POLICY BRIEF

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Working conditions and sustainable work

Innovation in EU companies: Do workplace practices matter?

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Introduction

There is an enormous body of scholarly research investigating innovation as a driver of economic growth, employment and competitiveness. Innovation is considered essential for improving Europe's competitiveness and its ability to create jobs and tackle societal challenges. For that reason, it is supported through many EU initiatives, such as Horizon Europe, Innovation in SMEs, the European Industrial Strategy and Shaping Europe's Digital Future.

Research suggests that for companies to flourish in a competitive landscape, one of the options is to develop their ability to innovate, in terms of their products or services, production processes and marketing methods. In this context, management practices and the organisation of work play an important role in unlocking employee potential and generating innovative ideas.

As the world grapples with the fallout from the COVID-19 pandemic and the climate crisis becomes more urgent, it is an apt time for companies to consider redefining their management practices to adapt to the new reality and seize opportunities to innovate and address new challenges.

The aim of this policy brief is to contribute to a better understanding of the characteristics of innovative companies and, in particular, the innovation-enhancing workplace practices that they employ. Insight into how these practices link to business innovation could help to better exploit and foster Europe's innovative potential, maintaining and improving companies' competitiveness. Furthermore, recognising the practices that also enhance subjective well-being at work could ensure that employees benefit as much as companies.

The analysis is based on data gathered by the European Company Survey (ECS) 2019, supplemented by a qualitative analysis of workplace practices applied by some innovative companies, sourced from case studies conducted in 2020. The evidence presented shows that companies that use a set of workplace practices promoting employee autonomy, inviting ideas and improvements, rewarding performance and enhancing skills development are more likely to be market innovators.

The findings can inform and support policymakers in the design and implementation of measures aimed at fostering innovation in the EU, which is critical in the context of COVID-19 and the twin challenge of climate change and digitalisation.

Policy context

Recent data from the European Innovation Scoreboard 2020 show improved innovation performance for the EU as a whole, with an increase of 8.9 percentage points between 2012 and 2019. In that period, performance improved in 24 Member States. In terms of global performance, the EU continues to have a lead over countries such as the United States and China, although the gap with the latter has narrowed considerably since 2012. However, Europe still lags behind other competitive regions, notably South Korea, the world's most innovative country, which performed 34% above the performance score of the EU in 2019.

Several high-level EU policy initiatives have recently been proposed with a view to boosting the innovative capacity of Europe and supporting Member States in their recovery from the COVID-19 crisis. In July 2020, the Commission presented the new European Skills Agenda to help the EU to adapt to the green and digital transition. The Commission's NextGenerationEU large-scale recovery package and Horizon Europe were also launched. NextGenerationEU along with the Recovery and Resilience Facility, adopted in February 2021, support the reorientation of economic activities towards innovation for resilience and set certain conditions on the support provided to Member States. They require Member States to prioritise the green and digital transition; health; smart, sustainable and inclusive growth and jobs; social and territorial cohesion; and policies for the next generation, including education and skills and labour market intelligence. The European Industrial Strategy equally embraces the transition to climate neutrality and a digital future, which will require Europe's industry to 'become the accelerator and enabler of change and innovation'. Innovation is also included among the UN Sustainable Development Goals: Goal 9, Industry, Innovation and Infrastructure, which aims to build resilient infrastructure, promote sustainable industrialisation and foster innovation.

In the conclusions of its meeting of October 2020, the European Council noted that the digital transformation and the green transition will 'foster new forms of growth, promote cohesion and convergence, and strengthen the EU's resilience'. The digitalisation of business has the potential to boost innovation that is not merely technical but also social. The way workers engage with each other through digital processes and how they use their creative

capacity often determine the success of such transformations. Similarly, companies adapting their business models and production processes to embrace the green transition may need to also change their organisational practices: revising their work organisation, driving reskilling and upskilling, motivating staff for continuous learning and inviting workers' input into the development of new or improved products and services, and processes.

These changes to organisational operations also form part of the concept of workplace innovation, which embraces innovations in human resources management (HRM); the decision-making processes of companies; the design of the work environment and its structure, support systems and leadership; and cooperation with customers and suppliers. Workplace innovation is supported by the European Commission through projects such as Start at Best (workplace innovation among small and medium-sized enterprises – SMEs) and INNovaSouth (innovative workplace solutions in southern European SMEs).

Key findings

- Establishments that introduce innovations to the market tend, on average, to be large (250 or more employees) and young (10 years or less in operation), according to the ECS 2019. This suggests that there is much potential in the economy for boosting innovation among small and medium-sized enterprises (SMEs) and in establishments more than 10 years old.
- Innovative establishments are highly digitalised compared to the EU average. In particular, they are likely to use data analytics to improve their production processes or service delivery.
- Innovation is not just a technical process of developing or acquiring technology; it also requires companies to adopt work organisation, direct employee participation and HRM practices that support innovation activities.
- Establishments where management facilitates employees to work autonomously and where self-directed teams are prevalent are more likely to innovate in their market than workplaces where the predominant model is one of managerial command and control. The case studies of innovative companies suggest that, where workers have autonomy in their jobs, they are more likely to propose suggestions for new products and services and process improvements.
- The management in innovative establishments has high expectations of employees – in terms of helping colleagues, staying longer at work when needed and making suggestions for improvements to the business – and also uses a range of practices to motivate them. The case studies show that managers in innovative companies encourage employees to be creative and to think outside the box.
- Establishments that offer comprehensive training and learning opportunities are more likely to innovate than those where the scope for skills development is limited. The case studies suggest that innovation is supported not only by training from external providers, both formal and non-formal, but also by internal non-formal and informal learning facilitated through work organisation practices and job design ('non-formal' meaning intentional, structured training that does not necessarily lead to formal qualifications).
- A crucial element for fostering innovation is employee participation in organisational decision-making. Establishments that regularly engage with staff and use several means to do so, and where workers have an influence on management decisions, have a higher likelihood of introducing innovations to the market, compared to those establishments characterised by the absence of these practices.
- Collaboration with other establishments is positively associated with innovation in companies. Evidence from the case studies shows that companies tap into their large networks of collaborators, experts and customers to develop new ideas and to stay up-to-date with new technologies, services, products and processes.

