

CONSTRAINTS FOR SMALL AND MEDIUM ENTERPRISES' INNOVATION ACTIVITIES IN A EUROPEAN COUNTRY COMPARISON

An important question in economic growth is why disparities in income and economic development across countries are large and persistent, despite increasing globalization. The empirical literature suggests that differences in income across countries are attributed to a great extent to differences in productivity growth, while much of productivity growth is spurred by firm innovation activities. Since firm innovation depends heavily on incentives, better understanding of the microeconomic frictions that prevent firms from engaging in innovation activities is required.

Because of the fact that increased innovation activity has become more and more important, the European Commission launched the European Charter for Small and Medium Enterprises (SME) to improve the business environment for small enterprises in 2000. Reporting on the Charter was integrated into the Lisbon report as of 2006. During the course of the Charter the European Commission has initiated studies and indicators that help to assess the status of the innovation environment that SMEs in EU member countries are exposed to.

Today a much discussed issue in European countries is the lack of appropriate skilled workers capable of complementing high-tech production and services to contribute to Europe's future economic success and competitiveness. And indeed, the lack of skilled human resources is a major constraint in SME innovation activities across many European countries as the subsequent descriptive statistics

will show. In particular, because of disparities in the innovation environment among EU members, the introduction of a harmonizing Blue Card system, as a counterpart to the US green card, is aimed at increasing Europe's attractiveness as a whole.

According to the Table the European Commission asks nine questions in their Observatory of European SMEs about "What was the main constraint for your innovation activities in the last two years?":

- Question 1 = "Lack of ability to use new technologies"
- Question 2 = "Too expensive human resources"
- Question 3 = "Lack of skilled human resources"
- Question 4 = "High interest rates"
- Question 5 = "Problems with access to finance other than high interest rates"

Table

What was the main constraint for your innovation activities in the last two years?

(Year of survey conduct: 2006/2007)

	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9
Austria	2	16	10	4	9	4	7	35	14
Belgium	2	5	12	11	6	4	5	42	15
Bulgaria	1	1	7	5	9	1	7	64	7
Cyprus	4	8	7	8	5	3	6	46	14
Czech Republic	4	10	9	4	8	1	7	34	24
Denmark	2	4	9	2	2	1	7	53	20
Estonia	4	8	37	3	11	0	7	11	21
Finland	1	18	22	1	9	5	11	17	17
France	2	2	3	4	8	3	7	50	21
Germany	2	13	8	4	10	4	11	37	11
Greece	5	12	11	6	11	3	15	23	14
Hungary	5	7	2	6	16	3	5	52	4
Ireland	6	15	13	13	12	2	11	11	16
Italy	1	10	8	6	8	3	9	43	11
Latvia	4	7	21	7	4	1	4	45	6
Lithuania	4	10	38	2	10	4	5	13	14
Luxembourg	3	5	5	1	8	2	8	48	19
Malta	2	9	5	5	11	2	11	25	29
Netherlands	5	3	6	3	7	3	6	39	29
Poland	3	6	13	5	16	2	7	36	12
Portugal	4	9	6	10	13	3	9	32	16
Romania	3	6	16	11	13	2	6	30	12
Slovak Republic	2	5	11	6	12	2	4	39	20
Slovenia	4	7	15	5	11	4	6	30	18
Spain	3	8	6	6	7	1	6	52	12
Sweden	2	11	9	1	8	3	8	33	26
United Kingdom	5	10	12	12	13	3	10	16	20
Norway	2	5	17	1	11	2	6	42	15
Turkey	10	6	14	20	11	2	9	21	7
Mean	3	8	12	6	10	2	8	35	16

Note: Q indicates question asked by the European Commission. Figures represent percentages of total replies.

Source: European Commission (2007).

- Question 6 = “Hard to protect intellectual property”
- Question 7 = “Lack of market demand for innovation”
- Question 8 = “Did not plan to innovate” and
- Question 9 = “Don’t know/not applicable”.

Apart from questions 8 (did not plan to innovate) and 9 (not applicable), which make up the highest percentage in respondents’ constraints for innovation activities, Question 3 and Question 5 show the third and fourth most important constraint: lack of skilled human resources (average percentage of replies 10 percent) and problems with access to finance other than high interest rates (average percentage of replies 12 percent). Regarding the constraint of lacking skilled human resources, the major EU countries which are above the mean, are the United Kingdom (with 12 percent of total replies), Finland (with 22 percent of total replies), and Norway (with 17 percent of total replies). However, most of the remaining above-mean countries are located in the Baltic States or in southeast Europe (like Romania and Slovenia) – countries with less developed economic levels.¹

Regarding the problem of finance constraints other than high interest rates, the Table shows that in this constraint category there are even more countries with above-mean percentages of total replies. Those countries with the highest percentage are Hungary and Poland (both with 16 percent), followed by Portugal, Rumania and the United Kingdom (13 percent), and Ireland and Slovakia (12 percent). Those countries in which the finance constraint seems to be the least binding are Denmark and Latvia (with 2 and 4 percent, respectively). Here again, SMEs in less developed countries are much more affected by constraints in innovation activities than other, more developed EU countries.

T. S.

Reference

European Commission (2007), The Observatory of European SMEs, available on the internet under http://ec.europa.eu/enterprise/enterprise_policy/analysis/observatory_en.htm (accessed 10 March 2009).

¹ Using the median instead of the mean as threshold generates similar results.