

# Evaluating Enterprise/Innovation Policy Interventions: Setting a New Agenda

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# Renewed interest into Enterprise policy

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Driven by:

- Macro factors
- Micro factors

# Enterprise/Innovation very much part of current Irish policy-making agenda (1)

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“Ireland’s future economic success depends on increasing levels of innovation across all aspects of Irish enterprise...” ( p.19).

“We do not see an alternative path to recovery other than one driven by innovation” (p. 19)

*Source: Innovation Ireland Report of the Innovation Taskforce (2010)*

# Enterprise/Innovation very much part of current Irish policy-making agenda (2)

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“Innovation levels and creativity in all its dimensions will continue as the central driver of wealth creation, economic progress and prosperity out to 2025” (p. 83).

“Enterprise therefore needs to remain at the heart of national economic policy supported by a truly integrated, coherent policy framework...” (p. 90).

*Forfás (2009) Sharing our Future Ireland 2025 Strategic Policy Requirements for Enterprise Development*

# Some insights into the extent of intervention for R&D and Innovation in Ireland

<b>Enterprise Ireland</b>	<b>2009 €'000</b>	<b>2010* €'000</b>
R&D programmes	54,056	53,220
Applied Research Enhancements	9,098	3,552
Industry Led Networks	1,964	1,741
Basic Research Grants	12	- *
Innovation Partnerships	6,909	7,698
Commercialisation Fund	24,420	23,007
<b>IDA Ireland - R&amp;D and Innovation</b>	<b>61,309</b>	<b>82,000</b>
<b>InterTradeIreland – INNOVAprogramme</b>	<b>738</b>	<b>1,786</b>

Source: Forfás (2011) R&D Funding and Performance in the State Sector 2009-2010 <sup>5</sup>

\* This grant is now managed by SFI and IRCSET

# Some insights into the extent of intervention in Ireland (1)

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“The overall funding allocated to Enterprise Ireland for company supports in 2010 amounts to €278m, which represents a 26% increase on the outturn for 2009” (p.18).

*Source: Dept of Enterprise Trade and Innovation (2010) Annual Output Statement*

# Some insights into the extent of intervention in Ireland (2)

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- Enterprise Ireland's allocation from the Department for 2011 is €307 million.
- IDA's budget for supports to industry in 2011 is €93 million.
- Shannon Development has been allocated €3.6 million in Exchequer funding to support enterprise in 2011.
- The total budget allocation for the CEBs in 2011 is €27.242m.

*Source: (2011) Opening address by Ms. Clare Dunne, Assistant Secretary, Dept. for Jobs Enterprise and Innovation to the Joint Oireachtas Committee on Jobs, Social Protection and Education 14<sup>th</sup> September*

# Some insights into the extent of intervention in Ireland (3)

Currently there are over *80 different programmes/supports* offered by the following agencies which directly or indirectly assist industry beneficiaries:

- IDA Ireland
- Enterprise Ireland (including the County Enterprise Boards)
- Science Foundation Ireland (does not support industry directly but does so indirectly through its collaborative research funding programmes)

# Lack of Enterprise policy evaluation internationally

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Pack & Saggi (2006) “Recent discussion of “new” industrial policy including the desirability of fostering learning and obtaining benefits from agglomeration economies offered by industrial clusters has received little systematic empirical evaluation” (p. 285)

Greene & Storey (2007) “Unfortunately while enterprise policy is widespread across developed economies there is very little evaluation of impact” (p. 213)

# Defining Policy Evaluation

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- Exploring the counterfactual
- What works best under what circumstances?
- Comprises analytically rigorous attempts to determine the impact of public policy initiatives
- Key challenge to highlight the impact of a particular policy intervention.

# Why Evaluate?

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- Impact
- Value for money
- Leads to policy improvements.

# Frequent calls for evaluation but did much happen?

(1)

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As far back as the “Third Programme for Economic and Social Development” (1969-72) a call was made for evaluation (Government of Ireland, 1969).

