

# INNOVATION FINANCING **EUROPEAN BAROMETER** 2011

A publication by Alma Consulting Group

7<sup>th</sup> ISSUE



# Foreword

The aim of Alma Consulting Group's Innovation Finance Barometer is to compile an inventory of places in which the various financing systems have been used and to assess their impacts on innovating businesses and on jobs and R&D investment.

For over 25 years now, Alma Consulting Group has provided the essential role of an interface between various finance operators and innovating businesses. Our action is designed to support their development and improve their competitiveness through three types of support: optimising R&D investments, obtaining suitable finance, and collaboration with known industrial and scientific partners. In this regard, we can report on the realities that we see every day in the field, both with small businesses and with major international groups.

**In the current context of severe budget restrictions, it is of paramount importance to highlight the areas that contribute to growth: innovation is a determining factor. By transforming the methods by which goods and services are produced, innovation will stimulate productivity and jobs and continue to improve the quality of life of citizens. The role of the public authorities is central here, as they, through their policies, encourage innovation and maximise the chance of creating new products and services.**

This 7<sup>th</sup> barometer will provide an understanding of the effects of the current crises on businesses' capacity for innovation and on their willingness to continue investing in the short and medium-sized term. This edition, distributed to nine European countries, has already helped us to find out the following:

- 1** R&D financing is the main concern of European businesses (for 45% of businesses affected in 2011 compared with 39% in 2010).
- 2** 61% of innovating businesses state that the 2010 slowdown in economic activity affected them, and sadly there is nothing new in 2011 to suggest that the situation will improve.
- 3** External financing for an innovative project within a European business is 66% based on public finance: any reduction by European governments will trigger a level of uncertainty over the beneficiary businesses' capacity to innovate.
- 4** Despite everything, 56% of European businesses state that they are making innovation the centrepiece of their growth strategy in 2011.

**While the action of innovation should be priority, it is the means of financing R&D that is grabbing all the attention.** At a time when budgetary envelopes are being kept closed by various European governments, we are asking ourselves about the adverse effects of these actions, given that as the study shows, public finance has found its place in the innovation finance ecosystem and businesses are quite clearly reaping benefits in terms of their competitiveness.

**Abbas Djobo**  
Innovation Financing Department Director

**John Coury**  
International Director

# Methodology

Alma Consulting Group's 7<sup>th</sup> Innovation Financing Barometer was compiled with the help of 2,041 innovating businesses, including small, medium-sized and large businesses and major groups in nine European countries: **Belgium, the Czech Republic, France, Germany, Hungary, Poland, Portugal, Spain and the United Kingdom.**

## Methodology & sampling

This study is based on a methodology comparable to those of previous editions, namely:

- a sample of 2,041 business managers, finance directors and R&D directors
- a self-administered e-mail survey, conducted from June to July 2011, in 9 European countries.
- level of representation provided according to activity sector and size of business.

The profile of the respondents (2,041 this year compared with 819 in 2010) is as follows:

- business decision-makers (43% of them CEO) or operations directors (23% industrial directors, 16% R&D directors, 14% financial and administrative directors)
- at the head of very small, small and medium-sized businesses (78%), intermediate-sized businesses (18%) and major groups (4%)
- these structures are recent (58% are less than 20 years old and 26% less than 8 years old) most originate from high-tech sectors (86% - ICT, health, electronics, energy, environment and aeronautics) and service industries (banking/ insurance, transport/logistics, software/computing etc)
- 82% of these innovating businesses have internal resources involved with R&D, and in more than 20% of them the resources are international; 53% of them have R&D centres. In terms of R&D centres, 67% have them in academic locations and 59% with private partners. Finally, almost a quarter of all respondents are working together with private and public research organisations at international level.

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## Funding innovation in Portugal

*Portugal is going through a recession, caused by both the collapse of internal demand and restrictive financial conditions. The 7<sup>th</sup> Innovation Barometer highlights a weakened link between companies and innovation:*

- **Conservative attitude towards Innovation:**
  - 65% of the companies aren't considering hiring new employees for R&D activities next year, in contradiction with the 2010 tendency;
  - Innovation has a lower importance this year as a strategic priority for company growth: in 2011 the quality of products and services and international development prevail;
  - Most companies remain optimistic regarding future innovation projects, but in a lower degree than last year (decrease from 84% to 68%).
- **More applications to the SIFIDE (local R&D tax credit) than in the previous study (increase from 51% to 56%). It represents 33% of their R&D financing.**
- **Considering the recent changes in tax policies, 77% of the companies that have applied to SIFIDE refer its extinction as their main concern.**

### Nuno Tomás

Operations Director, Alma Consulting Group Portugal

# Part I

## Finding the right financial levers is the number one challenge for innovating businesses

### 1. The financing chain

Ensuring the continued financing of innovation - from strategic concept to go-to-market - requires an optimum combination of financing methods. Fundings support the R&D projects at various stages, leveraging the innovating business's capital financing and self-financing capacities.

In Europe, R&D support is centred on:

- general guidance issued directly by the European Commission
- national policies and measures
- private initiatives taken especially by Business Angels and Venture Capital.

This year, the Barometer reveals that external finance for innovating businesses remains at 66% for public schemes and 34% for private schemes (*Diagram 2*).

**Public funding**, principally in the form of grants and reimbursements payments, encourages the initial stages in development, which favour the taking of initiatives and risks.

51% of the businesses questioned had used these forms of funding. Granted at both regional level (e.g. Regional Funds / FEDER) and European level (e.g. FP7), they are hugely popular in Germany, Belgium, Spain and the United Kingdom, where some 7/10 businesses benefit from them. In France, the figure is down slightly (55% compared with 58% in 2010).

**Indirect public funding** includes tax incentives such as tax credits, tax reductions for R&D and reduced income tax on R&D salaries.

**The R&D tax incentives** such as R&D tax credits or reliefs used by almost 53% of respondents, are the reference schemes in Europe.

**Business Angels and Venture Capital** are a source of funding that precedes launch on the market. Their role gradually decreases with the approach of the marketing date, at which point the risk capital investors take up the reins.

