

AGAINST THE ODDS: HOW EUROPEAN LEADERS PURSUE INNOVATION

HLB SURVEY OF BUSINESS LEADERS 2022



TOGETHER WE
MAKE IT HAPPEN

Europe has a long history as a science and research powerhouse. Now the 'Old World' has to once again step up to the task of becoming a hotbed for technology-driven ingenuity. 93% of European leaders agree that more rapid and effective innovation is critical to future growth.

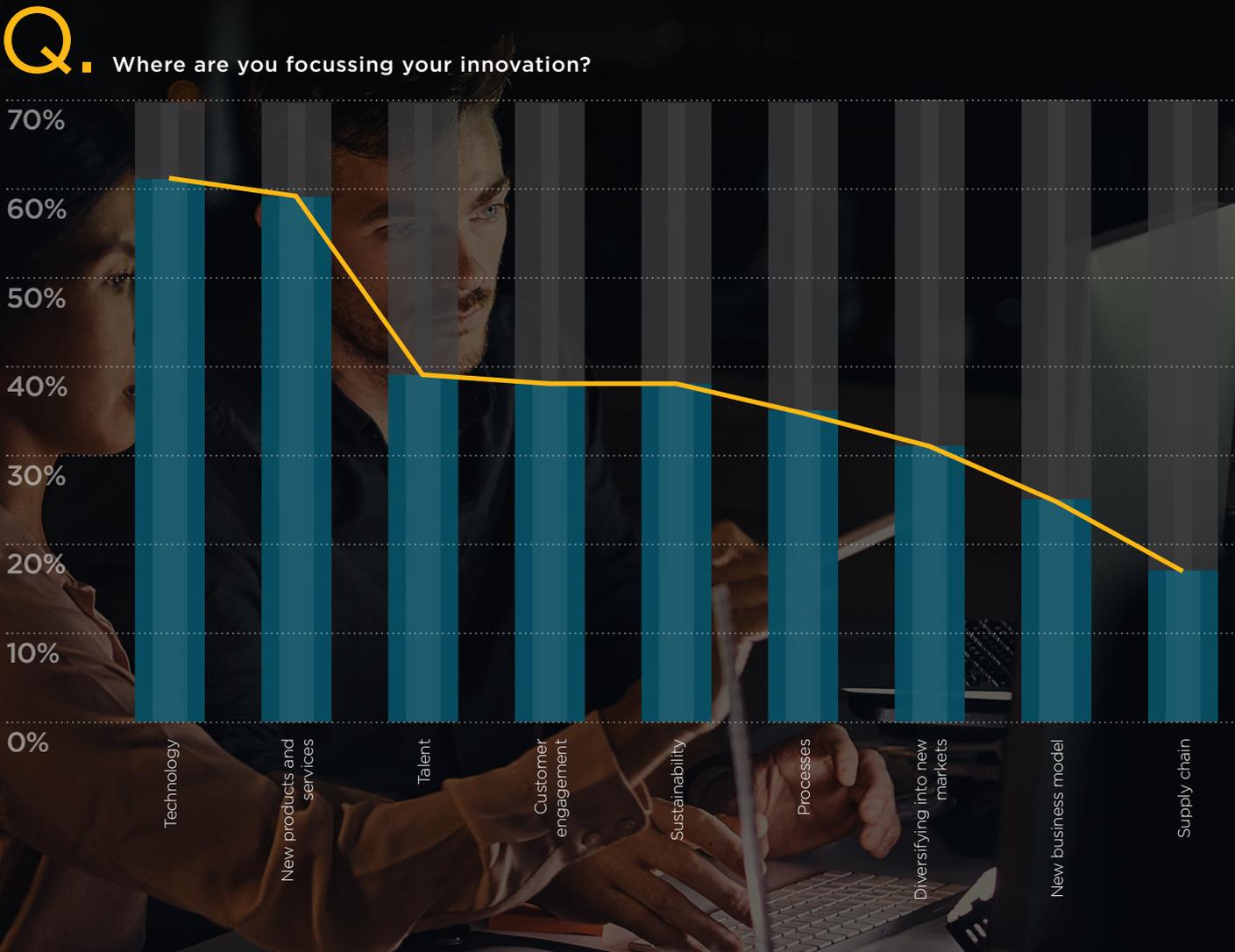
Overwhelmingly, 59% of leaders we surveyed plan to focus their innovation on new products and services development. NPD is also a growth priority for the next 12 months among 53% of respondents, up from 39% last year as a 2021 HLB Survey of European Business Leaders found. However, to succeed in the foreseeable future European leaders will need to overcome a number of significant distractions to their innovation strategy.