The “White Paper on Industrial Policy” (Government of Ireland, 1984) also emphasised the importance of ‘reviewing’ and ‘monitoring’ industrial policy.

Similarly, the Culliton Report (1992) highlighted the need for evaluation.

# Frequent calls for evaluation but did much happen? (2)

- Despite calls for industrial policy evaluation, it was not until the mid- 1990s that evaluations of industrial policy interventions at the firm level really began in earnest.
- The increased impetus for evaluation during the 1990s was largely driven by the EU who emphasised the need to assess accountability and the impact of significant EU transfers.
- “Evaluation is very much in its infancy in Irish academic and policymaking circles” (Lenihan, 2004, p. 247)

# Frequent calls for evaluation but did much happen? (3)

“It has been estimated that approximately €5.5 billion was spent on direct financial assistance to industry by government agencies (excluding administration and support to the higher education sector) over the period 1980-2003... Given the scale of this expenditure it would seem pertinent to address the very basic issues of ‘accountability’, ‘value for money’ and ‘additionality’. Despite this level of expenditure on industrial development, there has, and as is subsequently argued in this paper, continues to be a poor evaluation culture in Ireland although some progress has been made in recent years.” (Lenihan, Hart and Roper 2005)

# Lots of calls *recently* for Policy Evaluation (1)

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“Develop and implement a system wide evaluation framework (incorporating enterprise policy programme and project elements). The framework will be designed to measure ex-ante and ex-post the appropriateness, effectiveness and efficiency of policy objects/delivery”.

*Forfás (2010) Making it Happen: Growing Enterprise for Ireland (p.xxix)*

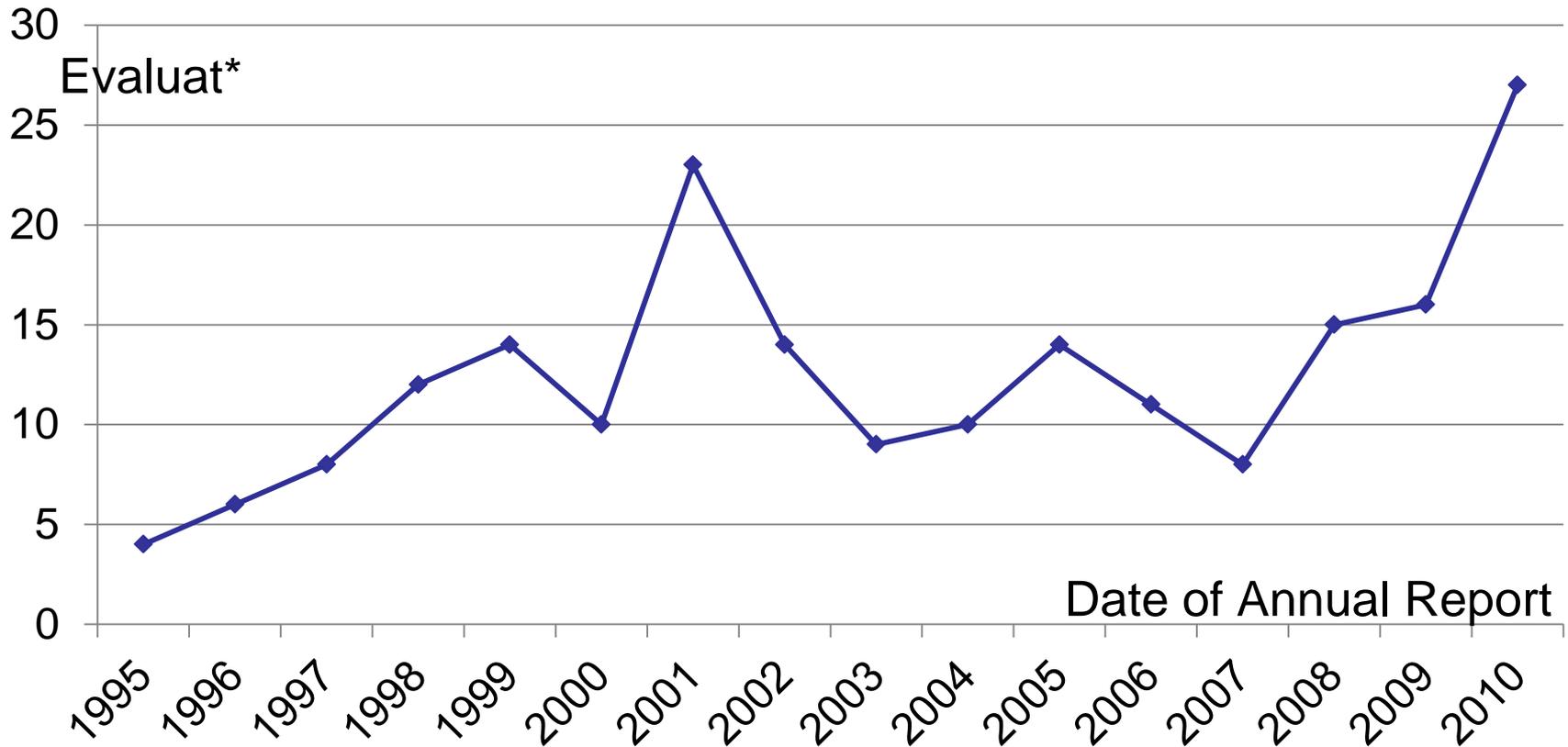
## Lots of calls *recently* for Policy Evaluation (2)