Regarding **Private Equity**, the figures confirm insufficient levels of establishment in R&D, with only 17% of businesses using it. The United Kingdom is noted for its dynamic approach here, with more than a third of businesses financed by this means. France is in the upper section, with a take-up rate of 22%.

One third of businesses resort to **bank loan**, with figures rising to 40% in Portugal and the Czech Republic and falling below 10% in the United Kingdom. The other countries, including France, are in the 30 percent middle bracket.

**Public Equity** takes the form of Stock Exchange introductions or market debt issues and allows businesses to generate significant levels of funds.

Recourse to public savings is still marginal (4%), with only 10% of German, Belgian and Anglo-Saxon businesses involved. It is found more in the major groups, used to increases in capital, who call on public savings (21% of these).

It is therefore not entirely fair to compare the R&D tax incentives with aids and grants on the other hand. These additional methods of finance in fact provide two ways of conducting an innovation development policy, based on a different perception of "strategic time". For the Germans, who extol the virtues of direct aid, this time is located within the introduction of the R&D project, thus favouring initiatives by businesses, while for the French, very much R&D tax incentives adherents, the period of time of support has priority.

#### Funding innovation in Poland

*Despite strong growth of +3.4% in 2010, Poland has had to adopt a public finance consolidation plan to make good its deficit.*

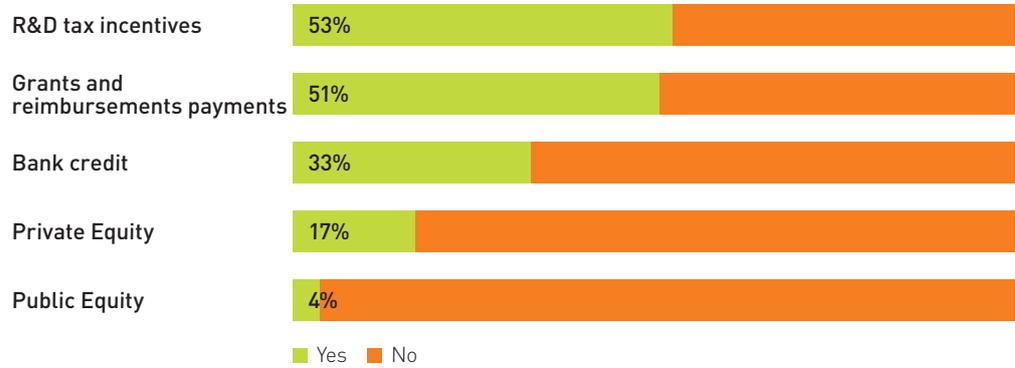
- *Lack of financial resources is slowing innovation development, both internally (43% of people questioned) and externally (over 31% of responses). Even though there is a tax deduction for new technology, including know-how costs, few companies are benefiting from it.*
- *89% of respondents have however innovated during the last three years (58% through product innovations)*
- *96% of respondents would welcome the introduction of a R&D tax credit scheme based on the French example.*

#### Beata Bartkiewicz

Director, Alma Consulting Group Poland

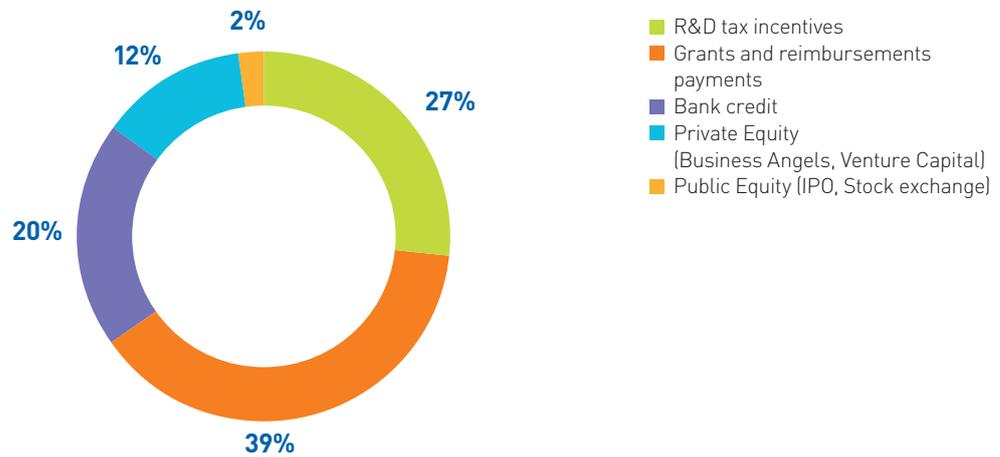
### Diagram 1

Over the last three years, what external resources has your business used to finance its innovations?



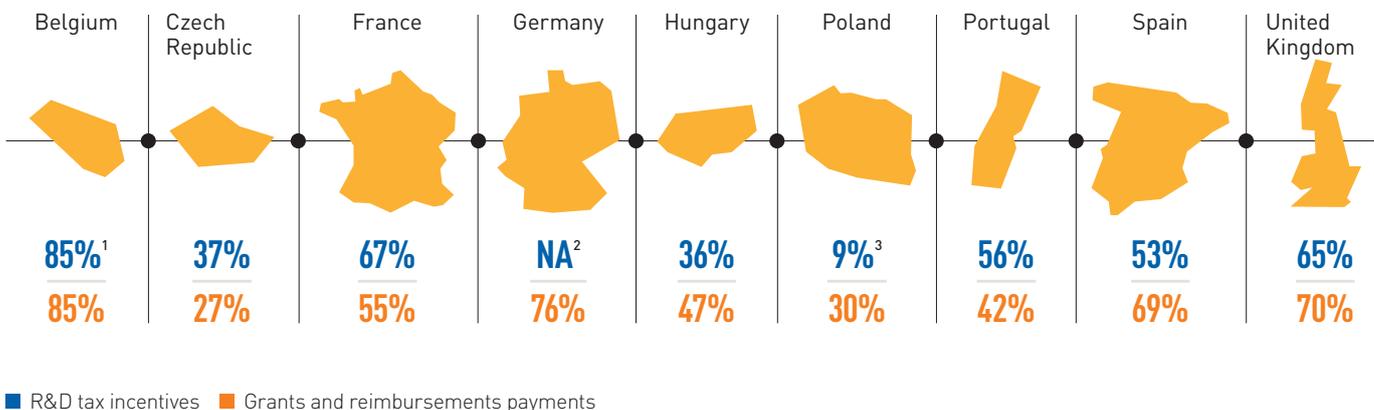
### Diagram 2

Declared proportion of external resources used to finance R&D



### Diagram 3

Over the last three years, what external resources has your business used to finance its innovations?