Making improvements to operational efficiency remains the top priority for local businesses. In light of the need for reparations after the pandemic and the new geopolitical events on the continent, this isn't surprising. Still, the majority of European leaders are confident of their ability to generate growth this year. They project 'innovation' to account for a fifth of any growth they might deliver in 2022.

Enlisting technology to expedite innovation

In their innovation programmes, Europe's leaders place an almost equal focus on technology (61%) and new products and services development (59%). At the same time, 45% plan to adopt emerging technologies in the next 12 months to grow profitable. Businesses have made admirable progress in digitising, switching from analogue to digital-led operations in a matter of months. Cumulatively, however, the gap remains between leaders and laggards in the most-affected industries.

Figure 1: Innovation is focused on joint priorities: technology and new products and services



Government is also keen on innovation. The Digital Compass 2030 initiative by the European Commission requires 90% of SMEs to reach a basic level of digital intensity. In 2020, only 60% of SMEs in Europe achieved this benchmark with uneven progress across EU member-states. Nordic countries like Denmark and Finland are close to the 90% goal, whereas Bulgaria and Romania stood at 33%¹. As competition for ideas and funding intensifies, leaders in Europe will need to concentrate more efforts on addressing the barriers, which currently hamper their innovation plans.

ENABLERS AND BARRIERS TO INNOVATION

At the onset of the pandemic, many business leaders put digital technologies to work to maintain operational continuity. At the same time, technologies are also vital to innovation and growth. For 41% of leaders based in Europe ‘access to emerging technologies’ is a prime enabler for improving their innovation capacity. ‘Bold leadership’ and ‘customer feedback’ share second place, supporting commitment to ‘new product development’ as a key priority for this year.

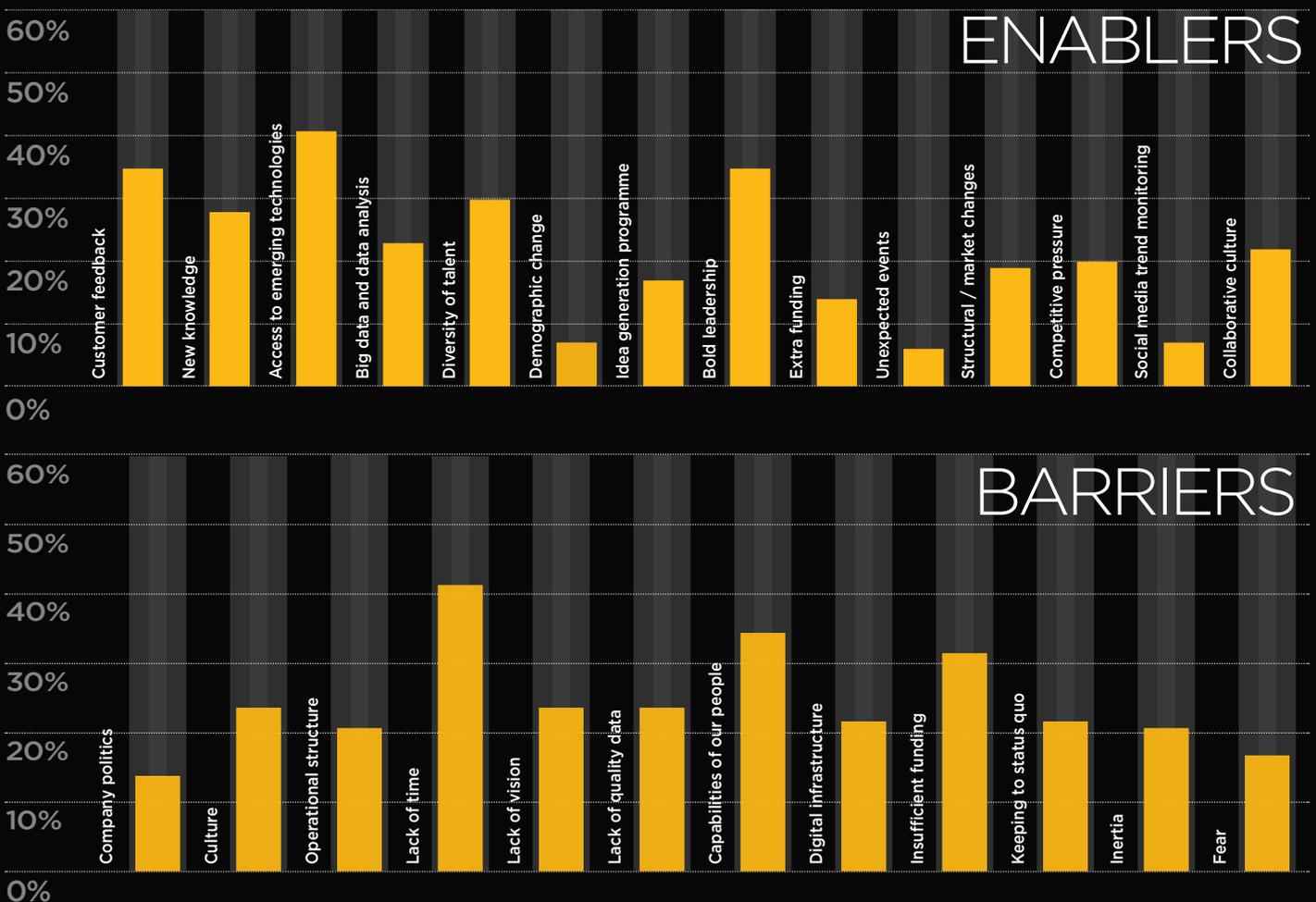
A sharp focus on technology could also be in response to the challenges leaders face around access to talent. “Your people now need to be both IT-savvy and business-oriented, knowledgeable of the two worlds, to do their best work and propel your business forward,” says Laurent Capbern, Partner at HLB France. Such talent is increasingly hard to find both within the companies and on the talent market. Among the barriers to innovation, ‘lack of time’ (42%) and ‘people capabilities’ (35%) were ranked higher than gaps in digital infrastructure (22%). How do you European leaders plan to leverage their past operational gains to throttle ahead to greater innovation speeds?

