
TRENDS IN THE INNOVATION ACTIVITY OF ENTERPRISES IN SLOVAKIA: THE IMPACT OF COMPANY SIZE AND SECTORAL STRUCTURE

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Abstract

The innovation performance of enterprises and the success of innovation implementation are interconnected and depend on a comprehensive and effectively managed innovation policy. This policy must support not only technological progress, but also the development of human capital and the resolution of regional disparities in order to contribute to the long-term and sustainable economic growth of the country. Slovakia should increase its investments in research and development in order to get closer to the EU average. Improving public and private investment is key to strengthening the country's innovation potential. There is a need to strengthen and expand existing innovation policies and encourage better cooperation between academic institutions and industry. This may include increasing funding for research projects, improving the regulatory environment and providing incentives to support innovation. An effective innovation policy that supports research and development can significantly contribute to improving a country's innovation performance. Targeted political measures to balance regional differences can help ensure that all regions of Slovakia have equal opportunities for development and innovation support.

Keywords: innovations, innovation performance, enterprises with innovative activity, competitiveness, innovation policy

JEL Classification: O10, O31, O38

Introduction and theoretical background

Innovation is the driving force behind regional development and the economic performance of a country's national economy. The private sector and businesses play a key role in creating and implementing innovations. Innovation activities, research, development, knowledge transfer, and the knowledge economy are significant prerequisites for the survival and increased competitiveness of businesses in a fierce market environment (Mura et al., 2021).

The relationship between research, development, and innovation is highly complex. It is essential to recognize that innovation cannot occur without adequate research and development. In academic literature, innovation is generally understood as progress or improvement. Innovations are interpreted as a process in which organizations do something new, introduce new procedures, create new goods or services, or implement new methods of internal organizational relations. Hanáčková et al. (2024) add that innovation should not be confused with the concept of change, as change is typical for most organizations, whereas innovation pertains to the creation and implementation of new processes, products, services, and delivery methods. Typically, innovations lead to improved outputs, efficiency, effectiveness, or quality of goods and services. Innovation involves qualitative and sustainable change. The identification of innovations may also be based on criteria such as novelty or creativity, effectiveness – result-oriented focus, the significance of the problem being addressed, and usability.

Innovation provides businesses with a competitive advantage and compels competitors to advance, whether in developing new products or improving service quality. Recent studies suggest that innovations can indeed bring significant competitive advantages over traditional products, services, and processes. Innovation enables companies to adapt to changing competition and market conditions, offering them opportunities to gain and maintain a competitive edge (O'Reilly & Tushman, 2016). However, innovation carries certain risks that may impact its success. Therefore, it is crucial for businesses, especially small and medium-sized enterprises (SMEs), to carefully manage their innovation activities to maximize their chances of success (Teece, 2020). Innovation is essential for SMEs in terms of survival and growth, not only because it allows them to seize new opportunities but also because it increases their potential for profitability. The creation of innovative products and services can help SMEs overcome challenges and obstacles they face, ensuring their competitiveness and sustainability in the market (Zhao et al., 2020; Arora & Gambardella, 2021). Innovation is a significant factor determining the success of business activities. It enables companies to achieve higher growth, increase efficiency, enhance competitiveness, and create new markets (Christensen & Raynor, 2013; Kraus et al., 2018).

Effective economic and social development based on innovation is a key prerequisite for reducing disparities between poor and wealthy regions. Innovative approaches contribute to balancing spatial disparities and imbalances by fostering national economic development and responding to growing global competition, population mobility, and rapid technological progress. Innovation becomes the foundation for business allocation, leading to the creation of local job opportunities and increased private sector investment. The introduction and dissemination of innovation enhance information flow, strengthen relationships with investors and developers, and promote regional cohesion and trust (Aghion & Howitt, 2024).

