

Press Release

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INNOVATIVE COMPANIES GET THROUGH THE CRISIS BETTER

New business models often emerge in particularly challenging situations

The Corona crisis will cause corporate research spending to fall, expect innovation researchers from the AIT and ZEW. As in all economic downturns, however, those companies that remain innovative will come out better. But this will be much more difficult this time because of the restrictions on business and the lack of opportunities for cooperation with partners, the experts fear.

At present, no one knows how long the Corona crisis will last. Nevertheless, it is already clear that the economy will suffer heavily from the measures taken to contain the Covid 19 virus. Economists agree that plant closures, a drop in demand and the disruption of supply chains will lead to a deep recession. For Austria, the National Bank has already predicted a contraction of this year's economic output (GDP) by 3.2 per cent, in Germany the Council of Economic Experts expected a minus of at least 2.8 per cent.

Researchers at the AIT Austrian Institute of Technology and the ZEW - Leibniz Centre for European Economic Research are now pointing out that the consequences could go far beyond the immediate damage: In times of crisis, many companies invest less in research & development (R&D) and postpone innovation activities, explain Bernhard Dachs (AIT) and Bettina Peters (ZEW). This behaviour was most recently clearly demonstrated in the financial and economic crisis of 2008/09, when, for example, the automotive, electronics or pharmaceutical sectors cut back their R&D spending by more than ten percent. They blame two factors in particular for this pro-cyclical behaviour: on the one hand, there were difficulties in financing further research activities, on the other hand, the increased economic and political uncertainty reduces the willingness of companies to invest in R&D. "Companies postpone their innovation activities during the recession because demand conditions are too unfavourable and the returns on innovation appear higher in phases of stronger growth," the researchers say. The impact on innovation activities would depend largely on how long the crisis lasts, when firms' uncertainty subsides and when growth expectations improve again.

Innovative firms are more resilient

In past recessions, it has also been shown that some companies have invested in innovations precisely in times of crisis: In Germany, this was about one in three companies in 2008/09. According to figures from the Trend 500, 20 of the 50 Austrian with the highest R&D expenditures increased their R&D expenditures during the crisis between 2007 and 2009. According to studies, these innovative companies proved to be more resilient in the crisis and lost significantly fewer employees than companies without innovations. "Only when companies introduce new products to the market can they compensate for losses from the drop in demand for old products during a crisis," Dachs and Peters emphasise.

The goal of research and innovation policy in the crisis must therefore be to prevent companies from stopping their innovation activities. The innovation researchers recommend direct and indirect financing instruments: These could help overcome liquidity bottlenecks for innovation projects - which is especially important for small and medium-sized enterprises - and stabilise future expectations.

Problem: Restrictions in business life

Dachs and Peters are convinced that even in the current Corona crisis there are companies that develop innovations despite the crisis, often out of economic necessity. "Innovation means solving problems, and indeed many companies are forced by the crisis to develop new business models." As an example, they cite digital online activities and delivery services in retail and catering. "The responses to Covid-19 will also generate innovation in other unexpected areas." However, they currently see a problem that did not exist in this form during previous recessions: the crisis does open up capacities in the "home office" and gives time for creativity. But to realise this potential, there may be a lack of tools, such as equipment, research materials and laboratories, as well as collaborative partners at universities or in other companies, due to the constraints of economic life. "Innovation is often the result of collaboration with external partners, many of which are currently limited," Dachs and Peters said. "This distinguishes the Covid 19 recession from previous episodes where these limitations did not exist."

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