What is wrong with Irish business?

Wages and Market Activity in the Indigenous Sector

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A Map of the Indigenous Sector

- The following are snapshots from a long work in progress – an attempt to map the indigenous market sector and benchmark it against our European peer groups. This work is being done in collaboration with colleagues from NERI.
- There has been a historical narrative that we have a weak indigenous sector, historically attracted to property, finance and servicing of multi-nationals while avoiding high value-added, export-facing enterprise activity. How valid is this?
- European data allows us to isolate the indigenous from the foreign-owned sector and to examine up to 150 sectors in the market economy covering employment, productivity, investment, profits, etc. For Ireland, we only have data for 2008 to 2012. While this limits us to a particular period in the business cycle, creating a map will allow us to chart progress and use other data sources to get a longer-term picture.

Drawing the First Lines

- This will map the indigenous market economy – excluding agriculture and non-market services (public administration, health, education, arts).
- We have only begun to explore the data and identify what measurements to use. This is presentation uses three benchmarks:
- **EU-15** (excluding Greece which has severe data gaps)
- **NCEE** - Northern and Central European economies, excluding Mediterranean countries
- **Other SOE**: Our peer group: other small open economies: Austria, Belgium, Denmark, Finland and Sweden
- None of the data factors in prices.
- The hope is to describe the Irish indigenous sector in comparative and comprehensive terms in order to inform the process of developing industrial and enterprise strategies appropriate for the 21st century.

1. Employment in the Indigenous Sector

INDIGENOUS EMPLOYMENT % OF LABOUR FORCE

	2008	2012
EU-15	50.3	48.6
NCEE	47.7	48.8
Other SOE	46.5	46.8
Ireland	***43.4***	***39.2***

The gap between Ireland and Other SOE grew significantly. In 2008 it was 69,,000 and 163,000 in 2012.

INDIGENOUS EMPLOYMENT % OF LABOUR FORCE (EXCL. CONSTRUCTION)

	2008	2012
EU-15	44.2	43.5
NCEE	42.7	43.9
Other SOE	40.5	40.7
Ireland	***38.9***	***36.2***

Excluding construction, the gap between Ireland and Other SOE closes. In 2008 it was 39,000 and 95,000 in 2012.

Employment Structure: Manufacturing

Indigenous Manufacturing as a % of Total Market Indigenous Employment		
	2008	**2012**
EU-15	20.8	19.1
NCEE	20.2	18.5
Other SOE	20.6	19
Ireland	***10.4***	***9.5***

- Irish employment in manufacturing is half of other European averages.
- While it appears that Irish manufacturing managed the recession relatively well, actual employment fell by 23 percent while Other SOE fell by 5.5 percent.
- To reach the Other SOE average, Irish employment would have to increase by 80,000.

Information & Communication

Indigenous IC as a % of Total Market Indigenous Employment		
	2008	**2012**
EU-15	4.2	4.3
NCEE	4.8	4.7
Other SOE	5.0	5.0
Ireland	***3.9***	***4.3***

- Irish IC employment ranks closer to European averages but it might be expected to be higher given potential MNC spill-over.
- While the Irish IC proportion rose, employment actually fell by 5.5% while European employment rose (Other SOE – by 3.2%).
- This sector should improve given recent employment growth. Since 2012 Irish IC total employment rose by 5.7% compared to European averages of 1.5%. No data yet on the indigenous sector.