Exploring the evidence

What types of companies innovate and how do they compare to those that do not innovate? How are workplace practices and managerial strategies associated with innovation? What motivates companies to innovate and what internal factors help or hinder this? This section aims to answer such questions by providing an overview of innovation in EU establishments and investigating the associations between workplace practices, managerial strategies and innovation.

Methodological note

The findings presented here are based on both quantitative and qualitative data analysis. The main quantitative data source is the fourth edition of the European Company Survey (ECS), which was carried out jointly by Eurofound and the European Centre for the Development of Vocational Training (Cedefop) in 2019. It gathered data from 22,000 human resources managers in the 27 EU Member States and the United Kingdom. The unit of enquiry for the survey is the establishment, which is the local unit or site; most businesses are single-establishment companies.

Although not an innovation survey, the ECS 2019 includes questions on innovation that can be analysed in combination with data on a wide range of practices and strategies related to work organisation, HRM and employee involvement in organisational decision-making.

The qualitative analysis is based on interviews conducted in a sample of 18 innovative companies selected from respondents to the ECS 2019. The selection process aimed to achieve a diverse sample in terms of sector, size and country – the selected companies are based in Czechia, Greece, Italy, the Netherlands and Sweden. Although the sample is not representative, the qualitative analysis provides insights into the ways innovative companies organise their work, manage their human resources and involve employees in the innovation process. Moreover, it allows exploration of questions around the motivation to innovate, and what enables and hampers innovation.

A more detailed discussion and analysis of the topics presented in this policy brief can be found in the accompanying working paper jointly prepared by Eurofound and Cedefop: *European Company Survey 2019: Innovation and workplace practices in European establishments*.

Types of innovation

This analysis distinguishes between innovations that are new to the market, where the company is first to introduce an innovation within its market, and innovations that already exist in the market but are new within the establishment. It then focuses on innovations that are new to the market and distinguishes between three types: a new product or service, a new process for production or supplying services, and a new marketing method. The analysis concentrates on innovation that is new to the market as it indicates a particular dynamism in a company, making it a first mover in its market.

Innovative establishments: Large, young and highly digitalised

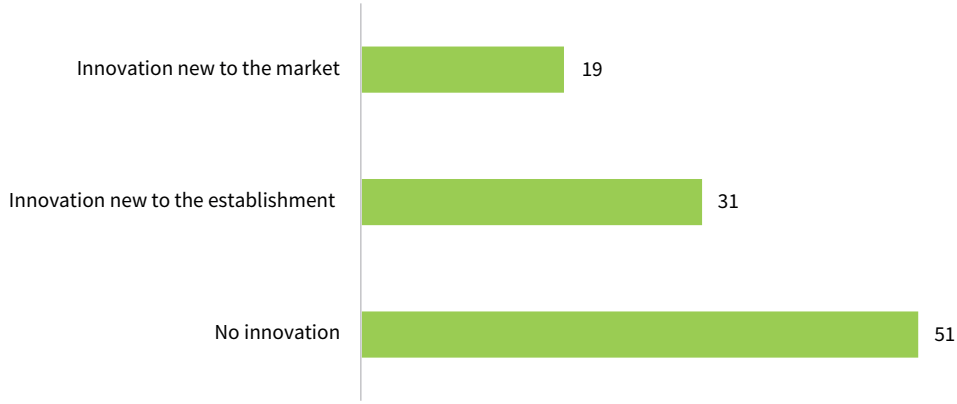
Some companies are more likely to innovate than others. The ECS 2019 provides evidence on the extent of innovation in EU companies and indicates that size, age and degree of digitalisation matter for innovation potential.

Prevalence of innovation

Around half (49%) of establishments across the EU27 reported that they generated innovations during the period 2016–2019. When this percentage is broken down, however, it shows that only 19% introduced innovations new to the market, while 31% introduced innovations that were new just to the establishment (Figure 1).

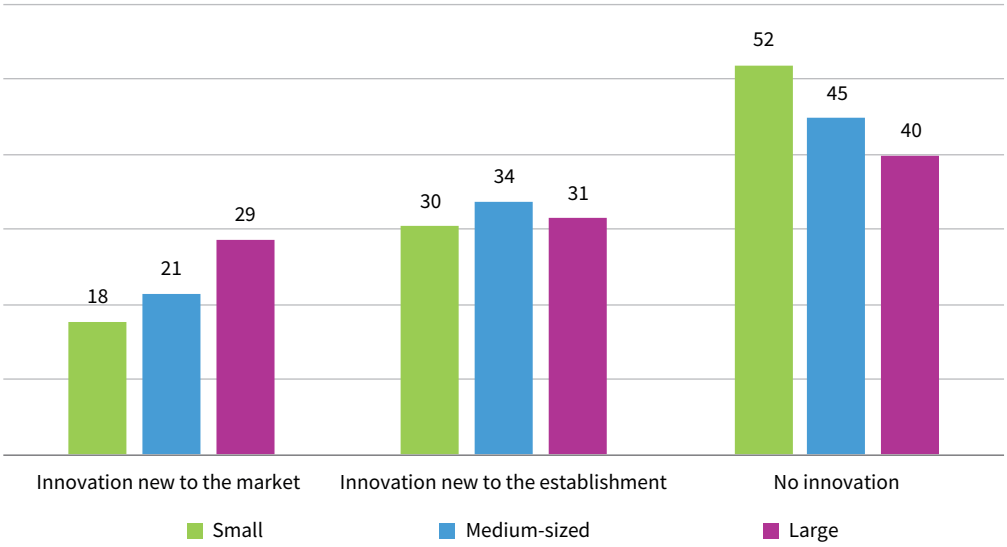
The types of innovation that European establishments introduce to the market are much more likely to be new products or services (reported by 14.4% of establishments) than process innovations (reported by 8.3% of establishments) or new marketing methods (reported by 6.1% of establishments). The percentage of establishments that have introduced all three types of innovations to the market is very small, only 2%.