Innovation is often considered the domain of the private sector. On the other hand, the public sector also plays a crucial role in the innovation process, even though its approaches and objectives may differ. The private sector remains the primary initiator of innovation due to various factors directly related to its structure, motivations, and market dynamics (Al Nuaimi et al., 2023). Private sector companies face constant competitive pressure, which forces them to invest in research and development to maintain a competitive advantage, increase profitability, and gain a larger market share. This pressure results in a higher rate of innovation, as companies must continuously introduce new or improved products and services to meet changing customer needs and avoid stagnation. Additionally, innovations in the private sector

often lead to significant revenue growth, further motivating firms to invest in innovative activities (Pisano, 2019; Teece, 2020).

However, the public sector also plays a significant role in supporting innovation, particularly through funding basic research and establishing regulatory frameworks that stimulate innovation activities. Governments can support private sector innovation through grants, tax incentives, and the public procurement of innovative solutions, thereby directly creating demand for new technologies. The public sector often invests in areas that may not be immediately commercially profitable but have long-term societal potential, such as healthcare, education, and green technologies (Mazzucato, 2018; Chesbrough & Bogers, 2020). Overall, however, the private sector innovates more than the public sector. In contrast, the public sector tends to focus on long-term research projects and creating an environment conducive to innovation, complementing the private sector's innovation efforts (OECD, 2021; European Commission, 2021).

Durková (2018) states that innovation policy has proven to be a key factor in supporting long-term economic growth in small open economies such as Slovakia. Its effective implementation can significantly enhance the competitiveness of both businesses and the country in global markets. In his article, Beblavý argues that the Slovak innovation policy must reflect the country's social and economic specifics. It is essential for it to focus not only on technological innovations, but also on improving human capital, which is a fundamental pillar of the long-term sustainability of innovation strategies (Beblavý, 2015). Another author, Hudec (2020), asserts that successful innovation policy should be based on coherent collaboration between the government, industry, and academia. In Slovakia, institutional support must be strengthened, and investment in research and development must be increased. Zajacová (2021) highlights regional disparities that hinder the country's innovation capacity, noting that the regional differences in Slovakia's innovation performance are significant and require targeted policy measures. Addressing these disparities is crucial for achieving balanced economic development and enhancing the country's overall innovation performance.

Material and methods

The aim of this paper was to analyze the trends in the innovation activity of enterprises in Slovakia. The specific objective was to assess the share of enterprises with innovative activity based on the size of the enterprise and industry, as well as to examine the revenues of these enterprises. Furthermore, the study focused on the impact of public financial support on enterprises with innovative activity and their cooperation with various institutions, which is crucial for the further development of innovations. Attention was also given to the barriers limiting the activities of innovative enterprises operating in the Slovak conditions, as well as the broader context of innovation support through the implemented innovation policy.

This paper tracked indicators such as the share of enterprises with innovative activity and without innovative activity from the total number of enterprises in %, the share of enterprises with innovative activity with public financial support in %, the share of enterprises with innovative activity by size group from the total number of enterprises in %, the share of revenue of innovating companies from the total revenue of all companies in %, the share of revenues of enterprises with innovative activity by size group from the total revenues of all enterprises in %, and the share of innovating

enterprises collaborating on innovations with the specified type of partner in %, over the period 2001-2022, excluding the years in which these data were unavailable. The data were sourced from the Statistical Office of the Slovak Republic.

Results and discussion

Business innovation represents a key process through which companies improve their products, services, technologies, or business models. These innovations can encompass a wide range of activities, from improving production processes and implementing new technologies to developing innovative ways of interacting with customers.

The main types of innovation outputs include product innovation, which involves the development of new products or the enhancement of existing ones to bring greater value to customers. For instance, launching an entirely new product on the market or improving the functionality or design of an existing product can significantly strengthen a company's market position (O'Reilly & Tushman, 2016).

Process innovations focus on improving internal company processes, leading to higher efficiency, cost reduction, and quality improvement. Examples of such innovations include automation in manufacturing or streamlining logistics (Teece, 2020).

