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### **Innovation and entrepreneurship: structural determinants of competitiveness**

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In the context of a globalised and increasingly competitive economy, with shifting structural boundaries, innovation is a cornerstone of policy and regarded as the predominant means of sharpening the competitive edge of the European and individual national economies. Stimulation of entrepreneurial spirit is another policy ingredient that is frequently added to it. Innovation and entrepreneurial spirit are thus at the heart of the process of structural reforms fostered by international organisations such as the OECD (Going for Growth) or the EU (Lisbon strategy).

Beyond its often, but not necessarily always, technological aspects, innovation should primarily be regarded as a long and complex process, involving numerous elements and various stakeholders. In sum, it can take many different forms, just as innovative firms do not present a uniform profile themselves.

This article strives to give a broad outline of this process, more specifically by illustrating its various elements through the findings of the fourth Community Innovation Survey (CIS), a survey that regularly questions enterprises from EU countries, Iceland and Norway on their innovation activity.

According to the CIS, an enterprise is deemed to have been innovative if it has introduced a new or significantly improved product or process for itself. Between 2002 and 2004, this was the case for 51.3 p.c. of all the Belgian firms questioned, a score that puts them in 7th position in the European ranking. Medium-sized to large Belgian enterprises do particularly well, as well as those in the industrial sector; in these categories, they feature among the top three in the European nations' league table. This excellent performance can be partly explained by the presence of numerous multinationals in Belgium. Moreover, the size of the enterprise and its branch of activity tend to exert influence on its propensity to innovate, likewise influencing the whole process.

In order to acquire knowledge, a firm incurs expenditure on innovation, which does not just amount to spending on R&D, although this is very important. Despite the 3 p.c. of GDP target set for the year 2010 by the Lisbon strategy, the intensity of R&D expenditure has stagnated in recent years, both in Belgium and in the EU as a whole. Europe's R&D deficit in comparison to the United States, as well as the disparities between individual EU Member States, are therefore still very much in evidence. In Belgium, moreover, R&D expenditure involves a smaller government contribution, in part offset by funding by foreign firms.

The innovation process tends to reflect the structural features of an economy. Overall R&D intensity in an economy is influenced by the structure of its activity, so the relevance of national targets is questionable. Because of the very open nature of its economy, a European approach to this subject would be of particular benefit to Belgium. The innovative behaviour of Belgian firms is not grounded as deeply in R&D activities as in its main neighbouring countries or in the EU, so they tend to compensate for this through training their staff and acquiring rights to innovations developed by others. Likewise, a significant proportion of the patents filed for by Belgium have an international dimension, whether through a cross-border holding or the presence of a foreign co-inventor.

Moreover, the traditional position of Belgian firms at the heart of the international production chain goes some way to explaining why they appear to attach particular importance to their customers and suppliers as a source of information and as cooperation partners, just as they seem to focus more on improving their product quality than on extending their range or conquering new markets.

Owing to the complexity of the process itself, there are many different policies that can be used to encourage innovation. Many policies aiming to improve the general business environment can thus be called upon, whether in the field of training, the labour market, financial markets, external openness or competition.

Governments can also exert a more direct influence on R&D and innovation activity, through several channels (subsidies for private R&D, public R&D, etc.) and, more generally, by setting up an effective innovation system, within which connections and exchange of know-how between academic circles and the industrial world are fostered. In Belgium, this type of action is dependent on the past and present state of public finances, as well as on the distribution of competences characteristic of a federal State, which makes appropriate policy coordination absolutely essential.

By identifying opportunities, bearing the risks and combining means of production, the entrepreneur plays a crucial role in developing innovations. Belgium, like its main neighbouring countries, suffers from a lack of entrepreneurial spirit here, and entrepreneurship should not be confused with the relative importance of self-employment in the economy. There are also a good many policies likely to promote entrepreneurship that partly overlap those mentioned above.

The importance of the general framework implies that the innovation process, and consequently the most appropriate policies to pursue, are peculiar to each economy. On this score, Belgium is characterised by its external openness, the need to keep public finances in check, its institutional structure and its economic profile. While all these distinctive elements may in some respects weaken the innovation process, they can also be seen as strengths, above all via the high degree of adaptability and absorption capacity of Belgian firms. The need now is to consolidate these advantages and work on the most glaring weaknesses in order to set up an efficient innovation system. Among the various general conditions necessary for encouraging innovation, training remains a priority, insofar as human capital forms an essential pillar of a knowledge-based economy. Efficient factor and product markets are also indispensable.