Figure 1: Types of innovation in EU27 establishments (%)



Note: *The reference period is 2016–2019.*
Source: *ECS 2019 – Management questionnaire*

Figure 2: Types of innovation by establishment size (%), EU27



Source: *ECS 2019 – Management questionnaire*

Establishment size

The establishment size is an important characteristic that distinguishes innovative enterprises. Large establishments (with 250 or more employees) are more likely to introduce innovations to the market; 29% had done so, compared to 18% of small establishments (with fewer than 50 employees)[1] and 21% of medium-sized establishments (with 50–249 employees), as Figure 2 shows. This difference is found irrespective of the type of innovation introduced to the market.

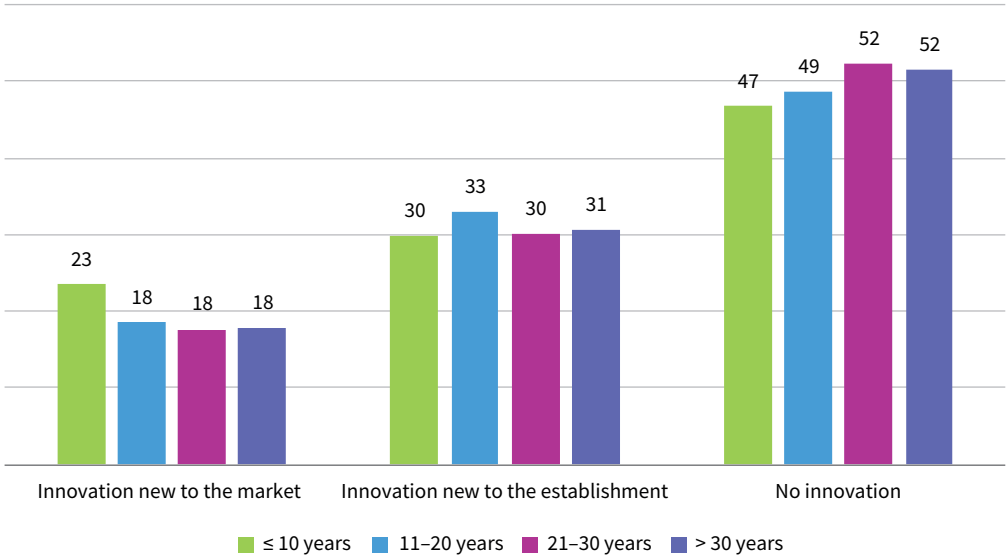
In terms of establishment type, headquarters are considerably more likely to have introduced innovations to the market (25% having done so, against 20% of subsidiary sites and 17% of single establishments).

Establishment age

The number of years operating within their economic sector also matters. On average, younger companies, which have been operating for 10 years or fewer, are more likely than older establishments to have introduced innovations new to the market (23%, against 18% of companies with more years in operation, see Figure 3). The difference is more pronounced for product and process innovations, while very minor differences across age categories are found in terms of marketing innovations.

1 The survey does not cover micro-establishments, which have fewer than 10 workers.

Figure 3: Types of innovation by establishment age (%), EU27



Source: *ECS 2019 – Management questionnaire*

Extent of digitalisation

The degree to which establishments have digitalised their operations is significant for innovation. The ECS 2019 captured this information with questions on the proportion of staff using computers, the purchase of customised software, the use of robots, the use of data analytics to improve processes or monitor employee performance, and involvement in e-commerce. Table 1 summarises the information gathered.

In around half (47%) of establishments that introduced innovations new to the market, most employees (80% plus) use computers to carry out their daily tasks; this compares to 37% of establishments that reported only innovations new to the establishment. Similarly, the share of establishments that purchased software specifically developed or customised to meet their needs is around 4 percentage points higher among those that introduced innovations new to the market compared to those that introduced innovations new to the establishment. A similar gap, although smaller in magnitude, is found when considering the use of robots.

Establishments that introduced innovations new to the market also more frequently use data analytics, especially for process improvement: 64% do so, against 56% of establishments that introduced innovations to the establishment.

Finally, with regard to the use of e-commerce, the percentage of innovative establishments buying or selling goods or services on the internet is higher among those that introduced innovations new to the market compared to those that introduced innovations that were new only to the establishment (42% against 35%).

These descriptive findings on the use of digital technologies in innovative establishments could be a useful input to the implementation of EU funds related to digitalisation (such as the Digital Europe Programme and the Connecting Europe Facility) and the Recovery and Resilience Facility.

Table 1: Digital technologies in innovative EU27 establishments (%)

	New to the market				New to the establishment	EU27
	Product	Process	Marketing method	Any innovation	Any innovation	Total
Computer use						
Less than 20%	15	16	15	15	22	25
20–79%	38	37	36	38	41	40
80% or more	48	47	49	47	37	35
Purchase of customised software	65	71	70	65	61	54
Use of robots	14	14	11	13	10	8
Use of data analytics						
For process improvement	64	68	68	64	56	46
For monitoring employee performance	37	41	40	38	35	27
E-commerce	42	43	47	42	35	28

Source: *ECS 2019 – Management questionnaire*

Linking innovation and workplace practices

Insights from research

One way in which companies can improve their ability to innovate is by implementing workplace practices that foster an environment within which skills development, participation, collaboration and innovation can thrive. Innovative company behaviour requires joint efforts and an organisational setting that facilitates and supports knowledge creation and employee involvement.

