercial clients (49%) and new opportunities to expand within existing markets or enter new ones (49%) offered opportunities for (or even required) them to boost innovation. Public clients' demands had a similar effect with only a minority (16%) of enterprises

Companies thoughts about their competitive advantage and future trends

- The single most widely indicated strategy to remain competitive in the next two years, was the one not necessarily involving innovation: 32% of companies said they felt they would be successful primarily because they would be able to cut costs or prices of existing products and services.
- However, six in 10 companies (60%) indicated an explicitly innovative direction where they saw their main competitive advantage could be in the near future (23%, development of new products or services; 21%, modified versions of current products/services; 16%, new business models or marketing strategies).
- Product-related developments (to develop new ones or to upgrade the existing ones) were primarily mentioned by manufacturers (especially high-tech: 27% indicated both types), while improved business models and marketing innovations were the most popular choices in the knowledge-intensive service segment (21%).
- Companies feel that energy efficiency will be the main driver of innovation over the next two years: 32% of managers named this as a key trend for innovators. Roughly one in six (16%) saw opportunities in serving the increasing number of older people, 15% considered emerging export markets and 12% pointed to demands in education, social- or health services.