1 - Includes all innovation tax incentives, not just the Belgian R&D tax credit.  
 2 - R&D tax incentives are not available in Germany.  
 3 - Corresponds to tax deduction for purchase of patent licence.

# Part I

Finding the right financial levers is the number one challenge for innovating businesses

## 2. The concerns of businesses faced with crisis

The crisis is causing innovating businesses to focus on how to finance their innovation, making them much more sensitive to any change in existing schemes. In 2011, finding the right financial levers became the main challenge for European businesses, over and above managing human resources dedicated to innovation or protection of innovation.

Although the "Horizon 2020"<sup>1</sup> initiative has confirmed Europe's commitment to innovation, the stringent obligations with which all European States are confronted make the European objective of achieving a R&D investment rate of 3% of GDP a much more difficult exercise.

In fact, with the exception of Germany, finding financial levers to cover investment costs is an anxiety that all the countries questioned face, especially France (*Diagram 4*).

With 45% of business concerned, this challenge exceeds the reduction of time to market (39% of respondents), management of innovation-dedicated human resources (35%) or protection of innovations (29%).

**This challenge of financing is all the more pronounced in very small businesses (64% of respondents concerned) and in small to medium-sized businesses (41%).**

Third among the priorities is the management of internal/ external innovation-dedicated resources. This position clearly shows the changes in innovation methods, which are trying to become more and more open (participative, collaborative, open innovation etc). Therefore, strong coordination is essential to ensure that innovation products are aligned with business strategy.

The theme of sustainable development is less strategic, even though 17% of respondents pointed out the importance of taking it into account in their innovation processes (live better, consume less, pollute less etc).

These figures are proof that the crisis is concentrating innovating businesses on the search for funds, making them much more sensitive to any changes in innovation financing schemes.

Especially as **the businesses mention an allocation of private funds that they clearly consider insufficient** (*Diagram 5*).

One third of innovating businesses declare themselves dissatisfied with bank credit (34%), private equity (33%) and grants and reimbursements payments (32%).

### Funding innovation in Hungary

*Hungary, which felt the full force of the financial crisis, has had to call on the International Monetary Fund to avoid bankruptcy. After a deep recession in 2009, the country saw cautious growth in 2010 with a relaunch plan and a series of exceptional fiscal and para-fiscal measures that mostly affected the energy, telecommunication and food distribution sectors. Although these measures were significant, it is difficult to assess their effects on innovating businesses.*

- *Between 2008 and 2010, only 28% of Hungarian businesses increased their R&D staff numbers (compared with 41% internationally), and for 66% of these, the number of innovations marketed decreased or remained unchanged.*
- *Although only 29% of Hungarian businesses have a centre dedicated to R&D or technology (compared with 42% internationally), they concentrate on research partnerships, with over 73% having an academic R&D partner (university or public research centre) and 58% a private partner.*
- *36% of Hungarian businesses have claimed the R&D Tax Credit (compared with 53% internationally), one of the lowest rates in Europe. However, its 54% rate of use as an external finance source shows the weakness of bank credit and private equity in this country.*

#### Mira Agi Pancsity

Operations Manager, Alma Consulting Group Hungary

<sup>1</sup> - EU 2020 Strategy based on the Lisbon Strategy.

### Diagram 4

The three major challenges encountered by a business when it comes to innovation.

Finding the right financial levers	45%
Reducing the time taken to launch new products or services	39%
Managing the internal and external innovation-dedicated resources effectively	35%
Protecting innovations	29%
Finding technological experts	26%
Finding the resources in public innovation aid systems	24%
Properly evaluating R&D needs	24%
Structuring and managing external partnerships	23%
Innovating, taking account the environmental and sustainable development related stakes	17%
Keeping to milestones	16%

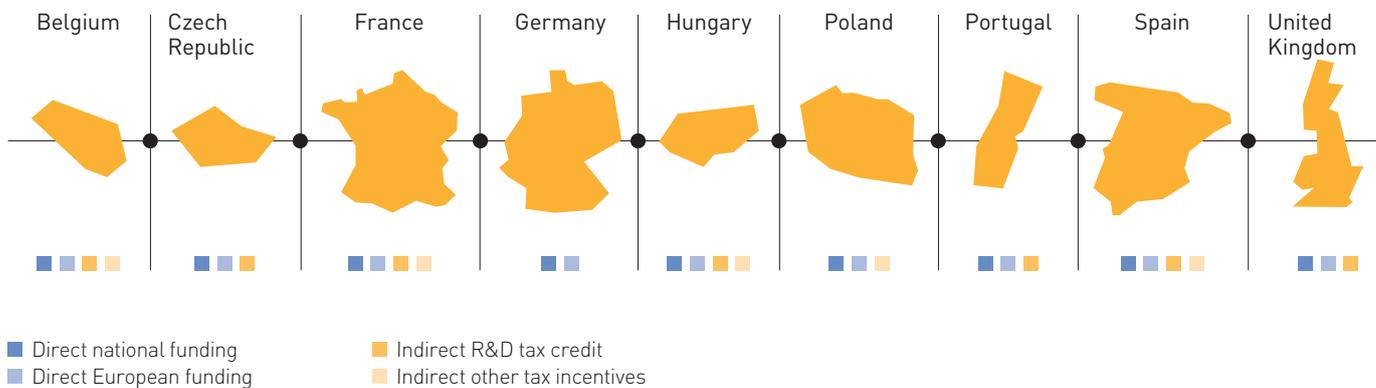
### Diagram 5

Satisfaction levels concerning total resources allocated according to financing type.