Research on high-performance work systems and high-involvement work systems examines workplace practices not as individual and ad hoc practices but as part of a more holistic company approach that bundles several practices. These practices create a form of work organisation that provides high levels of autonomy to employees, which gives them opportunities for exploring new solutions to problems that arise in their daily work and hence fosters innovative behaviour. Research has found positive links between workers having task autonomy and the innovation performance of companies. It has also found positive links between innovation and other workplace practices implemented by companies, including offering training, providing rewards in the form of performance-related pay and having systems in place for collecting employees' views. Studies have also demonstrated a positive link between the involvement of employees in decision-making, referred to as 'direct employee participation' in the literature, and innovation performance.

Mapping workplace practices to companies

Using ECS 2019 data, establishments can be grouped based on the extent to which they adopt workplace practices to invest in their

employees and to involve them in the activities of the business:

- high investment, high involvement (around 20% of establishments)
- selective investment, moderate involvement (33% of establishments)
- moderate investment, irregular involvement (27% of establishments)
- low investment, low involvement (21% of establishments)

Table 2 provides a profile of each type, describing the practices they typically apply to:

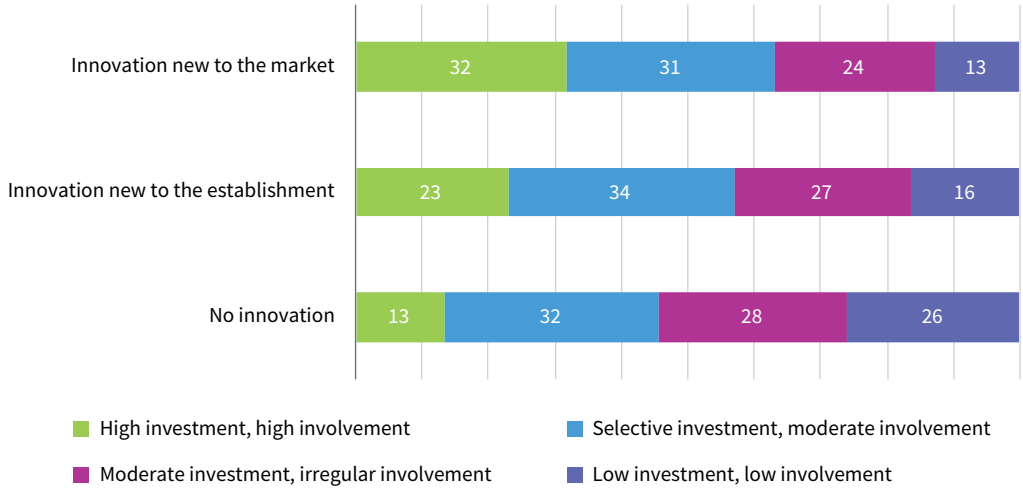
- work organisation, including collaboration with other organisations and job design
- HRM, including tools to motivate and reward staff
- direct employee participation

Table 2: Profiles of the four groups of establishments

High investment, high involvement	Selective investment, moderate involvement	Moderate investment, irregular involvement	Low investment, low involvement
Work organisation			
Higher prevalence of collaboration with other establishments or outsourcing Higher degree of job complexity and autonomy accorded to employees	Similar to 'high investment, high involvement' group but likely to selectively offer job complexity and autonomy to employees	Higher prevalence of collaboration with other establishments or outsourcing Likely to prefer a 'command and control' approach to managing employees	Most are likely to not collaborate or outsource activities High prevalence of a 'command and control' approach to employee management
HRM			
High expectations of staff to perform over and above the parameters of their job description Frequent use of monetary and non-monetary incentives More likely to offer training and learning opportunities, either to most staff or to selected staff More likely to offer variable pay, either comprehensively (to most staff) or selectively	Most have moderate expectations of staff and use incentives in moderation Likely to offer training and learning opportunities selectively Likely to offer variable pay selectively	Mostly of two types: • Moderate expectations of staff and moderate use of incentives • High expectations of employees but make limited effort to motivate them More likely to offer limited training and learning opportunities More likely to offer variable pay to most or selected staff	Mostly of two types: • Low expectations of staff and limited use of motivational drivers • High expectations of employees but make limited effort to motivate them More likely to offer limited training and learning opportunities Tend not to offer variable pay or to offer it selectively
Direct employee participation			
Tend to engage regularly with staff, using all means of communication available Staff have a high level of influence on management decisions	Mostly of two types: • Engage irregularly with staff; staff have a moderate level of influence on management decisions • Engage regularly with staff through meetings; staff have limited influence on management decisions	Engage irregularly with staff; staff have a moderate level of influence on management decisions	Absence or irregular use of means of engaging with staff; staff have limited influence on management decisions

Source: *Eurofound and Cedefop, 2020*

Figure 4: Innovativeness of EU27 establishments (%), by group



Source: *ECS 2019 – Management questionnaire*

'High investment, high involvement' most innovative

Of the establishments that introduced innovations to the market, more are in the 'high investment, high involvement' group, where they make up 32%, than in the other three groups (Figure 4). Furthermore, only 13% of this group have not innovated at all. The 'selective investment, moderate involvement' group is most common among establishments that introduced innovations to the establishment, constituting 34% of the total. The greater proportions of the 'moderate investment, irregular involvement' and 'low investment, low involvement' groups are among establishments that have not innovated at all.