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“All expenditure programmes should have a sunset clause after which the scheme is wound down, unless the programme shows clear positive results on the basis of a rigorous evaluation exercise, including VFM and Policy Reviews. We need a move away from the existing system whereby resources are assigned once and, in effect retained indefinitely with little regard to results or alternative priorities”.

*Source: Report of the Special Group on Public Service Numbers and Expenditure Programmes (2009, p. 23)*

## Forfás Annual Reports 1995 -2010



# A very recent development looks promising (1)

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*Forfás (May 2011) “Framework for the Evaluation of Enterprise Supports”*

“The report comprises a robust framework for the evaluation of enterprise support programmes in Ireland based on international best practice in enterprise evaluation” (p.4)

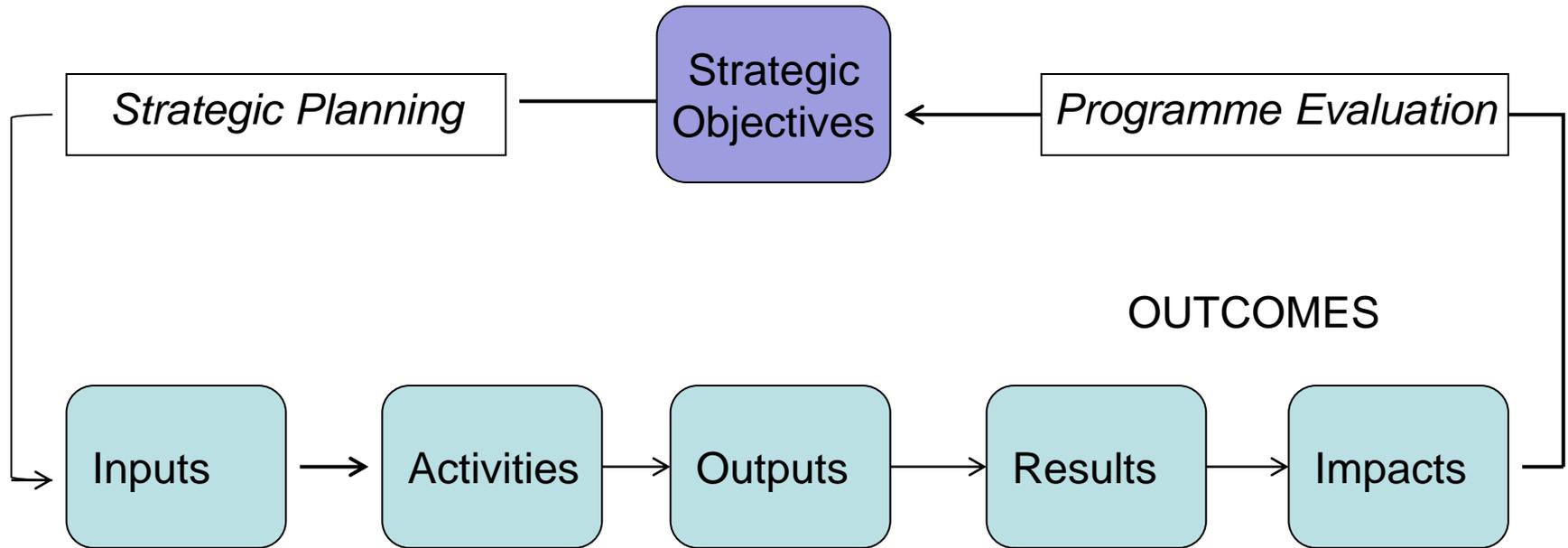
- Very welcome development
- Provides a common basis for the evaluation of enterprise support interventions

