CUADERNOS ORKESTRA
ISSN 2340-7638
https://doi.org/10.18543/RTWM2847

INNOVATION IN BASQUE SMEs: ANALYSIS AND REFLECTION ON THE INNOVATION SURVEY

EXECUTIVE SUMMARY
No. 07/2024
https://doi.org/10.18543/TJJI8628

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CUADERNOS ORKESTRA, no. 07/2024. Executive summary.

ISSN 2340-7638

Collection: https://doi.org/10.18543/RTWM2847

Notebook in Spanish: https://doi.org/10.18543/ECII3722

Executive summary in English: https://doi.org/10.18543/TJJI8628

Executive summary in Basque: https://doi.org/10.18543/UDQV7448

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Acknowledgements

This report has been prepared with the funding of SPRI – Basque Agency for Business Development, dependent on the Basque Government.

The preparation of this report has been possible thanks to the data provided by Eustat, both *ad hoc* requests made by Orkestra and access to microdata. Our most sincere thanks to Eustat for all the facilities offered.

We also thank Mari Jose Aranguren, Susana Franco, Bart Kamp and Mikel Navarro for their comments and contributions in the development of this work.

Executive summary

The ability of SMEs to innovate is an important determinant of the competitiveness of any territory, and even more so in the Basque Country, which is characterized by a comparatively high proportion of SMEs in its economy. The Basque Country is recognised for the strong overall performance of its innovation system, positioned among the 'strong innovative regions' in the European Regional Innovation Scoreboard (RIS). However, there is persistent concern that it has a relatively low percentage of innovative SMEs compared to territories of reference. Exploring the main characteristics of Basque SMEs with regards to innovation, based on the innovation surveys of Eustat and Eurostat, enables a better understanding of their positioning in innovation and supports reflection on the implications in different areas.

Innovation and business size

As size is an important determinant of the innovative activity of companies, a first aspect to note is the higher percentage of SMEs (98%), especially small enterprises (82%), in the Basque Country than in other territories. This figure is relevant given the relatively low percentage of small innovative establishments (with respect to the total of small enterprises) in the territory (38.9%). Moreover, also warranting attention is the loss of advantage in the percentage of innovative medium-sized enterprises (60.7%) relative to the EU-27 (65.2%). All this confirms the need to continue to boost the culture of innovation in Basque SMEs in general.

Types of innovation

The percentage of SMEs that innovate in product is higher in the Basque Country than in Spain, but lower than in the EU-27 and in Germany, while the percentage of Basque medium-sized enterprises that innovate in product (38.8%) is higher than the EU-27 average (37.8%) but lower than Germany (44.1%). Meanwhile, SMEs' sales of new or improved products over total sales (11.1%), as an output indicator are much higher than those in the EU-27 (8.2%) and Germany (6.2%), despite a decline in recent years, due mainly to higher values in medium-sized establishments. These results suggest a duality of Basque SMEs, with a relatively good position of medium-sized enterprises and a worse position of small enterprises and highlight the need to focus efforts on smaller enterprises.

As far as process innovations are concerned, the percentage of innovative SMEs is generally higher than Spain, but lower than the EU-27 and Germany, reaching values similar to those of the EU-27 and Germany only in the category of production methods. Small firms are better positioned than in Spain and worse than in the EU-27 and Germany in all indicators, with the biggest differences being observed in the categories of organization and human resources, business practices and external relations, and marketing. In the case of medium-sized firms, the positioning compared to the European average is good in innovation in production methods, and worse in the other categories, especially all those related to organizational and marketing innovations. We can therefore identify a need to continue to empower innovations in areas other than methods of production to leverage the competitiveness of Basque SMEs.

Spending on innovation

The distribution of innovation expenditure in the Basque Country differs significantly from that of other territories, with a significant concentration of innovation spending in SMEs in the region, compared to the greater weight of innovation spend by large companies in other territories. The higher percentage of innovation spending over medium-sized enterprises' turnover stands out, as well as the greater weight of internal and external R&D spending to the detriment of other innovation costs. The explanation for these results lies in the lower percentage of large units in the Basque Country, the higher average size of large entities in the EU-27 and Germany, and the fact that the majority of entities that fall under R&D Services – a category that has great weight in innovation spending in the Basque Country – are not large.

R&D+i cooperation

Cooperation in R&D+i with other actors is a highlight of innovation in the Basque Country, where 52% of innovative SMEs cooperate in R&D+i, a much higher percentage than in the other territories considered. This cooperation is mainly at the regional and national level, with a lower percentage of establishments cooperating internationally than in the EU-27 as a whole. It is consultants and technology centres, Cooperative Innovation Centres (CICs), Basic Research Centres (BERCs) and similar types of agents with which SMEs cooperate most.

Public support for innovation

Another aspect to highlight is the percentage of SMEs receiving public aid, both in general (53%) and for R&D+i (35%). The percentage is much higher than in Germany and Spain, with the Basque Government being the administrative level that reaches the highest percentages of establishments, followed by the Provincial Councils. In this regard, the administration is making a significant effort to reach a large number of SMEs with its support programmes. However, in view of the results obtained in this analysis, it seems appropriate to reflect on the nature of this support.

Barriers to innovation

For all SMEs (innovative and non-innovative) in the Basque Country, the existence of *other priorities* and *high costs*, followed by *uncertain market demand*, are the barriers to which the highest percentage of companies attach great importance. In the case of innovators, who are more aware of barriers to innovation, the overly *high cost* of innovation is the prevailing barrier, followed by the existence of *other priorities* in the enterprise and *difficulties in obtaining public aid or subsidies*. In both cases, *knowledge-related barriers* appear as the least relevant barriers. This suggests the need to focus policies on reducing identified barriers and providing a more favourable environment for innovation, as well as continuing to work to ensure that companies perceive innovation as an investment rather than a cost.

Business strategies and innovation

Finally, in view of the relationship between innovation and the strategy adopted by organizations, innovative establishments prioritize, in particular: (i) strategies focused on quality leadership; (ii) improving existing products; (iii) satisfying the established clientele; and (iv) reaching new groups. Thus, we generally observe patterns of innovation focused on constant improvement and characterized by low risk and degree of disruption. One question for reflection is whether it is appropriate to aim towards a greater balance between disruption and continuous improvement, or whether, on the contrary, the current model is equally valid.

Global implications

A detailed analysis of the characteristics of innovation in Basque SMEs confirms the perception that there is a need to continue paying attention to increasing the number and percentage of SMEs with innovative activity. On the one hand, it is important to continue to foster the culture of innovation in SMEs, by making them understand the importance of innovative activity for their future competitiveness, as an integral part of their strategy. On the other hand, it is important to continue to support the innovative activity of SMEs so that they can cope with the barriers they face in this process, especially cost barriers and the presence of other priorities in the business. In this regard, the public administration is making a significant effort, reaching a large number of SMEs with its support programmes. However, it seems appropriate to reflect on these programmes and their ability to address the barriers perceived, especially by small enterprises.

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