Practices that foster innovation

The remaining sections of this policy brief focus on the findings of both statistical analysis and case studies of 18 European companies. The analysis looks at the types of workplace practices they implement that spark innovation.

Work organisation

Analysis of the ECS 2019 data indicates the approaches to work organisation that are associated with innovation to the market: management facilitates employees to work independently (organising their own tasks and work schedules) and expects them to find solutions to unfamiliar problems, self-directed teams are relatively abundant, and collaboration with other establishments and outsourcing is important.

Evidence from the 18 qualitative case studies illustrates more specific characteristics of work organisation practices in the innovation process.

- **Innovation is embedded in job design and tasks.** Workers across the organisation are invited to continuously seek solutions to improve products, services, work processes and productivity. They are asked to provide insights for new and improved input materials and for enhancing productivity and work processes – for instance, to lower production costs or improve plant-floor layout.

- **Job descriptions evolve** from the initial set of tasks as a result of employees acting autonomously and being personally invested in their work.
- **Internal group discussions are a source of inspiration** for teams and individual workers, seeding new ideas and new solutions. Dedicated project meetings and learning groups to assess processes and discuss problems, failures and successes are organised regularly and systematically to facilitate continuous learning and feedback loops. The management shows an open attitude towards failures, seeing them as part of the process of innovation and as an opportunity to learn.
- **Collaboration with other organisations** such as suppliers, partners, other companies and research centres is crucial at the stage of formulating and defining the problem to be solved. Access to external expertise and technical solutions clearly expands the knowledge base of the organisation. Managers and employees in the 18 companies interviewed emphasised the importance of learning and connecting with knowledge networks, as well as gaining insights from commercial partners and from companies in the same sector.

Case study: 'Can this be done better?'

A small company with expertise in providing solutions to digitise and automate the modelling of infrastructure and transport solutions

In this company, the innovation process can be initiated by a client question or problem that the workers try to address. It is an intuitive process requiring workers to develop an idea and test and improve it, which can take several years, with many iterations. Ideas are selected jointly by the project leaders and management. The workers approach problem-solving by asking themselves, 'Can this be done better?' Workers learn by doing and by working with applications, and they have the freedom to explore and try out new ideas.

There are no defined roles in the innovation process as all workers take part in it. A few teams implement the innovation projects, but no dedicated 'innovation teams' exist for coming up with ideas or applications; instead, ideas are generated across teams. A central team, however, tracks the innovations as they develop. Learning sessions, so-called 'creative sessions', take place every six months, during which workers share their experiences and lessons learnt. 'Workers take pleasure and enjoyment in examining how a client request or product can be developed or optimised,' said one employee.

At employee performance and development review meetings, workers discuss aspects of work they enjoy and their wishes for professional development. The discussion is informal, and workers are involved in setting their personal targets. They are not given targets for innovation projects but discuss the different ways of pursuing their ideas and improving their performance.

HRM practices

In terms of HRM, and more specifically with respect to workplace behaviour and motivational levers, ECS 2019 data show that establishments likely to innovate in their market are those where management has high expectations of employees, considering it important that employees help colleagues, stay at work longer if needed and make suggestions for improvements to the business. Such establishments also employ a range of motivational practices: communicating a strong mission and vision, providing interesting and stimulating work, and offering opportunities for training and development. They also reward employees in the form of variable pay.

The case study evidence identifies some specific HRM practices in innovative establishments.

- **Cross-departmental cooperation and an atmosphere of open communication** across departments are encouraged (in conjunction with work organisation practices such as internal group discussions).
- **A desire to learn and being the 'right fit for the job'** are the employee characteristics most valued by managers. In the 18 cases examined, managers seek 'people who love learning' or 'open-minded people, thinking outside the box'. Recruitment tends to be based on best fit and the potential growth of the individual rather than on qualifications.
- **Training is seen as an investment** in employees, and workers are given control of their learning. They can request training and other development opportunities in their performance review sessions and also on an ad hoc basis.
- **Managers facilitate training** (on demand), provide internal training sessions and encourage informal learning between employees. Self-directed learning, such as employees suggesting suitable training courses to be funded by the company or participating in free online training courses, is supported. Workers are encouraged to participate in research and scientific conferences, international trade fairs and training offered by suppliers, which are important sources of learning. It is important, however, to find a balance between what the employees want and what the company needs in terms of personal development and training. This is achieved through open communication between management and employees. Furthermore, non-formal training (intentional, structured training that does not necessarily lead to formal qualifications) is offered by internal and external trainers.
- **Monetary rewards are given**, on a one-off basis, for ideas that generate profitable innovations, marketable products or improved processes (for example, to reduce costs).

Case study: Training and career development as levers for innovation

A medium-sized engineering company that produces products made from aluminium alloys, zinc and plastic. It also develops additive manufacturing technologies (3D printing), software modelling of products and digital optimisation.

The HRM practices in this company emphasise training throughout a worker's career. All new recruits undertake training delivered by other qualified workers. The company trains some employees to become trainers and runs its own 'foundry mini-academies' initiative to tailor training to their needs.

The company expects its employees to be proactive and to think autonomously and creatively; it encourages them to suggest ways of improving work processes or products. Such workers can build a long career in the company. In the words of one manager,

> *In our company, one must show initiative and must not wait for instructions, since instructions will not be given. When someone expects tasks to be assigned to them then they [may] fail … We want to be different from the [typical] corporate work environment – we are a family business.*

Direct employee participation

Finally, ECS 2019 data show that innovation is associated with direct employee participation. Innovative establishments use several means to engage with staff on a regular basis. Employees have a high level of influence on management decisions, and management recognises that higher staff involvement gives a competitive advantage, even if it sometimes causes delays.