## A very recent development looks promising (2)

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- “Perhaps the most significant challenge is the need to set clear and specify objectives in relation to the programmes of intervention being evaluated” (p. 5)
- Explore potential linkages with other programmes
- Still lots of focus on private benefits and costs (economic)-mention to broader ‘societal impacts’ but on quite a superficial level
- Logic model

# Example of programme Logic Model Framework



Source: Forfás (May 2011) Framework for the Evaluation of Enterprise Supports (p. 9)  
*Based on the Department of Finance's Value for Money and Policy Review Initiative Guidance Manual (2007).*

# A very recent development looks promising (3)

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*Summary comments on first look at the document:*

- A truly welcome development and a definite step in the right direction
- Specification of objectives
- Be careful not to just import 'best practice' in a context-free way
- Real 'test' will be to see how well all of this is operationalised-'theory' vs 'reality'

- (1) Current evaluation frameworks/metrics are generally lacking *vis-à-vis* the evaluation of ‘newer’ enterprise policies coupled with a move from ‘old’ towards ‘new’ business models.
- (2) Illustrate how ‘LOGIC’ models can be extended to account for broader ‘societal’ impacts.

The thoughts in the remainder of the presentation are based on the following paper:

Lenihan, H. (2011) ‘Enterprise policy evaluation: is there a ‘new’ way of doing it?’ *Evaluation and Program Planning*, 34 (4), 323-332.

# Features of 'new' enterprise policy approach (1)

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- Past-Theoretical rationale-Market Failure (Bennett, 2006)
- Old business model characterised by:
  - desire for business stability
  - focus on core business activity
  - hierarchical organisation structure
  - efficiency attainment via standard procedures
  - Focus on developing in-house specific competencies

# Features of 'new' enterprise policy approach (2)

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- Systemic failure (dynamic externalities e.g. knowledge spillovers and network externalities)-adopts a more 'evolutionary' approach
- Enabling conditions for enterprise start-up and growth
- R&D; innovation, commercialisation of capital, entrepreneurship and education at the heart of enterprise policy.
- Innovating firms seen as interacting with a plethora of other organisations.

# Features of 'new' enterprise policy approach (3)

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- Concepts of natural systems of innovation and clusters seen as fundamental policy frameworks.
- Highlights importance of interdependencies in the economic system.
- Knowledge viewed as a key competitive asset

# “New” enterprise/business model focuses on:

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- Innovation and novelty and flexibility
- lack of predictability
- Operates as part of a network
- Combines internal & external ‘know how’
- Outsourcing
- Operates as part of supply chain models
- Invests in Human as opposed to physical capital
- Knowledge based economy and rests on intangible assets

# Importance of specifying Policy Objectives

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Storey (2000) “A fundamental principle of evaluation is that it must first specify the objectives of policy” (p. 177)

# Examples of current objectives 2 Enterprise Policy initiatives

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## *Innovation Partnerships*

To encourage Irish based companies to work with Irish HEIs to access their expertise and resources to develop new and improved products, processes and services, and generate new knowledge and know-how.