### Diagram 6

The innovation financing chain: existing supports in the nine European countries questioned.



## Part II

# R&D tax incentives, the first source of financing for European businesses

## 1. Businesses are satisfied with the amounts granted

Although most respondents avoided private funds, R&D tax incentives, with a take-up rate of 53%, is the leading incentive scheme in Europe. Moreover, the study reveals that entrepreneurs in countries without these schemes, such as Germany and Poland, would be in favour of such a measure being introduced (65% and 96% respectively).

Compared with 2010<sup>2</sup>, the R&D tax incentives take-up rate appears to be stable. With more than 45% of users (*Diagram 9*), this system remains essential in France, Belgium<sup>3</sup> and the United Kingdom. However in Central Europe the newness of the schemes (overhauled in 2004 in Hungary and in 2005 in the Czech Republic) means a take-up rate of less than 37%.

With regard to amounts granted (*Diagram 5*), the satisfaction levels of French, British and Portuguese businesses regarding the system are overwhelming, reaching 84%. One in two considers the R&D tax incentives as a key solution in innovation support, and one in three considers it a necessity. In contrast, 7 out of 10 Belgian businesses and more than a third of Spanish, Hungarian or Czech businesses expressed dissatisfaction with the granted amounts.

As shown on *Diagram 7*, 88% of the R&D tax incentives amounts distributed were below €500,000. There is a distinction between:

- amounts for less than €50,000, mostly taken up by very small and small/medium-sized businesses.
- amounts between €100,000 and €500,000, allowing as many businesses as possible to consolidate their R&D base.

It should be noted that this increase in smaller amounts is principally explained by the democratisation and success of the scheme over two years. This is particularly evident in France following the R&D tax credit reforms of 2008 (level of assistance increased for first-time applicants) and in the United Kingdom with the enhanced “super-deduction” for SMEs.

## 2. A major tool in making the territory attractive

When companies carrying out R&D outside their main country (alone or in partnership) were questioned, only 1 in 5 confirmed claiming R&D tax incentives in at least one other country. Within the OECD, the number of R&D tax incentive schemes has almost doubled, rising from 12 in 1995 to 26 in 2011, with major differences between them (generosity, eligible expenses). Thus:

- the vast majority of respondents acknowledge that the R&D tax incentives influence their R&D policy at international level (R&D centre establishment 62%, non-delocalisation 79%). In France, this affects more than 7 out of 10 businesses.
- **almost half of the businesses are influenced by the generosity level in the choice of new R&D programmes launched.**
- 82% of respondent businesses see a way of optimising the financing obtained within the coordination of schemes at group level.

### Funding innovation in the United Kingdom

*The United Kingdom has been in recession since April 2008, greatly affected by the international financial crisis because of the predominance of the tertiary sector in the economy. Even though growth is likely to remain restricted in the next few years, it should not mask the importance of innovation in the development of British businesses.*

*In this 7<sup>th</sup> Innovation Finance Barometer, we point out that:*

- *the great majority of UK businesses have taken on more staff and investment in human resources also centres on R&D.*
- *the strategic priority for growth within these businesses is innovation, product quality and development of knowledge. Of greatest interest is the reduction in standard practices found during recessions, such as cost reductions. Clearly the innovation sector is still based on internal investment and sees this as the best means of escaping the clutches of negative growth.*
- *the biggest challenges to overcome are the time taken to introduce innovative products onto the market and the protection of the intellectual property and know-how inherent in them. Despite this defensive position, most businesses remain optimistic about their future activity.*

**John Coury**

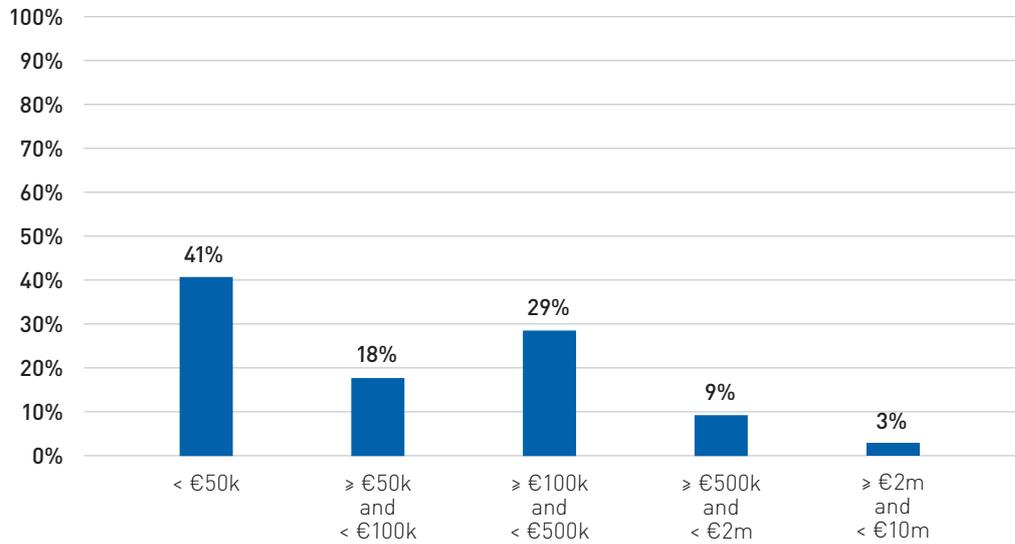
Director, Alma Consulting Group UK

<sup>2</sup> - Five countries were covered by the 2010 Barometer: France, Germany, Portugal, Spain, and the United Kingdom.

<sup>3</sup> - The Belgian R&D tax credit is part of a range of measures known as “innovation tax incentives”.