The case studies illustrate that direct employee participation is practised in different ways and at different stages of innovation.

- **Employee involvement is inherent** in work organisation and the design of HRM practices. The way jobs are designed affects employee autonomy (work organisation), and the practices HR managers use shape employee involvement in the innovation processes.
- **Workers are often involved in management decision-making** on the selection of innovation projects and in making joint assessment reports regarding the relevance, market potential, technological requirements, investment needs and profitability of a new product or service. Employees whose suggestions have been accepted usually undertake their implementation in cooperation with others. Workers can also influence decisions regarding changes in the production process. Although this is often highly standardised, workers' input is valued as it brings tacit knowledge and experience.
- **Regular meetings are held during which management and staff share information** about new products and services and lessons learnt from running their projects.

Case study: Participation of employees throughout the innovation process

A small company that develops and implements programmes to stimulate urban and rural socioeconomic development

Innovation projects in this company are based on ideas submitted by regional actors, customers, managers and employees. Managers hold regular departmental and general staff meetings during which company policies, decisions and plans are discussed.

Employee involvement in management decision-making takes place mainly at two stages. Firstly, at the stage where ideas are discussed and selected (by the board of directors), employees can pitch their ideas and participate in the assessment of those ideas within the management structures. Secondly, they can be involved at the stage when decisions on work processes are taken. Project teams can change processes as they see fit, within the limits of the project management guidelines and ISO processes. 'I have full control of the project … we can also discuss suggestions for internal work process changes,' one employee said.

The projects undertaken by the company are big and risky, and project teams operate in a fully decentralised way, continuously monitoring the quality of their projects. At the end of each project, a final evaluation meeting is held to learn from successes and failures and to re-innovate (a feedback loop). Having invested effort in recruiting people with the 'right personality' and training them, the company considers it logical to invite staff to fully participate in the innovation process: 'We try to find people who love learning and encourage them to learn more. We hire mostly post-grad holders, but we also train them,' according to one manager interviewed.

Case studies: Motivation for innovation

The qualitative case studies provide further insights into why companies innovate and what motivates workers and managers to pursue innovation.

Innovation embedded in company activities

In the 18 companies studied, innovation is an integral part of their approach rather than a clearly separate activity. Certain management structures are explicitly assigned to innovation activities, such as R&D departments, innovation committees, interdivisional teams of managers or an innovation manager. However, and as shown in the previous section, work organisation and HRM practices encourage innovation continuously across the organisations' activities and processes.

Workers' motivation

Job enrichment is associated with increased worker motivation, and most of the companies studied seek to enrich jobs: providing opportunities for working independently, encouraging staff to find solutions to problems, and offering opportunities for informal learning and sharing of knowledge among workers.

When asked why they were motivated to engage in innovation, employees gave the following reasons:

- opportunities for personal and career development
- makes work more interesting – for example, working with internationally recognised products, opportunities to work with new technologies and enrich one's knowledge and skills

- the opportunity to address a challenge that could lead to a new product, service, process or marketing method
- the opportunity to think outside the box
- the need for change and variety in work tasks
- a good work environment and good jobs
- financial rewards

> *[What motivates employees in this company is] the chance to do something one feels passionate about.*
>
> Employee interview

In addition, workers identify with their company's objectives, values and successes, for the most part, and often consider customer satisfaction a part of their own motivation:

> *What motivates me to innovate is that there are no limitations to what I do; that it is easy to go outside the box. It is fun when your manager gives you extra time to solve a problem ... that you must not stay within certain limits … I get triggered by happy and satisfied customers, whenever they tell us that our work is good.*
>
> Employee interview

Managers' motivation

Managers in the case study companies spoke about having a strong focus on customer satisfaction and serving customer needs. They stressed the drive for a better, different or high-end product (often with a high digital content) or service that is linked with the company's brand name and a better position in the market.

> *We have the 'innovation virus' … every staff member is able to start the 'idea generator' in every project they run ... for example, the intercultural centre for migrants project: we developed impressive results.*
>
> Manager interview

> *You cannot really say, 'I am well positioned here in my market, so I am staying where I am today.' If you do say that, one day you will not be able to enter your own building, you will be forced to close down.*
>
> Manager interview

Cooperating with or acting as subcontractors for large innovative companies can serve as a stimulus or a learning factor encouraging smaller companies to engage with innovation activities.

A common trait of these company examples is the management attitude towards risk and failure. Failures are an accepted part of the innovation process, and managers are prepared for the many attempts that are required before a successful innovation can be generated. Organisations learn from failures, adopting a blame-free culture that encourages employees to experiment.