Race for time

European leaders appear to be facing a ‘time paradox’. The majority (89%) agree that they can innovate with greater speed than in the past. At the same time, ‘lack of time’ is the top-cited barrier to innovation for 42% of respondents. Why is this so?

Figure 2: Leaders look to emerging tech to aid innovation

Q Please select the top three factors which you think aid your organisation in improving your innovation capacity. Also, select the top three barriers that hinder innovation in your organisation?



1. DESI. 2021. Shaping Europe’s digital future. Available at: <<https://digital-strategy.ec.europa.eu/en/policies/desi>> [Retrieved April 11, 2022]

“YOUR PEOPLE NOW NEED TO BE BOTH IT-SAVVY AND BUSINESS-ORIENTED, KNOWLEDGEABLE OF THE TWO WORLDS, TO DO THEIR BEST WORK AND PROPEL YOUR BUSINESS FORWARD.”

Laurent Capbern, Partner, HLB France

As we enter the new growth cycle, the time to innovate is not expanding, it is contracting. 70% of leaders indicate that they are more innovative than their industry peers. To keep up and outperform others, organisations will need to get more agile in how they develop new ideas, implement business model changes, and push new offerings to the market. These tasks would require both cultural and operational shifts. “From my observations, in France, we have a step-by-step approach to making progress. If we lack time for completing stage one, everything else is blocked. In the US, as a comparison, more teams are committed to pacing ahead, then address the consequences of premature decisions,” notes Laurent Capbern, Partner at HLB France.

Clash for talent

People’s capabilities are the second barrier Europe’s business leaders need to resolve. Talent management is also the number one shortcoming they seek to address. 40% plan to focus on weaknesses in talent acquisition over the next 12 months, up from 28% in 2021. “Companies are increasingly looking for people in neighbouring countries and relocating them. Others, who have grown comfortable with remote work, are hiring new staff from everywhere”, says Gemma Piñero, Partner at HLB Spain.

The European Labour Authority reports that talent shortages are the greatest in four groups of occupations: healthcare, software development, construction, and engineering². The increased pace of digitisation makes the demand for IT talent particularly pressing. As 41% of European leaders seek to improve their innovation capacity with emerging technologies, high demand breeds further scarcity.