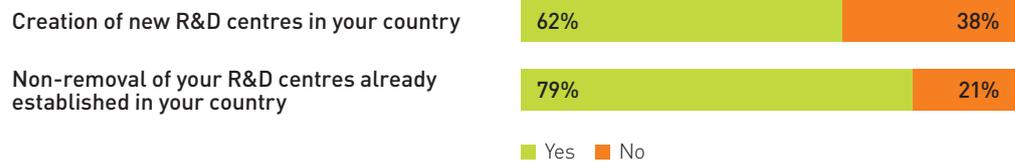
### Diagram 7

Average R&D tax credit / relief amounts granted in 2010.



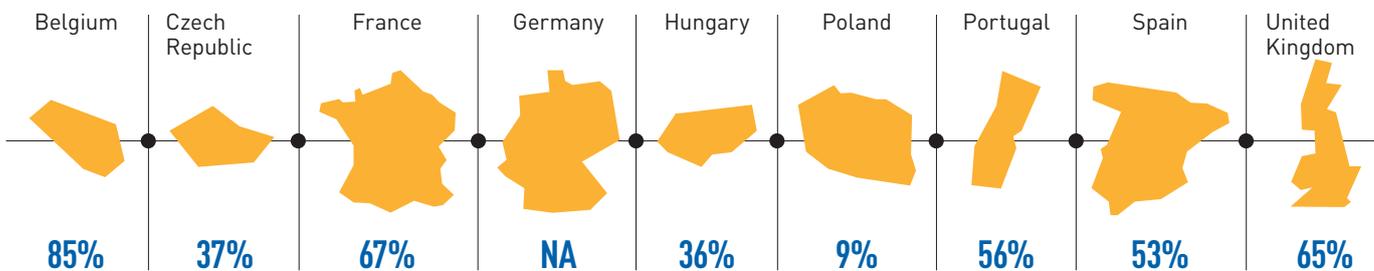
### Diagram 8

Decisive and measurable impact of R&D tax incentives.



### Diagram 9

Use of R&D tax incentives to finance innovation in each country during the last three years.



# Part III

## Positive impacts on competitiveness

### 1. R&D tax incentives, a booster for innovation and jobs

Businesses hail the R&D tax incentives as a key measure, this is because they have not just been a short-term financial benefit, but a real leverage on the competitiveness of businesses benefiting from them, as they empower R&D investments, R&D jobs and innovations.

- For 6 out of 10 European businesses, it has helped **increase the number of business innovations marketed** and their turnover on new offers, regardless of the size of the business (small or medium-sized business or major group). These figures, although qualitative, illustrate the “virtuous circle” within which the R&D tax credit has gained a place and the increased competitiveness that it provides.
- For almost 49% of businesses, it has helped **increase R&D jobs** and therefore increased levels of expertise and knowledge.
- For 44% of them, the R&D tax credit has had a **lever effect on the strengthening of their R&D partnerships**, and for almost 42% of them, the effect has led to an increase in a number of sustainable development projects.
- We also note that the R&D tax credit has had a positive impact for 37% of respondents and helped them **speed up their international development**. One must see that the positive effect of the increasing numbers of innovations marketed, opens the doors of world markets to these businesses. This figure rises to 41% for small and medium-sized businesses.

In France, the figures are even more impressive: in 2010, French R&D tax credit had a more significant lever effect than that seen in other European countries, especially on jobs, by allowing 64% of businesses to increase their R&D staff numbers, while 75% of them increased the number of innovations marketed by them.

56% of businesses reinvested R&D tax credit in R&D (figure unchanged from 2010<sup>4</sup>), and 58% of small and medium-sized businesses were affected. This score has once again improved in France as 60% of them reinvested in R&D.

It has also been noted that R&D tax credit plays a significant “economic shock absorber” role, as one business in ten uses it for shorter-term treasury repayment deadlines and for maintaining jobs. R&D tax incentives are therefore a key system, for European economic policies.

#### ZOOM CANADA

##### The Innovation Barometer was deployed for the first time in 2011 in Canada.

The instability and volatile nature of the Canadian economic climate has prompted companies and their management to be more cautious in their spending, as well as in their budget allocations. The results of the Barometer clearly indicate that the Canadian R&D tax incentive programs provide stability to companies to maintain R&D budgets, increase new developments and improve processes, and support hiring of staff – thus allowing for advancements in a very competitive and global marketplace:

- 71% of the respondents stated that the SR&ED program was essential to finance their innovation projects and departments;
- 61% of the respondents stated that the SR&ED program provided the means to maintain their innovation staffing level, while 39% stated they would increase their staffing level;
- 66% of the respondents stated that the program directly contributed to increasing the number of innovations they were able to get to market.

#### Funding innovation in the Czech Republic

*The Czech Republic has various tax measures to boost innovation, although they are not well known to businesses as they are so new.*

- *Together with product and service quality, innovation remains the principal strategic axis for growth and development for Czech businesses. However, 50% of respondents estimate that the main obstacle to their activity remains difficulty in obtaining finance.*
- *Only 37% of Czech businesses benefit from R&D tax deductions. Together with Hungary, this is the lowest score in Europe. The main reason is the lack of internal resources and the unbalanced perception of the system. Similarly, grants benefit a limited number of innovating businesses; only 27% of them benefit from them, putting the country to the back of the queue in Europe.*

**Kristina Sumichrastova**

Head of Operations, Alma Consulting Group Czech Republic

<sup>4</sup> - Five countries were covered by the 2010 Barometer: France, Germany, Portugal, Spain and the United Kingdom.

### Diagram 10

R&D tax incentives 2010: how businesses intend to reinvest the benefits.

