

Innovation Propensity in Croatian Enterprises:

Results of the Community Innovation Survey

Zoran Aralica, The Institute of Economics, Zagreb, zaralica@eizg.hr

Domagoj Račić, The Institute of Economics, Zagreb, dracic@eizg.hr

Dubravko Radić, University of Leipzig, radic@wifa.uni-leipzig.de

Although innovation tends to be considered as an important driver of economic growth, its dynamics seem only partially understood. In this paper we analyse some of the main aspects of innovation activities in Croatian enterprises, based on the results of the Community Innovation Survey. We have observed a U-shape relation between size of the firms and their innovation propensity, whereby innovation propensity (i.e. the likelihood of introducing a new product or service) increases with firm size, measured by the number of employees, but then drops in the case of largest companies that have not undergone restructuring. Furthermore, the level of innovativeness of particular industries primarily stems from the characteristics of the markets they operate in, rather than from the characteristics of products and technologies prevalent in particular industries. Innovation activities tend to occupy a peripheral role within competitive strategies of most Croatian companies, which limits the resources and competences devoted to their development, and, correspondingly, their economic effects.

It has been observed that the increases in the size of firms are associated with decreasing shares of innovative sales. Larger companies seem to have greater problems in effective translating of innovation into favourable economic outcomes. Qualification structure of firms as well as continuous engagement in R&D and R&D cooperation have turned out to be insignificant in relation to the share of sales of innovative products, unlike the participation of foreign investors, and, to a lesser extent, demand pull factors.

All of the variables whose significance has been established (i.e. enterprise size, foreign direct investment, export orientation and the demand pull variable) are fairly interconnected. They can be tackled through a more effective enterprise policy that would foster SME emergence and growth, attract FDI, and stimulate the export capability of enterprises. Since market competitiveness, rather than technology level, seem to be crucial for innovation in a given industry, it is essential to increase competitiveness in order to stimulate the demand for innovation. On the other hand, the insignificance of R&D activity and employee education levels supports the available findings on the insufficient role of knowledge-related factors in building and maintaining competitive advantage, which currently constrains the possible effects of many standard innovation policy instruments. Consequently, increased investments into R&D and education are indispensable, but they need to be accompanied by enhancing diffusion of innovation, and creating favourable demand conditions.