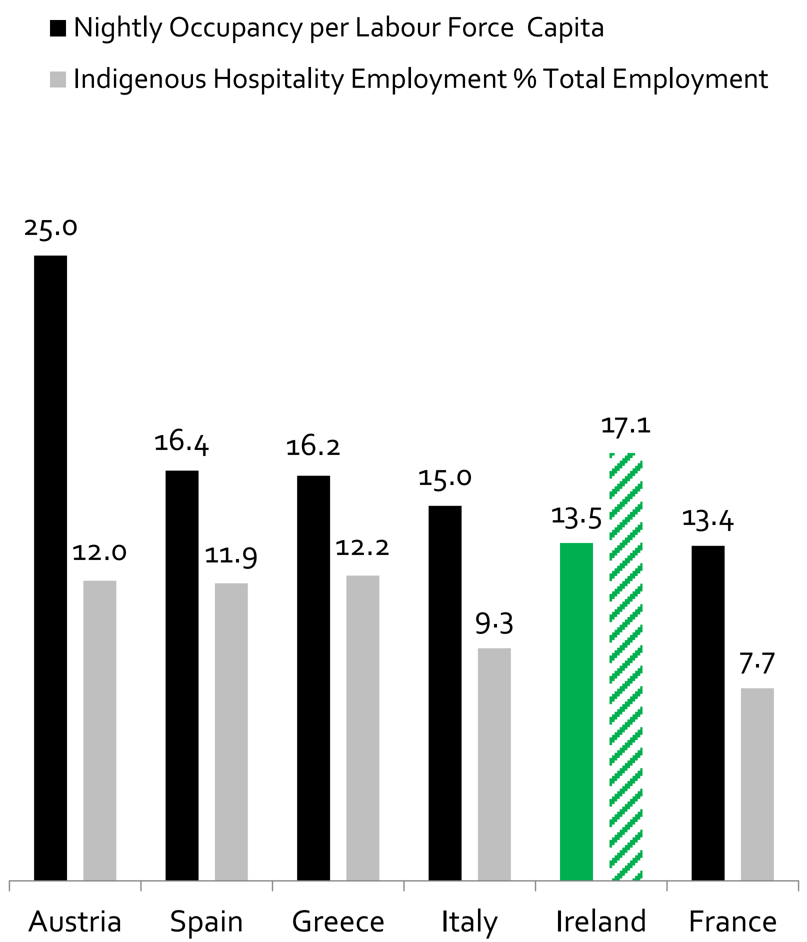
Hospitality

Indigenous Hospitality as a % of Total Market Indigenous Employment		
	2008	**2012**
EU-15	8.4	9.2
NCEE	8.1	9.2
Other SOE	7.4	7.4
Ireland	***15.5***	***17.1***

- Irish hospitality employment is the highest in the EU-15 proportionally. This is the lowest-waged, lowest-value added sector.
- While it is more than double the Other SOE, tourism is much higher so employment would be expected to be high.
- Is there an over-concentration? Other EU countries with higher nightly hotel accommodation (per capita) have much lower levels of hospitality employment.

Nightly Occupancy & Hospitality Employment

- Ireland has a high level of tourism as measured by nightly occupancy.
- However, countries with even higher levels of nightly occupancy have a smaller proportion of the workforce in the hospitality sector.
- Irish levels should fall as hospitality employment was sustained during the recession through Government measures. However, even at the beginning of the crisis the Irish proportion was nearly as high.



Wholesale & Retail

Indigenous Wholesale / Retail as a % of Total Market Indigenous Employment		
	2008	**2012**
EU-15	23.6	24.5
NCEE	23.6	24.3
Other SOE	23	22.5
Ireland	***30.0***	***29.3***

- In another relatively low-wage, low-value added sector – the wholesale & retail sector - Ireland has the highest proportion of employment.
- Even after a substantial fall in employment (17%) since 2008 Ireland still retains the highest proportion.
- Over 46% of Irish employees work in the combined hospitality and distributive sectors (in 2008 and 2010), This compares to EU averages of a third or less.

2. Investment

Indigenous Business Investment as % of GDP			
	2008	**2010**	**2012**
EU-15	6.2		5.8
NCEE	5.6		6.1
Other SOE	9.0		7.6
Ireland *	***6.1***		***3.4***

Indigenous Business Investment as % of GDP (excluding Construction)		
	2010	**2012**
EU-15	5.9	5.4
NCEE	5.8	5.8
Other SOE	7.2	7.2
Ireland *	***3.9***	***3.4***

* The Irish Fiscal Advisory Council's Hybrid-GDP

Structure of Investment

- Irish indigenous business investment unsurprisingly fell significantly between 2008 and 2012 – by 50 percent.
- While in 2008 Irish business investment matched the EU-15 , much of this would have been construction but the CSO categorises construction investment in 2008 and 2009 as '*confidential*'. Given the 2010 figures, investment ex construction in 2008 could be very low.
- Irish capital is drawn towards the low-waged, low value-added sectors – hospitality and distributive - both in 2008 and after four years of recession.
- Indeed, investment in the hospitality sector exceeded investment in manufacturing in 2008.

Hospitality and Distributive Investment as a % of Total Indigenous Investment: 2008 and 2012		
EU-15	14.9	15.4
NCEE	13.2	14.3
Other SOE	11.6	11.9
Ireland	***24.8***	***20.6***

3. Gross Operating Surplus

Gross Operating Surplus per Employee: 2008 and 2012 (€ 000)		
	2008	**2010**
EU-15	19.7	17.4
NCEE	21.2	18.2
Other SOE	21.9	23.5
Ireland	***13.5***	***16.2***

- Ireland is an average to low-gross operating surplus economy.
- Though it recovered from 2008 lows, it still remains below EU-15 levels and considerably behind our peer group.
- This is not surprising given that so much employment is located in low-value added sectors.