To fund R&D projects	56%
To ease general cash flow (not assigned to any specific item of expenditure)	12%
To fund existing jobs	10%
Other	8%
To fund sustainable development related projects	4%
To fund new jobs	4%
To purchase equipment	4%
To pay suppliers	2%

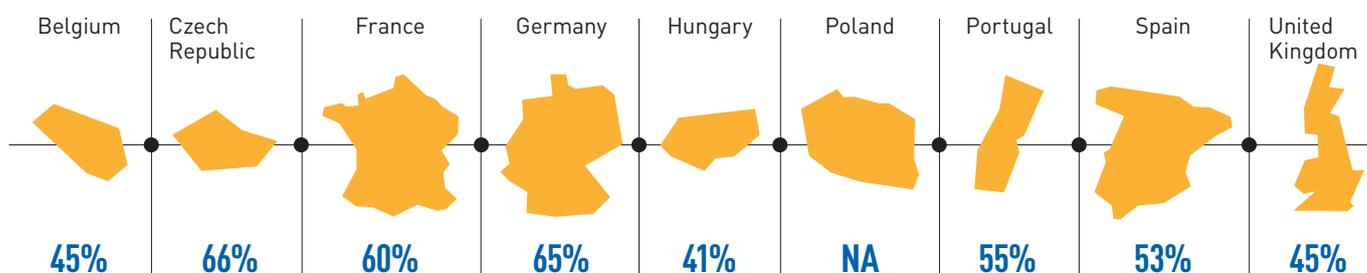
### Diagram 11

Lever effect obtained through the R&D tax incentives on each element mentioned opposite.

Increase in...	+0%	+50%	+100%	+200%
R&D staff	51%	31%	14%	4%
non-R&D staff	75%	19%	5%	1%
number of marketed innovations	39%	35%	19%	7%
your sales on new products	41%	37%	18%	4%
your international operations	63%	20%	13%	4%
your R&D partnerships	56%	26%	16%	2%
your sustainable development related projects	58%	29%	11%	2%

### Diagram 12

Reinvestment of R&D tax incentives in 2010.



# Part III

## Positive impacts on competitiveness

### 2. Aids and grants

To complete the panorama of financing schemes, aids and grants provide an incentive to launch research projects on a partnership basis. These European, national or regional programmes are intended to encourage initiatives seen as “economically key” and to give businesses the means of gaining the upper hand in innovation.

Almost 51% of respondent businesses have requested aids and grants for innovation over the last three years, thus ensuring direct support for their R&D projects and favouring their emergence in cutting-edge fields.

The businesses use both local and European systems, as follows:

- 52% European funding.
- 68% national funding.
- 54% of businesses have requested regional funding.

With a European funding rate slightly below the average, very small, small and medium-sized businesses request the assistance available to them on a wider basis:

- 71% of small and medium-sized businesses have requested national funding.
- 63% of very small businesses have regional funding.

In terms of amounts allocated (*Diagram 13*), although subsidies granted for less than €100,000 are still in a majority (principally taken by very small businesses), the proportion of subsidies for more than €500,000 (for 17% of businesses) is significant (in comparison, only 12% of businesses benefited from R&D tax incentives in excess of €500,000). This assistance consists of two-thirds grants and one-third reimbursements payments in the event of success.

**Because they are involved partly with the launch of the project, aids and grants allow 6/10 businesses to increase both their R&D staff numbers and their research partnerships.**

Aids and grants are well suited to very small, small and medium-sized businesses and help structure and strengthen their innovation processes:

- increase in R&D jobs for 63% of very small businesses
- increase in number of marketed innovations for 72% of small to medium-sized businesses
- increase in R&D partnership numbers for 6/10 very small, small and medium-sized businesses.

### Financing innovation in Belgium

*After more than a year without a Government, Belgian businesses have shown themselves to be optimistic as 85% of them believe that R&D remains the key to development and 69% believe that their R&D expenditure will increase (compared with an average of 48% in Europe) together with their turnover generated through new innovations.*

*The Barometer revealed that:*

- although 84% of Belgian businesses use different innovation tax incentives (this is the highest rate amongst the countries questioned), 72% of them are dissatisfied with it (compared with an average of 23% in Europe). This is not greatly surprising, given that the other European systems are more generous.
- of the various tax measures available in Belgium, Belgian businesses also make use of the deduction for investment and payroll tax exemption for R&D staff, with rates of 75% and 50% respectively.
- a huge majority of businesses also resort to regional subsidies. These are more significant in the Flemish region than in Wallonia.

#### Bernadette Bouckaert

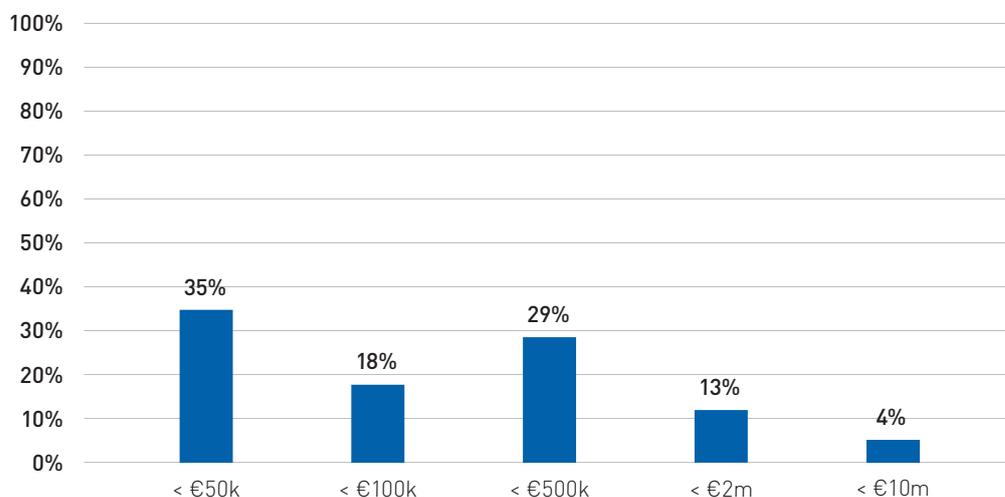
Director, Alma Consulting Group Belgium

### 3. Private Equity

Although the economic situation has cast a shadow over the future of Private Equity in Europe, it remains a major link in the innovation financing chain. According to the 2011 EU Industrial R&D Investment Scoreboard ([www.europa.eu](http://www.europa.eu)), although investments by businesses **have increased (+6.1% in 2010** compared with -2.6% in 2009), they still remain behind those in China and the United States (+29.5% and +10% respectively). In order to increase the level of these expenses, Private Equity provides a significant lever effect. For respondent businesses, access to Private Equity has a positive impact on the increase in marketed innovations (70%), the increase in turnover on new offers (60%), acceleration in international development (50%), and also on increases in the business's R&D resources (60%), R&D jobs and partnerships.