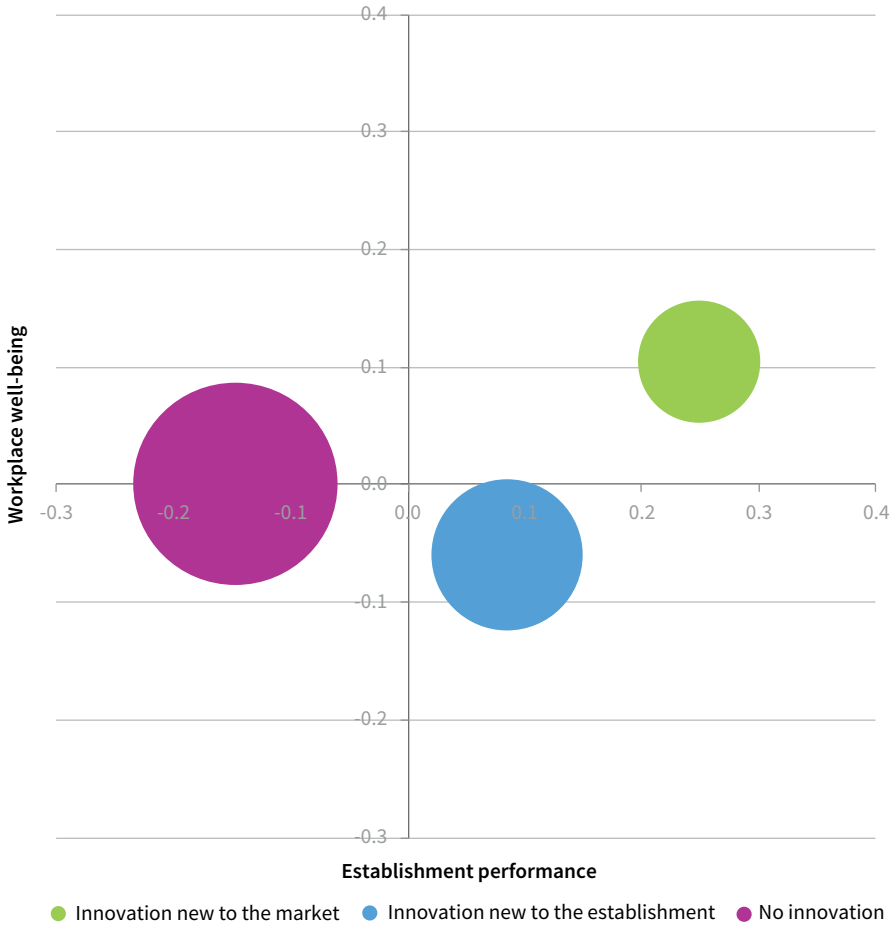
Case studies: Gains, enablers and barriers

Outcomes of innovation

Asked about the main outcomes of their innovation activities, interviewees indicated that the outcomes aligned with many of the motivations for innovation they had given, as follows:

- customer satisfaction with the product or service
- improved economic performance: profitability, revenue increases and return on investment, growth and competitiveness
- expansion beyond the core business to other areas and markets
- enhanced reputation of the company as a market leader
- enhanced reputation of the company as an employer: offering interesting jobs and a good place to work is the best advertisement for a company to attract talent

Figure 5: Workplace well-being and establishment performance, by establishment type of innovation, EU27



Source: *Eurofound and Cedefop (2020), based on ECS 2019 – Management questionnaire*

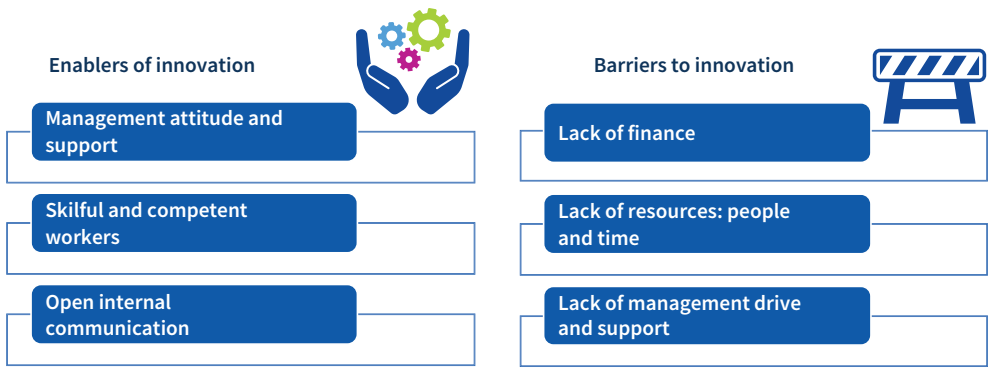
Performance and well-being outcomes

The ECS 2019 data indicate that innovation is positively related to an establishment's economic performance. The survey captures performance through questions about profitability, profit expectation, change in production volume and expected change in employee headcount. The data show that establishments that have introduced innovations (to the market or to the establishment) perform better economically than establishments that have not innovated.

Moreover, employees are more likely to benefit in terms of well-being from working in innovative companies. The ECS 2019 captures 'workplace well-being', a concept measured using a composite indicator of absenteeism, difficulty in retaining workers, work climate and employee motivation. The analysis shows that establishments that have introduced innovations to the market (like those selected for the case studies) are more likely to achieve better workplace well-being than non-innovative establishments.

The association of types of innovation with establishment performance and workplace well-being is illustrated in Figure 5. The graph shows how establishments, distinguished by

Figure 6: The three most important enablers of and barriers to innovation, according to the case studies



Source: *Authors' own elaboration*

type of innovation, score on each outcome. The size of each bubble indicates the proportion of establishments categorised in that type. All differences hold when controlling for country, sector, size and establishment type.

Enablers and barriers

The most prominent factors enabling innovation identified in the case studies are management attitude and support for innovation, skilful workers, and a work environment where open communication is promoted (Figure 6). A strong customer focus is also considered important.

On the other hand, lack of resources and support are considered to be barriers. Interviewees suggested that lack of financing is also a barrier but having financing is not necessarily an enabler. It is interesting to note that management attitude and support for innovation is mentioned as an important condition (enabler), whose absence can impede the innovation process (barrier). Similarly, the presence of skilful workers facilitates the innovation process while their absence can be an obstacle.