4. Wages in the Indigenous Sector

- It has been stated that employee compensation in the indigenous market economy takes up a higher proportion of value-added than in other EU countries. This is true, though account should be taken of the business cycle.
- On this basis, it has been claimed that Irish wages are higher than other European countries. This is not true.
- The question of the labour share of gross value-added may be asking other, more fundamental questions.

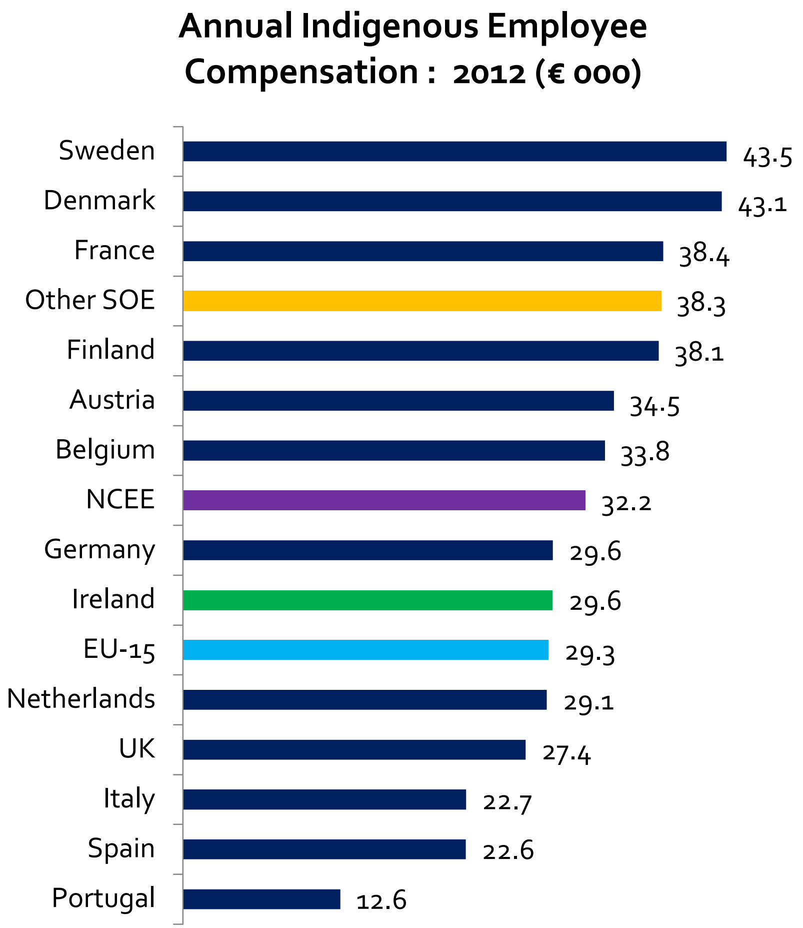
Employee Compensation as a % of Gross Value Added: 2008 and 2012

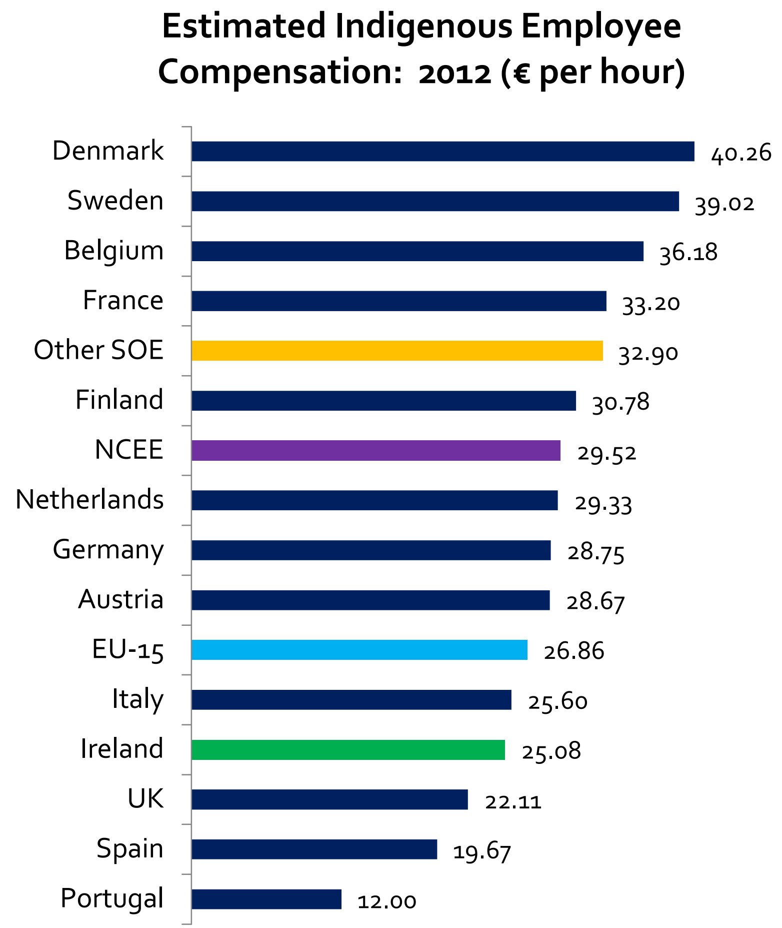
	2008	**2012**
EU-15	58.6	62.5
NCEE	59.6	63.6
Other SOE	60.3	61.9
Ireland	***71.9***	***64.6***