## *Competence Centres*

The objective is to achieve advantage for industry in Ireland by accessing the innovative capacity of the research community.

# What does the new approach mean for policy evaluation? (1)

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*Evaluation metrics should include as many as possible of the following:*

- Socio-economic fabric of locality or region
- Extent of additionality
- Opportunity cost issues
- Impact on 'wider publics' (PIE-Sugden and Lenihan 2007) and a concern with social impact and value
- Impact on sustainable development
- Impact on average local/regional wage rates within economy.

# What does the new approach mean for policy evaluation? (2)

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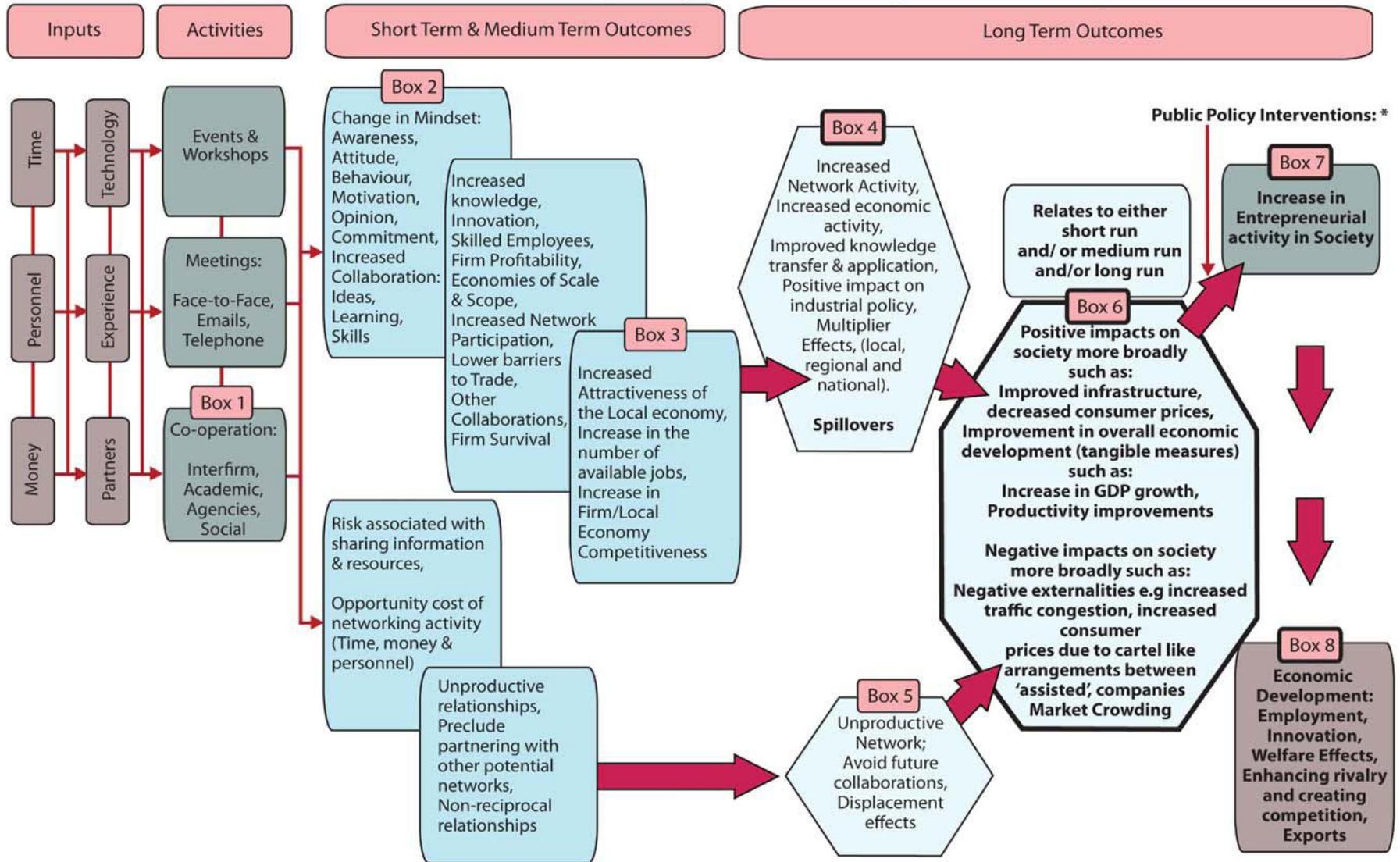
- Displacement and crowding out effects across firms.
- Capacity building
- Linkages between firms
- Multiplier impacts
- Knowledge creation through institutional diversity and pluralism
- Impact of the environment shaping the economy upon the dynamics of entrepreneurship/enterprise activity
- Government or bureaucratic failures