Marketing innovations involve new ways of promoting and distributing products that better reach target audiences. The use of new digital platforms, rebranding, or the introduction of new pricing strategies can help companies adapt to changing consumer preferences (Kotler & Keller, 2021).

Organizational innovations relate to changes in a company's structure and management, leading to greater flexibility and the ability to respond quickly to market changes. This may include the introduction of new project management methods or cultural shifts within an organization that encourage innovative thinking (Christensen, 2019).

Several factors influence business innovations. Investment in research and development is a key prerequisite for supporting innovation, as companies that actively invest in research have a greater potential to bring new products and services to the market (Pisano, 2019). Collaboration between companies, research institutions, and universities opens up new opportunities for access to technologies and expertise, which can accelerate innovation processes (Chesbrough & Bogers, 2020).

The public sector also plays a significant role in supporting business innovations through grants, tax incentives, and other stimuli that help mitigate the financial risks associated with innovation development. Additionally, companies that foster an innovation-friendly culture - an environment where creativity and experimentation are valued - are more likely to succeed in developing innovative solutions. Creating such a culture involves encouraging employees to seek new ideas and rewarding their contributions (Mazzucato, 2018).

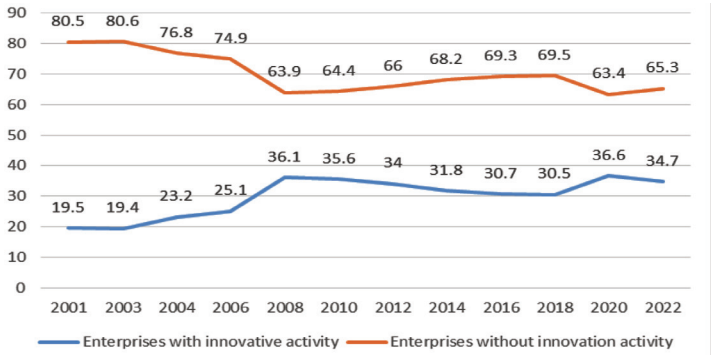
Technological advancements also provide entrepreneurs with new opportunities for innovation. Digitalization, artificial intelligence, and automation are examples of technologies that are transforming the way businesses operate and creating new opportunities for improving productivity and customer experience (Brynjolfsson & McAfee, 2014).

In Slovakia's economic and business landscape, companies without innovation activity still dominate. However, since 2007, their share has been declining,

while the proportion of companies engaged in innovation activities has been growing (Fig. 1). Among businesses with innovation activities, the industrial sector exhibits a higher intensity of innovation, with 41.55% of companies engaging in innovation, primarily in high- and medium-high-technology industries. In the service sector, 31.42% of businesses undertake innovation activities, with knowledge-intensive services accounting for a significant 56.6% share of high-technology innovations.

In terms of types, process and product innovations prevail, whereas non-technological innovations, such as organizational or marketing innovations, are represented only to a limited extent.

Fig. 1 The share of enterprises with innovative activity and without innovative activity from the total number of enterprises in %



Source: Statistical Office of the Slovak Republic, 2024

In the last available year, 2022, the share of resources from public financial support amounted to 27.70% and was the highest since the first statistically reported year in 2001. Most resources flowed from government institutions and from other EU financial support. Other financial resources, however, significantly undersized, were drawn from local or regional public administration bodies and the 7th EU Framework Program for Science and Technology or the Horizon 2020 program for research and innovation (Tab.1).

Tab. 1 The share of enterprises with innovative activity with public financial support in %

	2001	2006	2008	2010	2016	2018	2020	2022
Sources of public financial support together	9.4	14.8	10.7	12.3	13.2	15.9	26.2	27.7
Local or regional state administration bodies	4.0	3.1	0.5	0.3	0.3	2.2	4.0	5.4
Government (or government institutions)	5.6	5.4	3.8	3.5	4.6	3.3	14.4	17.3
European Union	1.2	9.5	6.4	10.0	10.6	.	.	.
EU framework programs for science and technology (6th, 7th)	1.0	1.8	1.0	1.6	.	.	.	.