Hourly Compensation in the Market Economy

- Isolating the level of wages in the indigenous sector is difficult. Eurostat publishes personnel costs on an annual basis, includes 'unpaid persons' in 'number of persons employed' and does not provide working hours to determine hourly employee compensation
- We know that in the overall market economy, Irish compensation in 2012 was below the EU-15 average (-4%), the NCEE average (-16%) and the Other SOE (23%).
- The following should be treated as provisional at this stage. It applies the ratio of annual indigenous personnel costs to overall personnel costs to hourly compensation as provided by the European Labour Force Survey.

Indigenous Sector Compensation





4. Case Study: Food Sector

Gross Value Added per Employee : 2012 (€ 000)	
EU-15	42.6
NCEE	43.2
Other SOE	55.4
Ireland	***60.3***

- The food sector is the largest in the total manufacturing sector comprising nearly 40 percent of all employed.
- This sector would seem to be reasonably productive – as measured by GVA per employee.
- Despite relatively high productivity, wages are average.

Average-Waged Sector

Estimated Employee Compensation : 2012 (€ per hour)	
EU-15	21.5
NCEE	23.60
Other SOE	26.6
Ireland	***22.0***

Employee Compensation as a % of Gross Value Added: 2012	
EU-15	66.1
NCEE	68.7
Other SOE	66.3
Ireland	***58.0***

Irish wages are average – but well below our peer group average. As a proportion of GVA, wages fall below the other averages.

Investment & Gross Operating Surplus

Gross Operating Surplus per Employee: 2012 (€ 000)	
EU-15	15.7
NCEE	14.3
Other SOE	20.3
Ireland	***25.7***

Investment as a % of Gross Operating Surplus : 2012	
EU-15	47.6
NCEE	48.0
Other SOE	57.8
Ireland	***33.3***

Gross operating surplus is well above the other averages while investment is significantly lower.

5. Case Study: Information & Communication

Employee Compensation as a % of Gross Value-Added: 2012	
EU-15	56.7
NCEE	58.1
Other SOE	64.2
Ireland	***80.0***

- In the I & C sector, we find that wages make up 80% of gross value-added, well in excess of European averages and the highest in the EU-15.
- It is this type of measurement that leads some to conclude that wages in the indigenous sector are high.
- But is this asking the right question?

Productivity and Wages: I & C Sector

Estimated Employee Compensation : 2012 (€ per hour)	
EU-15	31.4
NCEE	37.3
Other SOE	42.5
Ireland	***34.3***

Gross Value Added per Employee: 2012 (€ 000)	
EU-15	80.4
NCEE	82.2
Other SOE	82.1
Ireland	***58.5***

Wages per hour, while above the EU-15 average are well below other averages; in particular, Other SOE. GVA per employee is substantially below other averages which raises questions about enterprise efficiency and/or location of firms in the sub-sectors (there are 11 sub-sectors but CSO categorises these as '*confidential*'.)

6. Two Particular Challenges

- There are a number of challenges facing the indigenous enterprise sector: peripheral location, firm size, access to capital, entry costs to export markets, etc.
- This is in addition to exiting from the recession but carrying legacy issues such as property-related debt.
- Here are two, which don't get much airing:

a) Quality of Irish management

b) The low-multiplier content of service exports compared to goods exports.

