AUSTRIAN INSTITUTE OF TECHNOLOGY

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Innovation as the key in times of crisis

AIT & ZEW study shows how important innovation is for the resilience of companies

How do companies best cope with an economic crisis? A new study by the AIT Austrian Institutes of Technology together with ZEW - Leibniz Centre for European Economic Research shows that innovative companies are more resilient and suffer significantly less from the consequences of an economic crisis than companies without new products. The reason is simple: innovations help to compensate for declining sales of existing products. Non-innovative companies lack this possibility.

How can companies become more resilient to crises?

The global financial and economic crisis of 2008/09 and the Covid 19 crisis of 2020 have clearly demonstrated the importance of resilience, i.e. the ability of companies to withstand times of crisis. The question remains: how can companies become more resilient? A new study by the Centre for European Economic Research (ZEW) together with the AIT Austrian Institute of Technology provides an answer. The study examines how product innovations create employment on the basis of companies from 26 European countries over the period 1998-2014.

The results show that both innovators and non-innovators create employment in all phases of the business cycle with the exception of a recession. In the recession, the differences between the two groups become apparent: while employment collapses for non-innovators, innovators only have to cope with a small decline. Prof. Bettina Peters: "The difference between innovative and non-innovative companies thus becomes particularly apparent when times get bad."

SMEs clearly at an advantage

The study finds another important difference between small and medium-sized enterprises (SMEs) and large companies. SMEs create significantly more new jobs, not because they are more innovative, but because the productivity increases in large companies cancel out the employment effect of innovations to a large extent. AIT Senior Scientist Bernhard Dachs: "the employment effects of innovations in large companies are eaten up again by rationalisation and restructuring."

Create incentives for innovation

For policymakers, the study has a clear message: they must do everything they can to prevent companies from stopping their innovation activities during the crisis. Innovation is a long-term activity that cannot be switched on and off in the short term. For many companies, especially SMEs, that stopped their innovation activities in the 2008/09 crisis, this decision was final. However, this also reduces the chance of employment gains in the subsequent upswing.

Link to Journal article

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