

# **INNOVATION IS VERY PROFITABLE FOR COMPANIES**

*Posted on 18/02/2013 by Naider*



In a study carried out by Naider for the FECYT based on the econometric analysis of the data of 4,776 companies that have been monitored from 2004 to 2008 (PITEC Panel), it is concluded that an increase in investment in innovation in companies Spanish companies raise final sales to a much greater extent than the investment effort made (The complete study and an executive summary can be found [here](#))

From the analysis of the data, it is estimated that the elasticity of sales to investment in innovation is 0.037. This would imply, for example, that if 258 million euros more were invested in business innovation in the Basque Country (a 10% increase), total Basque production would rise by 4,332 million euros, GDP would increase by more than 1,100 euros per year Basque per capita and more than 18,000 net jobs would be created.

The results observed clearly demonstrate that investments in innovation are profitable for the country and for the companies that carry them out. However, reality shows us that the level of investment by Spanish companies and also by Basque companies in this area is substantially below that observed in other European countries (Innovation Union Scoreboard business investment index of 0.25 and 0.50 in Spain and the Basque Country, compared to indicators of 0.69 in Sweden, 0.56 in Denmark, 0.64 in Finland and 0.63 in Germany) that we could choose as a reference.

The explanation for this differential must be sought first, in the very characteristics of the productive fabric that is less specialized in technology-intensive activities in which investments in innovation are significantly more profitable (the study shows that the impact on sales is 229% greater in this type of company). Secondly, and also closely related to the sectoral structure itself, it is very likely that Spanish companies are less aware of the benefits derived from innovation. This is not a trend present only in Spain, but is associated with the greater complexity of innovative processes: in a recent report by NESTA (State of Uncertainty, Innovation policy through experimentation) it is pointed out that the most important barriers to innovation they are lack of information, uncertainty and even ignorance. Finally, thirdly, the environmental conditions related to the markets themselves and the less dynamic and developed national and regional innovation systems may be influencing greater risks (failed investments) for innovation in Spain.

The conclusions of these data for innovation promotion policy are clear. It is clear that measures to promote innovation are key in any industrial policy and should be aimed, on the one hand, at raising awareness among companies so that they are aware of the business potential of innovation and, on the other, at creating better conditions environment that contribute to facilitating business innovation processes and reducing the risk inherent in innovation projects. In this section, it would be especially relevant to guarantee access to credit so that innovative business projects find the appropriate financing that should be linked to the expected benefits and not so much to the potential of the entrepreneur to present real guarantees.

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