# Logic model-potential to make a worthwhile methodological contribution?

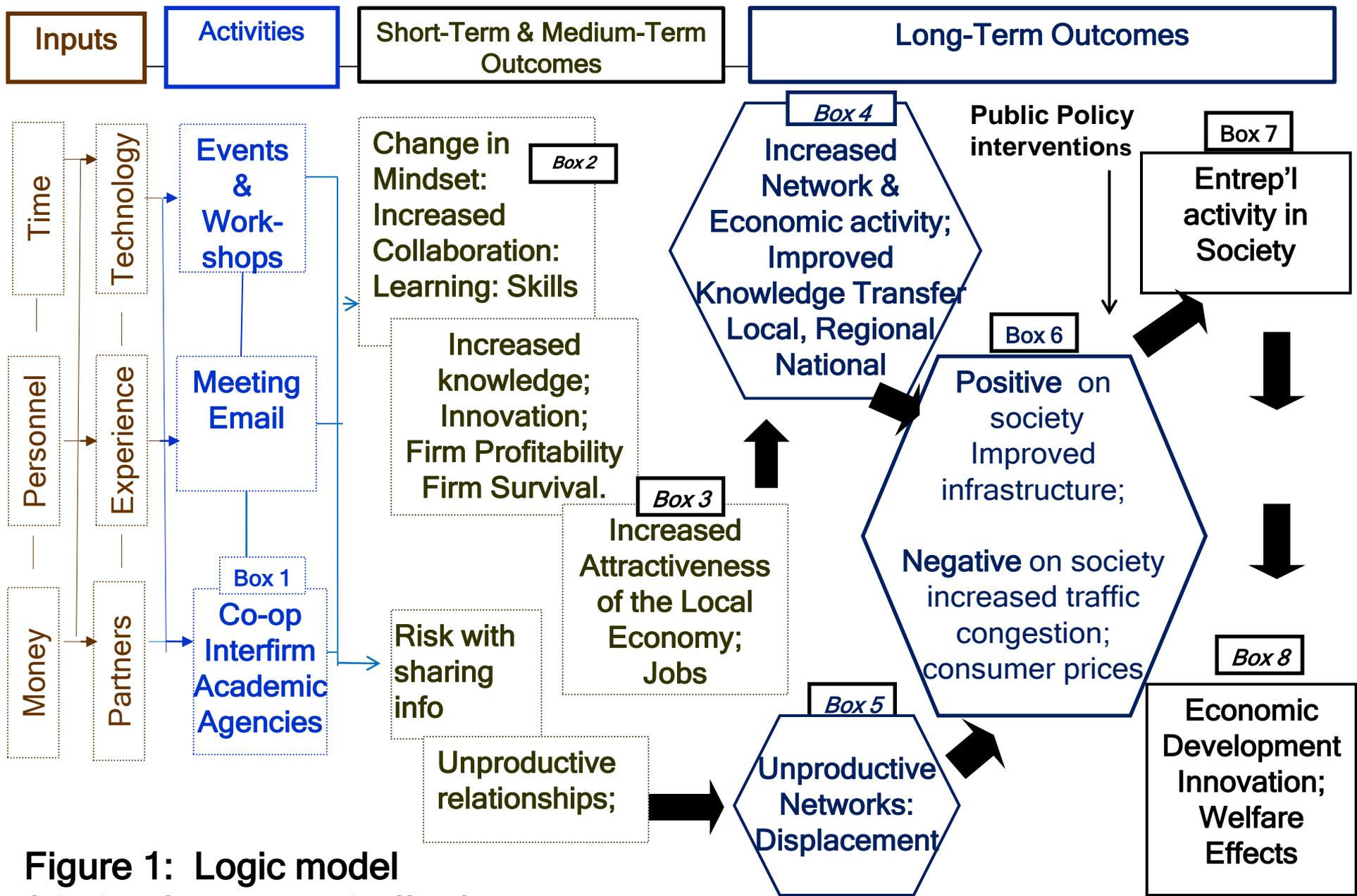
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- Provide a guide as to what should be assessed and measured.
- Incorporate multi-level (layered) effects.
- Compare ideal against actual operation in a programme
- Not only look at impact at level of firm but has potential to consider wider economy and even society effects.