To address ongoing talent shortages, EU employers will need to patch every stage of the employee lifecycle – from acquisition and onboarding to training and retention. “A lot of businesses are inward-looking these days. They want to ensure that they can keep the available talents since it’s hard to replace or get new people,” says Mark Butler, Managing Partner at HLB Ireland. This may prove to be challenging, given that ‘soft factors’ such as ‘culture’, ‘lack of vision’, and ‘inertia’ were also cited as barriers to innovation by over 21% of European leaders.

With over half of European business leaders intent on achieving organic growth in the next 12 months, the right people will be required – diverse, creative, proactive, and with a penchant for learning. “Some companies could grow further faster if they had the personnel in place, but the hiring market remains difficult. To the point that we now see acquisitions being done because of great talent at the target

“A LOT OF BUSINESSES ARE INWARD-LOOKING THESE DAYS. THEY WANT TO ENSURE THAT THEY CAN KEEP THE AVAILABLE TALENTS SINCE IT’S HARD TO REPLACE OR GET NEW PEOPLE.”

Mark Butler, Managing Partner, HLB Ireland

company,” notes Bart de Volder, Partner at HLB Netherlands. Soundly, 92% of EU leaders agree that a more diverse workforce has the potential to improve their innovation abilities. The question remains of how they plan to achieve this goal.

Quest for funding

‘Lack of funding’ is the third topmost barrier to innovation. Only 55% of respondents have a dedicated budget set aside for innovation activity. Alarmingly, 13% don’t fund innovation activities at all. The pandemic has undeniably depleted cash reserves. New risks, triggered by the recent geopolitical events, will likely result in even more cautious lending policies.

Among respondents, 79% plan to fund innovation activities with cash flow. Just over a quarter consider raising equity funding or refinancing debt. “Most M&A activity we see in the Netherlands is primarily private equity deals. The activity is unequal across sectors, however, as many industries still recover from the pandemic,” says Bart de Volder.

Heavy reliance on cash flow could stifle innovation aspirations. To recover, businesses need financing. But to secure the funds, companies need to prove growth first. “Banks don’t like funding innovative projects because of the low security and business leaders don’t like giving away equity. So it appears that the best innovators are ones who already have good cash flow” notes Mark Butler. Perhaps it’s time to assess alternative funding options?

European business leaders are slightly more likely to take on government or NGO grants – 20% vs 17% globally chose this option. The Innovation Fund for the European Commission, for instance, actively supports projects aimed at the decarbonisation of Europe’s economy. Government-led funding initiatives are also available at the country-, region-, and city-levels. Cost-sharing arrangements and crowdfunding are two other strategies SMEs can leverage.

Finding an optimal technology focus

By all accounts, technology is seen both as an ‘enabler’ and ‘focus point’ among European leaders. Yet it appears that some European leaders were somewhat overconfident about their innovation abilities. In 2021, 18% selected ‘innovation’ as a weak area to improve in the coming years. This year, 28% reached the same conclusion.

Business leaders are also more concerned about weaknesses in talent acquisition than the year before. It appears that many struggle to find an optimal alignment between the employed people and technologies. “When you can find an IT person, also familiar with your business domain, that’s bingo. Many IT specialists lack a wider perspective on how to best deploy technology to serve a particular purpose, say in HR or payroll management,” observes Luca Insabato, Partner at HLB Italy.

“WHEN YOU CAN FIND AN IT PERSON, ALSO FAMILIAR WITH YOUR BUSINESS DOMAIN, THAT’S BINGO. MANY IT SPECIALISTS LACK A WIDER PERSPECTIVE ON HOW TO BEST DEPLOY TECHNOLOGY TO SERVE A PARTICULAR PURPOSE, SAY IN HR OR PAYROLL MANAGEMENT.”

Luca Insabato, Partner, HLB Italy

Figure 3: Optimism persists despite the disruption

Q. To what extent do you agree with the following statements regarding innovation?

More rapid and effective innovation is critical to future growth

93%

Market disruption motivates you to innovate

88%

You are more confident in your ability to innovate as compared with pre-pandemic

86%

You are able to innovate with greater speed than in the past

89%

At the same time, a strong focus on product development inevitably prompts further digitisation. “Technology and NPD are strongly linked together. If you want to offer innovative products or new services, you need technology for that”, says Gemma Piñero. Likewise, technology is necessary to improve auxiliary ‘enablers’ for innovation such as ‘customer feedback processing’ and ‘new knowledge generation’.