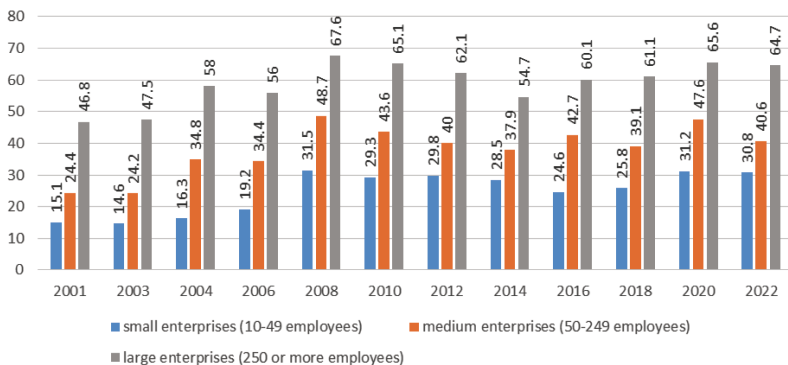
The 7th EU Framework Program for Science and Technology or the Horizon 2020 program for research and innovation	.	.	.	.	2.8	3.8	4.0	3.9
Other financial support from EU institutions	.	.	.	.	.	8.7	8.4	7.9

Source: Statistical Office of the Slovak Republic, 2024

From the point of view of size categorization, the largest share of enterprises with innovative activity from the total number of enterprises in the group of large enterprises is reported, while in the years 2001 to 2003 their representation oscillates around 47%. Since 2004 there has been a more significant increase, while their share ranges from 54,7% to almost 68%. Innovative enterprises are less represented in the category of SMEs (Fig. 2).

Innovative enterprises are primarily in industrial production 41.55% of the total number of enterprises. They are more prominently represented in sectors such as Manufacture of other means of transport 64.14%, Manufacture of leather and leather products 62.47%, Manufacture of paper and paper products 61.88%, Manufacture of computer, electronic and optical products 58.59%, Manufacture of machinery and equipment 55.35%, in the service sector they predominate enterprises with innovative activity in sectors such as Information services 73.83%, Publishing activities 58.40%, Financial and insurance activities 55.86%.

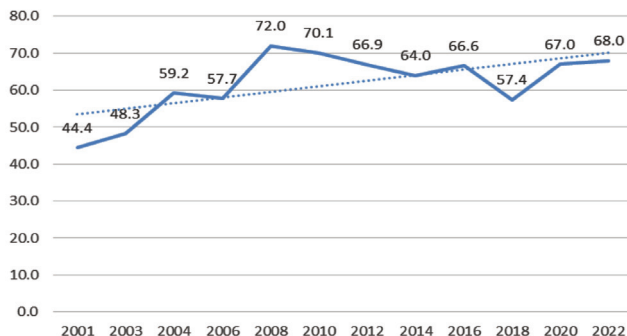
Fig. 2 The share of enterprises with innovative activity by size group from the total number of enterprises in %



Source: Statistical Office of the Slovak Republic, 2024

The share of revenues from enterprises engaged in innovation activities exhibited a fluctuating trend over the observed years. The highest values in this indicator were recorded in 2008 and 2010, when the share of revenues from innovative enterprises exceeded 70% of the total revenues of all businesses (Fig. 3).

Fig. 3 The share of revenue of innovating companies from the total revenue of all companies in %



Source: Statistical Office of the Slovak Republic, 2024

The largest share of revenues is again recorded by large enterprises, with values exceeding 80% in some years. Small and medium-sized enterprises report significantly lower volumes and proportional representation in the economic indicator of revenues (Fig. 4).