**FIGURE 1: Logic Model (Chain of Cause and Effect)**



\* In the form of entrepreneurship and enterprise policies (direct policy interventions) and indirect policy interventions which foster a culture of entrepreneurship and improve the enabling environment for entrepreneurship. Indeed this policy intervention and the fostering of entrepreneurial culture could operate at the various stages (short term, medium term and long term) throughout the model presented here.



**Figure 1: Logic model (chain of cause-and-effect)**

Adapted from Lenihan (2011)

# Conclusion and way forward for policy evaluation

(1)

- Challenge: move away from evaluation methodologies that are purely concerned with narrowly defined economic impacts and measure impact purely at level of assisted firms.
- Bottom line: firm and economic activity more broadly does not operate in a silo but operates as part of a 'holistic' system
- Evaluation toolkits from other policy areas have potential to provide interesting insights (may call for a multidisciplinary approach)
- Greater investment should be made with regard to *ex-ante* evaluation methodologies.
- Greene and Storey (2007) compare samples of 'treated' and 'unwashed'-also incorporate wider economy and societal impacts. 34

# Conclusion and way forward for policy evaluation (2)

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- Need to invest in sophisticated evaluation methodologies.
- Evaluation as a ‘science’ lacking in theory.
- Old Chestnut: **‘How’ to evaluate (single biggest challenge)**
- Logic model-potential
- Make the ‘Evaluations’ publicly available
- Most important specify policy objectives.

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Thank you

Comments/Questions?

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## Selected publications by Lenihan on this topic

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- Lenihan, H. (2011) 'Enterprise policy evaluation: is there a 'new' way of doing it?' *Evaluation and Program Planning*, 34 (4), 323-332.
- Lynch, N., Lenihan, H. and Hart, M. (2009) 'Developing a framework to evaluate business networks: the case of Ireland's industry-led network initiative', *Policy Studies*, 30(2), 163-180.
- Lenihan, H., Hart, M. and Roper, S. (2007) 'Industrial Policy Evaluation: Theoretical Foundations and Empirical Innovations: New Wine in New Bottles', *International Review of Applied Economics*, 21(3), 313-319.
- Hart, M. and Lenihan, H. (2006) 'Estimating Additionality and Leverage: The interplay between public and private sector equity finance in Ireland (2000-2002)', *Venture Capital: an International Journal of Entrepreneurial Finance*, 8(4), 331-351.
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