In 2022, the three digital technologies that are most important in helping European businesses to innovate successfully are artificial Intelligence (52%), cloud computing (44%), and machine learning (39%). These technology priorities support a European focus around NPD — talent, customer engagement, and operational processes.

Russia’s invasion of Ukraine also brings some urgency to decarbonisation. Our research was carried out prior to February 2022. However, even at this time, 59% of European business leaders are looking to innovation opportunities around renewable technologies (including solar, wind, and tidal energy). Also, 46% were looking into electrification opportunities (for cars, fleets, and other transport). Given the latest developments, the interest rates might be even higher at present.

Preparing for residual risks

After a short peak of economic stabilisation, Europe once again braces itself for a challenging year. Economic uncertainty (62%) tops the list of risks for 2022. That’s almost 20 percentage points ahead of last year’s top risk — consequences of COVID-19. Cybersecurity issues (60%) come as a close second risk to growth, outranking inflation (56%) and regulatory change (56%).

Though the latter two are also hard-pressing issues. The eurozone annual inflation rate hit 7.5% in March 2022³. At the same time, EU governments’ responses often exacerbate, rather than aid, the recovery efforts. “Government in Italy attempts some positive shifts. Yet, we end up with a new regulation, often such that it is more complicated than the ones before it. Even if the rationale behind the law is well-intended, companies still need funds and time to act on it, and so the results are often delayed,” notes Luca Insabato.

3 Eurostat 2022. Inflation in the euro area. Available at <https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Inflation_in_the_euro_area> [Retrieved April 11, 2022]

“FROM MY OBSERVATIONS, IN FRANCE, WE HAVE A STEP-BY-STEP APPROACH TO MAKING PROGRESS. IF WE LACK TIME FOR COMPLETING STAGE ONE, EVERYTHING ELSE IS BLOCKED. IN THE US, AS A COMPARISON, MORE TEAMS ARE COMMITTED TO PACING AHEAD, THEN ADDRESS THE CONSEQUENCES OF PREMATURE DECISIONS.”

Laurent Capbern, Partner, HLB France

Despite new and remaining disruptions, the majority of business leaders (88%) in Europe think their own businesses will be in positive growth territory in 2022. Yet, only half of the respondents expect positive global economic growth over the next 12 months.

Regrouping for a restart

Businesses have had to reset approaches to technology and the workforce in response to the challenges posed by the pandemic. Remote working enabled better business continuity, yet Europe's leaders still can't get enough of the people and skills that they need to innovate. Many are focused on talent acquisition, whilst deploying digital technologies to augment human expertise.

Despite the storm clouds on the horizon, 88% of European business leaders agree that market disruption motivates them to innovate and 86% also feel more confident in their ability to pursue innovation as compared with pre-pandemic times. “A lot of businesses are innovating anyway, against all odds. To survive and thrive, they have to. This innovation streak will remain strong, whatever the next challenge might be”, concludes Mark Butler.

METHODOLOGY

As part of its global survey of business leaders, between September and November 2021, HLB has collected 198 survey responses from business leaders in Europe from a range of industry backgrounds. Responses were collected via an online survey tool or telephone interview. The base for all figures is 198 unless otherwise indicated.

More data and information about this survey is available upon request. Please visit

www.hlb.global/surveyofbusinessleaders or
contact marketing@hlb.global



**THE GLOBAL ADVISORY
AND ACCOUNTING NETWORK**

© 2022 HLB International Limited. All rights reserved.

HLB International is a global network of independent advisory and accounting firms, each of which is a separate and independent legal entity, and as such HLB International Limited has no liability for the acts and omissions of any other member. HLB International Limited is registered in England No. 2181222 Limited by Guarantee, which coordinates the international activities of the HLB International network but does not provide, supervise or manage professional services to clients. Accordingly, HLB International Limited has no liability for the acts and omissions of any member of the HLB International network, and vice versa and expressly disclaims all warranties, including but not limited to fitness for particular purposes and warranties of satisfactory quality.

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, HLB International does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

In no event will HLB International Limited be liable for the acts and/or omissions of any member of the HLB International network, or for any direct, special, incidental, or consequential damages (including, without limitation, damages for loss of business profits, business interruption, loss of business information or other pecuniary loss) arising directly or indirectly from the use of (or failure to use) or reliance on the content of this Website or any third party website, or from your use of any member's services and/or products. Any reference to a member's services or products should not be taken as an endorsement.

HLB refers to the HLB International network and/or one or more of its member firms, each of which is a separate legal entity.