From the perspective of sectoral classification, the highest revenue share is recorded in manufacturing industries such as Coke and refined petroleum products, chemicals, and chemical products production (92.02%), Computer, electronic, and optical products manufacturing (90.92%), Other transport equipment manufacturing (90.59%), Motor vehicles, trailers, and semi-trailers manufacturing (85.82%). In the service sectors, the highest shares are observed in Telecommunications (93.81%), Insurance, reinsurance, and pension funding, except for compulsory social security (91.56%), Scientific research and development (82%), Support activities for financial services and insurance (81.02%), Postal and courier services (72.42%).

Fig. 4 The share of revenues of enterprises with innovative activity by size group from the total revenues of all enterprises in %



Source: Statistical Office of the Slovak Republic, 2024

Innovative enterprises collaborate most significantly with the suppliers of equipment, materials, components, and software, as well as with clients and customers, although the degree and intensity of this cooperation have noticeably decreased over the observed years (Tab. 2).

Tab. 2 The share of innovating enterprises collaborating on innovations with the specified type of partner in %

	2001	2006	2008	2010	2016	2018	2020	2022
Enterprises within a group of enterprises	16.8	14.1	7.7	15.2	14.5	13.4	10.3	11.5
Suppliers of equipment, materials, components and software	43.0	32.4	16.7	25.5	23.4	23.6	20.5	24.0
Clients or customers	35.3	26.3	13.2	21.7	20.2	23.2	18.3	22.5
Competitors and other businesses in the same industry	15.4	22.6	8.9	17.6	6.0	8.0	7.7	11.4
Consultants, commercial laboratories or private VV institutions	15.4	18.4	8.8	11.9	15.1	11.7	10.1	15.8
Universities or other higher education institutions	10.5	14.3	7.5	10.8	8.7	10.3	7.1	10.2
Government or public research institutions	8.0	10.8	5.2	7.1	2.8	3.2	3.3	4.1
Other businesses	.	.	.	.	.	6.8	5.9	9.1
Non-profit organizations	.	.	.	.	.	3.0	2.4	2.9

Source: Statistical Office of the Slovak Republic, 2024

The biggest barriers for both innovative and non-innovative enterprises, as confirmed by data from the Statistical Office of the Slovak Republic, include a lack of financial resources for innovation activities within enterprises, excessively high costs of innovation, and difficulties in obtaining funding through state subsidies or grants. Additionally, a shortage of collaborating partners and qualified employees capable of developing and implementing innovations presents a significant challenge. These barriers are particularly pronounced among small and medium-sized enterprises (SMEs), as they lack the financial and human resources available to large companies. Furthermore, SME innovations tend to be less sustainable and face greater challenges in securing support from institutions and financial mechanisms.

The most commonly cited drivers and strategies for innovation include focusing on meeting the needs of an existing customer base, improving the quality of current products or services, achieving leadership in quality, and acquiring new customers.

The success of business innovation performance is often influenced by the broader context of innovation policy. Innovation policy plays a crucial role in corporate innovation as it provides essential support and a framework that enables companies to develop new products, services, and technologies. By ensuring financing and incentives such as grants and tax relief, innovation policy reduces the costs and

risks associated with innovation, allowing firms to invest in research and development. It also fosters collaboration between businesses, research institutions, and universities, accelerating innovation processes and knowledge sharing. By lowering regulatory barriers and supporting the commercialization of innovations, innovation policy helps overcome obstacles and enhances companies' competitiveness in global markets. Additionally, promoting innovation contributes to economic growth, increased productivity, and improved quality of life, positively impacting the overall economic health of the country. In this way, innovation policy creates favorable conditions for the development and success of corporate innovations.

One of the primary goals of innovation policy is to increase investment in research and development (R&D) to reach a level of 1.2% of GDP, which remains below the EU average. Achieving this goal requires both public and private investments. In Slovakia, R&D investments amount to approximately 0.8% to 1% of GDP. Within this budget, the government allocates around 600 to 700 million euros annually, covering funding for public research institutions and support for innovation projects. Public investment in corporate research is relatively low, ranging between 100 and 200 million euros per year. In contrast, the private sector invests significantly more, with contributions estimated at approximately 300 to 400 million euros annually.