Policy pointers

- **Encourage companies to adopt workplace practices that are associated with innovation**. While Europe is facing unprecedented challenges – arising from, among other things, the COVID-19 crisis and the transition to a green and digital economy – recovery and new forms of growth can be stimulated by innovation. Research shows that certain workplace practices are more likely to be associated with innovation. National innovation agencies designing innovation grants and other support for companies could pay more attention to the promotion of such workplace practices among the recipients of support. Providing guidance and technical support to companies for the adoption of those workplace practices could also be considered. The booklet produced by DG GROW (Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs) *Your guide to workplace innovation*[2] and the INNovaSouth manual of good practices for workplace innovation[3] are useful tools for SMEs needing practical advice. In addition, Member States drawing on the EU's Recovery and Resilience Facility, in the context of the NextGenerationEU package, could consider setting conditions on companies that receive support – for instance, requiring them to demonstrate how they plan to adopt pro-innovation workplace practices in the medium term. Similarly, such prompts could be included in public procurement processes with the aim of stimulating innovation.
- **Strengthen line managers' training**. Previous research and the findings of this policy brief confirm that management attitude and support for an innovation culture are key enablers of innovation. Enhancing line managers' skills in relation to innovation leadership and support can facilitate innovation behaviour within an organisation. This relates not just to increasing their functional knowledge but also to enhancing their understanding of how work and jobs can be designed to encourage employees to use their

2 Available at http://ec.europa.eu/DocsRoom/documents/19187

3 Available at https://www.innovasouthproject.eu/wp-content/uploads/manual/INNOVASOUTH-MANUAL-english.pdf

autonomy and initiative to produce ideas and solutions. It is of fundamental importance that jobs are designed so that they produce learning opportunities for employees and, by extension, the organisation. Manager training should be a priority in implementing the European Skills Agenda (under Action 6: Skills to support the twin transitions and Action 7: Increasing STEM graduates and fostering entrepreneurial and transversal skills) and the Recovery and Resilience Facility.

- **Strengthen human resource managers' training**. Training for human resource managers should equip them with the skills to design recruitment strategies to attract candidates who are eager to learn and adapt to change, to develop training and learning initiatives, and to carefully tailor rewards to the needs of their organisation. It is equally important that training focuses on how organisations and human resource managers can support workers to be more innovative and give them time and opportunities to develop projects with the potential to produce a marketable product or service or to improve operations.
- **Focus on skills as the basis of innovation**. Skills are crucial for both incremental and radical innovation. New skills can be obtained formally through training, but skills are also acquired informally by gaining experience and exchanging knowledge with colleagues, customers and others. It is important for companies to establish connections with formal educational institutions, especially vocational training providers. Equally important is the need for training providers to meet companies' requirements in terms of the quality and relevance of training, in partnership with companies and relevant business or industry associations. National training supports, such as those targeting sectors, regions or SMEs, could be directed towards such training efforts. The preparedness of the workforce to meet future challenges requires that systems exist to anticipate needs for skills and continuous training.

  Furthermore, informal learning is dependent on the way organisations are structured. While workers need to be proactive in their engagement with learning, equally important is that management supports, nurtures and provides the conditions for learning to occur. It is important that there is validation and recognition of informal learning to complement formal skills acquisition. Lastly, training providers and human resource managers should take full account of the role of informal learning practices within companies and their interaction and connection with formal training provision. Creating a skilful and competent workforce is at the core of EU initiatives such as the Digital Compass, the European Pillar of Social Rights Action Plan, and the Recovery and Resilience Facility.
- **Encourage networking and innovative clusters**. Innovation requires a rich ecosystem of diverse types of companies that work together to improve performance. Previous research shows the importance of networking for innovation, a finding confirmed by this policy brief. Companies and workers connected with universities, research centres, experts and other partners gain insights and knowledge in their fields of activity, which facilitates innovation. Supporting networking activities involving companies can enhance their learning about the use and implementation of work organisation and HRM practices.

  European SMEs and start-ups face several challenges 'on the ground' when trying to secure market opportunities. The new Startup Nations Standard, an EU initiative to establish successful start-up ecosystems at local, regional and national levels, provides a set of good practices useful to national and regional SME support centres, business associations and companies.

These practices include a digital-first approach to operations and measures to attract and retain talent, but support for pro-innovation workplace practices should also be included.

- **Enlist the social partners to promote the concept of workplace learning through direct employee participation**. Direct employee participation in the innovation process is important for individual employees and the organisation, as it promotes learning by doing and interaction with others. The European social partners and the European sectoral social dialogue committees, with their reach to national-level social partners, could build on existing projects (such as the Skills and Innovation project)[4] and develop further actions and guidelines regarding skills development, workplace learning and direct employee participation in the innovation process. Coordinated actions by the European and national-level sectoral social partners showcasing national sectoral initiatives have the potential to spread such practices across Member States. This could tie in with the European Pillar of Social Rights Action Plan, in particular the new award for innovative social dialogue practices and the information and visiting programme for young future social partner leaders.
- **The European Industrial Strategy could lead the way in advancing forms of work organisation that promote innovation**. The strategy is a compass for the development of industry and has rightly emphasised the importance of lifelong learning, upskilling and reskilling; however, it does not cover the organisational structures of industry. This would be an important addition, particularly in light of the challenges presented by the green and digital transition and the need to build the foundations for green growth based on the priorities of the European Green Deal.

4 See https://resourcecentre.etuc.org/skills-and-innovation

Resources

All Eurofound publications are available online at www.eurofound.europa.eu

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The EU has long supported innovation in business and in workplaces. The challenges facing Europe as it emerges from the COVID-19 crisis make the need for innovation more urgent. The NextGenerationEU recovery package requires a reorientation of business activities towards innovation for resilience. Looking to the longer term, policies such as the European Industrial Strategy aim to support the transition to a green and digital economy.

Against this background, this policy brief investigates the workplace practices of innovative companies and examines the evidence linking them with innovation. These practices aim to encourage employees to work and problem-solve independently, to develop their skills, to include them in organisational decision-making, to motivate them to surpass their job description and to reward them for doing so. Analysis of these workplace practices can improve understanding of how they contribute to increasing the innovation potential of companies. It also provides an evidence base to support the work of policymakers and practitioners.

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