### Diagram 13

Average aid and grant amounts received by businesses in 2010.



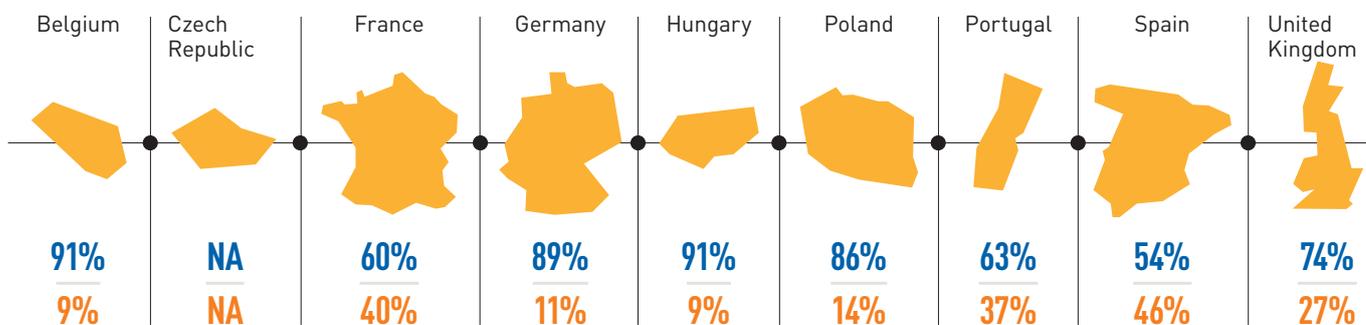
### Diagram 14

Lever effect obtained through aids and grants on each element mentioned opposite.

Increase in...	+ 0%	+ 50%	+ 100%	+ 200%
R&D staff	43%	34%	17%	6%
non-R&D staff	76%	16%	7%	1%
number of marketed innovations	36%	39%	20%	5%
your sales of new products	42%	40%	16%	4%
your international operations	51%	23%	19%	7%
your R&D partnerships	41%	30%	24%	5%
your sustainable development related projects	56%	28%	13%	3%

### Diagram 15

What R&D aids and grants did your business benefit from?



■ Grants ■ Reimbursements payments

# Part IV

## An optimistic perspective!

Despite the crisis, 74% of businesses state that they are confident about the future. 77% of the SMEs were optimistic and plan to increase their R&D budgets and staff numbers (49% and 45% of these respectively). The Barometer, however, shows two major trends: the strong countries of the euro zone, such as Germany and France, continue resolutely with their efforts, while countries more affected by the economic downturn, such as Portugal, are having trouble keeping pace.

This confidence shows itself in a continued allocation of R&D resources:

- **87% of businesses have maintained or increased their R&D budget** (including 48% with a clear increase) over the last three years. In front is France, with a rate of 89%, followed by Belgium (69%) and then Germany (56%). Spanish businesses are still languishing with a rate of 36%.
- **46% of businesses are planning to increase their R&D staff numbers** in the next 12 months; this is a commendable figure, with Germany (72%) and France (60%) out in front and Poland, Spain, Hungary and Portugal (30-35%) bringing up the rear.
- Almost **60% of respondent businesses have seen their turnover for new offers increase** and almost **52% have seen their marketed innovation numbers rise**. This development is particularly noticeable in Germany, where these percentages are 85% and 81% respectively, or more than 8/10 businesses.

### Funding innovation in Spain

*As the foundations of its growth economy were completely eroded by the 2009 crisis, GNP fell by 3.7%. Despite all that, innovation remains a key factor for development in the country.*

- *57% of Spanish businesses consider it a key strategy for developing and maintaining its competitiveness on the market. Product and service quality (49%) and international development (39%) remain the cornerstones of economic growth.*
- *53% of businesses questioned declared a research tax credit, giving this credit a key role in the support for innovation.*
- *73% expressed strong optimism for the future in terms of innovation and 53% reinvest a significant portion of their products in R&D.*

#### Emmanuel Mielvaque

Director, Alma Consulting Group Spain

As for their growth strategy (*Diagram 16*), 56% of businesses give priority to innovation, showing once again the argument that this is a determining factor in competitiveness. In very small businesses, this rate rises to 61%, with a level of 55% for small and medium-sized businesses.

These encouraging figures do however strike a jarring note, as the rate in 2010 was 70%. It appears that businesses prefer quality (48%) and the launch of new products (36%) over innovation.

Should it therefore be concluded that European businesses are turning away from innovation? The response is not entirely clear cut: although it remains a priority for countries such as Germany (79%) and France (66%), it is less obvious in countries such as Poland, Portugal and the Czech Republic, which place a greater emphasis on quality and generation of new products. In this, we see both the consequence of the crisis and the position of the subcontractor from these countries in the innovation chain.