Compared to the EU average, Slovakia lags behind in R&D investment. In the EU, average investments range between 2% and 2.5% of GDP, significantly higher than Slovakia's levels. Government spending on corporate research in EU countries varies but often falls between 0.2% and 0.5% of GDP. Meanwhile, the private sector in many EU countries, such as Germany and Sweden, invests significantly more in R&D, with contributions exceeding 2% of GDP.

According to the European Innovation Scoreboard 2023, Slovakia ranks among the countries with lower innovation performance, indicating challenges in innovation policy and environment. Compared to innovation leaders such as Sweden, Germany, and Finland, Slovakia lags in research and innovation support, collaboration between research institutions and industry, and access to innovation funding.

A key challenge is strengthening cooperation between academia and industry to support the transfer of research-driven technologies into practice. Another crucial goal is supporting startups and SMEs in their innovation and growth efforts. The education system should be more aligned with labor market needs, fostering creativity and innovative thinking.

Several mechanisms support innovation in Slovakia. These include grant programs and funds, such as the Research and Development Support Agency, which finances research projects and innovation initiatives, and European structural and investment funds, such as Horizon 2020 and its successor, Horizon Europe, which support research and innovation at the European level. Tax incentives, such as R&D tax deductions, reduce companies' tax liabilities, while innovation vouchers provide small grants to fund collaboration between businesses and research institutions.

Startup and entrepreneurship support includes initiatives from the Slovak Business Agency, which offers advisory services, mentoring, and funding for startups and innovators. Business incubators and accelerators provide startups with access to resources, mentoring, and networking opportunities to help them grow and bring their innovations to the market. International cooperation and partnerships are also key, with Slovakia actively participating in various international research and innovation programs, facilitating knowledge exchange and access to new technologies.

Technology transfer support is carried out through technology transfer centers, which help move research results from academia to industry and commercial applications.

Several significant programs support innovation and research in Slovakia with substantial budgets. The Research and Innovation Operational Program for the 2014-2020 period had a budget of approximately 1.65 billion euros, focusing on strengthening research, development, and innovation capacities, including support for business innovation and technology development. A significant portion of these funds was allocated to projects aimed at enhancing Slovakia's innovation capacity and technological progress.

For the 2021-2027 period, a new program is planned with an annual budget of approximately 3.5 billion euros, including EU funds and national contributions. This program focuses on supporting innovation activities and research, aiming to strengthen Slovakia's innovation potential and research capabilities.

Another key program is the Recovery and Resilience Plan, financed by the NextGenerationEU fund, providing Slovakia with approximately 6.3 billion euros for various reforms and investments, including research and innovation. These investments target infrastructure modernization, support for digital technologies, and the development of innovations in Slovak companies and institutions.

Through these efforts, innovation policy establishes a supportive framework for corporate innovations, ensuring that companies have access to the necessary resources and conditions to implement their innovation strategies.

Conclusion

The innovation performance of enterprises is a key factor that directly influences their competitiveness at both the national and global levels. Companies that effectively implement innovations can better respond to rapidly changing market conditions, increase their productivity, and create new opportunities for growth. These companies often set the pace of growth in the industries in which they operate and contribute to the overall economic growth of the country.

In Slovakia, the proportion of enterprises with innovation activity is lower than those without it, and between 2008 and 2022, they accounted for 30-36% of all enterprises. Large and medium-sized enterprises innovate significantly more than small enterprises. Innovative companies are mainly represented in industrial manufacturing. Enterprises that introduce innovations, especially large ones, also report higher revenue volumes.

However, the success of innovation implementation within companies does not depend solely on their internal capacities but also on the broader innovation environment created by the state through innovation policy. This policy aims to establish a favorable environment for research, development, and technological progress. Government support through strategic frameworks, financial incentives, and legislative measures is essential for companies to fully utilize their innovation potential.

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