a) Managerial Quality

- In a study published by **the Irish Management Institute**, it was concluded that:
- '*Management is a key factor in determining productivity . . .The standard of management in Irish manufacturing firms is not only poor but is losing ground globally.'*
- Problems revolve around managerial inability to diagnose weaknesses and lack of evidence-based decision-making.
- The **Management Development Council** conducted a survey of indigenous manufacturing firms. After accounting for structural factors (firm size, ownership, etc.) it found:
- '*[Ireland] has a large proportion of lowly rated firms, with 19% of firms scoring less than 2 on a management practice assessment scale from 1 to 5 . .*'
- The Council estimated that up to €2.5 billion in value-added was lost due to poor management. Given that in 2012, total manufacturing GVA was €5 billion, this constitutes a considerable loss

a) Managerial Quality

- **Enterprise Ireland** conducted a comprehensive and detailed survey of the Print and Publishing sector – a 200 page report that should be a template for audits on other indigenous sectors. It identified:

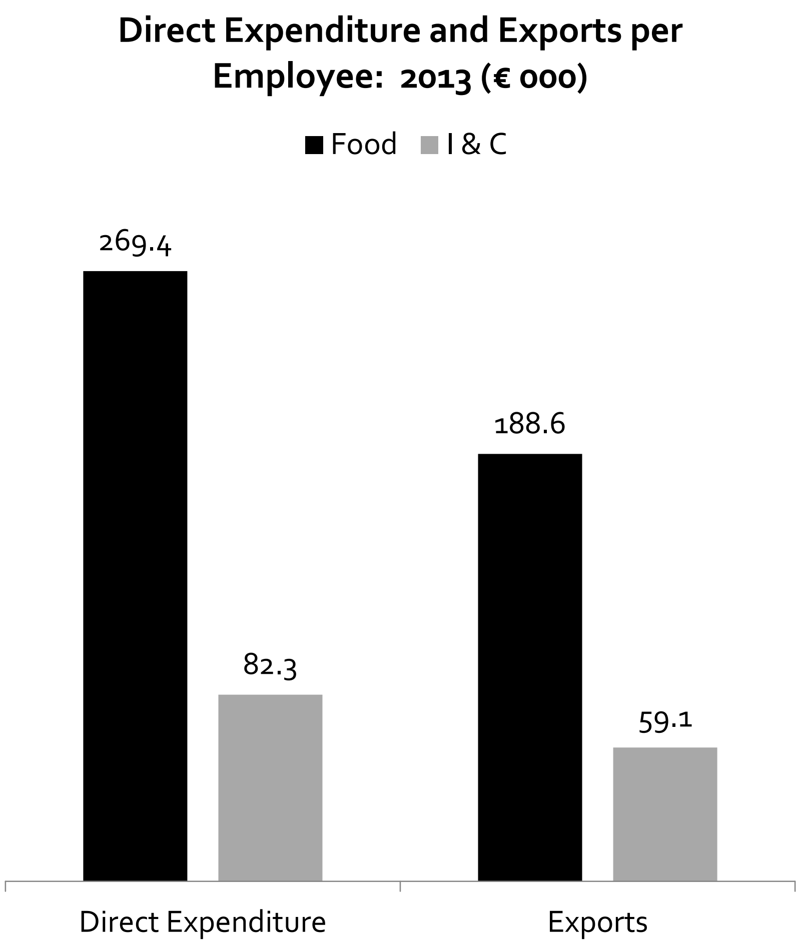
- ' *. . . significant deficiencies in key management and technical skills; a traditional management culture . . .* '

- 2. **Enterprise Ireland and the Expert Group on Future Skill Needs** published a survey on SME managerial skills and found that in a range of categories (training, marketing, supply chain, IT, R&D, human resources, new products, planning, project management, innovation) managerial quality was either '*inadequate*' or '*poor*'.

- The only category that rates '*good to excellent*' was 'crisis management'. One interviewee dryly attributed this to considerable experience with this state of affairs.

b) Multiplier Effects

- There has been a substantial shift towards service exports. Some have suggested our future lies in services, given the challenges of a late-comer SOE in developing capital-dense export-facing manufacturing.
- If this is the case, then we should be aware that service activity has much lower multipliers than manufacturing.
- I & C direct expenditure (purchase of domestic materials and services) and exports per employee is a third of that in the food sector.



Preliminary Comments

- Early days in this mapping exercise but some things are emerging: Irish employment and investment are disproportionately found in low-waged, low value-added sectors. This inevitably impacts on wages and living standards.
- Low levels of profits undermine the ability to re-invest (the welfare function of gross operating surplus) but we may be seeing high levels of GOS without investment, suggesting potential parasitical social activity.
- Without a strong grounding in manufacturing we may be entering into a low multiplier future where more people at work are producing less socially beneficial outcomes.
- This is tentative. A more complete map may tell other stories. But if the early returns are anything to go by, business in Ireland is too important to be left to Irish business.
- Cartographical contributions more than welcome.