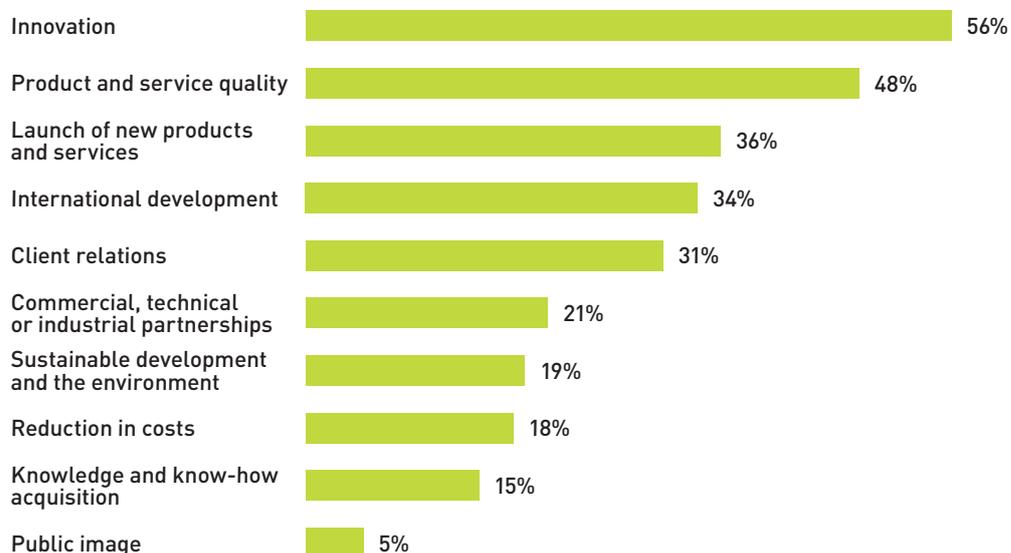
**Sustainable development is evidently an emerging issue (*Diagram 17*), as almost 45% of businesses have increased their R&D effort associated with this.**

Although this subject relates to 45% of small and medium-sized businesses, it is of greater concern to the intermediate-sized businesses (57%) and the major groups (65%).

In 2011, 9/10 businesses are maintaining or increasing their level of R&D dedicated to sustainable development. However, R&D dedicated to sustainable development only relates to the environmental and ecological aspect in 1 of every 4 cases (confidence gap from 21% to 26%). Sustainable development is in fact touched on by businesses with a wider definition, including social and economic aspects (viable, liveable, durable, fair). There is, however, no doubt that it will occupy a place of ever-increasing importance in future.

### Diagram 16

The three main priorities of growth strategy for businesses for 2011.



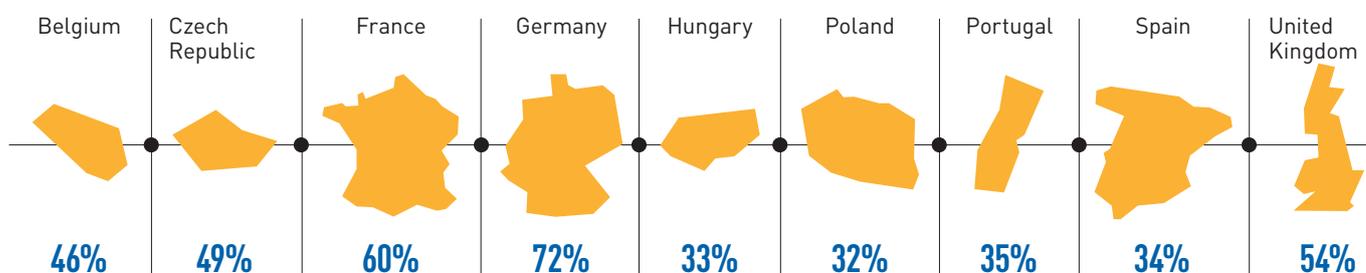
### Diagram 17

Changes in activity of businesses questioned, 2008-2010.

	Increased	No change	Decreased
your salaried workforce	42%	34%	24%
your R&D staff	41%	49%	10%
your R&D budget	48%	39%	13%
your sales on new offers	57%	31%	12%
the number of innovations that went to market	52%	40%	8%
your R&D effort towards sustainable development	45%	46%	9%

### Diagram 18

Percentage of businesses anticipating hiring R&D staff in the next 12 months.



## CONCLUSION

### Innovation is at the heart of European economic policies

No quantitative survey has yet assessed the impact of financing systems on the R&D activities of businesses, especially not at European level.

This 7<sup>th</sup> Barometer of Innovation Financing fills this gap in the data field, and indicates the usefulness and efficiency of the public R&D support systems.

Although the European Commission, through its "Horizon 2020" initiative, has confirmed its commitment to innovation, it is currently in the hands of each Member State. Will the cutbacks be applied to finance for growth and therefore stifle that growth completely? Will governments have the resources to maintain these aid systems despite budgetary restrictions? We are in a paradoxical situation in which the economic vision could be at odds with the political vision. We have an exceptional wealth of innovative and optimistic entrepreneurs waiting to invest on international markets.

In sharp contrast, the current economic climate is most hostile to any entrepreneurial spirit and, in light of budgetary deliberation, we have to narrow the horizons for these innovative businesses with their wealth and job opportunities and slow ourselves down in relation to our international competitors.

Solutions are however emerging, including:

- confirmation of the role played by this finance as major elements in an economic policy in favour of research and innovation.
- stabilisation and durability of their budget and operations.
- the offer of a more investment-friendly ecosystem in innovating businesses, especially SMEs, with a more intelligent distribution of public savings and support for the emergence of proximity actors such as Business Angels.

The aim is to determine how to encourage entrepreneurs in Europe, how to offer them a stable and durable innovation policy, and how to cultivate their optimism so that their innovations are at the forefront of recovery for long-term growth.

#### Abbas Djobo

Innovation Financing Department Director

#### John Coury

International Director

### Funding innovation in France

France is prioritising the restoration of public finance via a policy of budgetary stringency while pursuing measures that favour jobs and innovation above all else. Expectations for innovating businesses are consistent with the total budgets dedicated to them. This is particularly the case for the R&D tax credit, which is used by almost 67% of respondents; it demonstrates a very promising return on investment as three quarters of French businesses declare that it has allowed them to increase the number of innovations marketed by them, and 55% of them have been able to increase their turnover on new offers.

#### Abbas Djobo

Director, Innovation Financing Department Director,  
Alma Consulting Group France

## Alma Consulting Group financing and partnership department for research and innovation

Supporting economic actors in developing, financing and enhancing the value of their R&D projects.

- €10,000 million in R&D costs and over 35,000 projects audited internationally over 5 years.
- Over €500 million in direct funding obtained for over 400 R&D projects in partnership since 2000.

- 235 innovation consultants present in 10 countries and aid programme experts in over 15 countries.
- Advising over 2,500 clients each year, Alma Consulting Group provides cutting-edge technical expertise and the best methodological practices.



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