Mic 2020
Management International Conference
Online Conference • 12–13 November 2020

Sources of Business Growth at Different Levels of Innovativeness – Case of Firms in EU countries

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Abstract. The purpose of this research is to explore how investment in R&D, training of employees, branding and reputation, design and acquisition of technology affect business performance measured in terms of turnover growth in firms operating in 28 EU countries at different levels of innovation performance (grouped according to innovativeness as defined by European Innovation Scoreboard 2017). EU countries show different levels of innovation performance ranging from modest to lead innovators. For several years consecutively, EU countries ranked among modest and moderate innovators in the European Innovation Scoreboard (indicating rather low overall innovation performance) show rather sluggish progress insufficient for catching up with other countries. This study aims to contribute to the literature by identifying activities that lead to business growth of firms in less innovative countries for which R&D is less relevant. In addition to adoption of existing technology that is often recognized as driver of growth in countries farther from technology frontier, models include investment in training, branding and design.

Empirical part of the paper relies on survey data from Flash Eurobarometer 433 - Innobarometer 2016 that covers responses of micro, SMEs, and large firms in manufacturing, services (including retail) and industry in EU countries. Dependent variable in all models is turnover growth in three-year period (from 2013 to 2015). Respondents reported if their turnover in the analysed period have fallen by more than 25 percent, fallen by between 5 and 25 percent, remained approximately the same, risen by between 5 and 25 percent or risen by more than 25 percent. Empirical analysis relies on ordered probit model.

Research findings reveal rather complex story behind business growth of firms across EU countries. Impact of R&D on business growth indeed varies across EU countries at different levels of innovativeness. In countries at lower level of innovativeness business growth relies on training of employees, branding and reputation as well as acquisition of new technologies. Investment in design is significant for improving business growth at higher levels of innovation performance.

For managers as well as policy makers in EU countries these findings provide useful input for business and innovation strategies and policies. Stronger emphasis should be on activities that ensure growth at the particular stage of innovation performance development. This, however, does not mean that R&D should be neglected and abandoned by firms, especially those operating in countries at the lowest level of innovation performance. It just indicates that gains from R&D in these circumstances will not be as high as expected.

Keywords: R&D, training, branding, acquisition of technology, design