

**Total innovation -  
Towards a localised, comprehensive EU innovation policy**

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**ABSTRACT**

*This paper argues that EU policy makers must draw together market, social and public innovation, often already supported at the local level, if contemporary and future challenges are to be successfully addressed. Innovation has increased in importance for European policy making over many years, particularly as the post-recession search for economic growth gathers pace. Yet until now the focus has emphasised market actors and economic outcomes, ignoring the potential of social and public innovation. A new bottom-up approach based on a comprehensive understanding of innovation will have local authorities at its core, due to the existing excellence displayed at this level in supporting and delivering innovation today.*

**Key words:** Innovation, public innovation, social innovation, EU innovation policy, economic growth, local government.

**Introduction**

The European Union faces challenges so large and intertwined that successfully tackling them requires dynamic new ways of working. The global recession and its growing after effects have scarred the financial, economic and social fabric of the EU. Climate change, demographic change and globalisation remain strategic challenges, although capacity to tackle them may be reduced as Europe enters a period of economic restraint. With less available public resource, volatile financial markets and difficult economic conditions, ‘business as usual’ is not enough.

New ideas will be needed to combine economic recovery and growth with tackling wider social and environmental problems. Indeed Member States have recognised that “innovation will be the key to some of the biggest challenges facing our society, like global warming and sustainable development” (DIUS, 2008, p4). Success may be achieved not by narrowly focusing on set ‘innovation’ objectives, but instead by supporting actors and organisations that are best able to adapt and respond to external challenges (Kay, 2010).

There is a large body of EU innovation policy to build on, with the topic increasing in prominence over recent years. President Barroso’s Political Guidelines for the Next Commission emphasised the importance of “boosting research, development and innovation” (Barroso, 2009, p3). Subsequent EU innovation policy appeared to build on this, by broadening the conception of innovation to include a more social dimension, through both the Innovation Union Flagship Initiative (European Commission, 2010), and the Social Innovation Europe Initiative<sup>1</sup>, the EU’s. Yet the EU’s conception of innovation fails to take account of the true breadth of innovative activities and processes that can contribute to societal progress. The aim of boosting economic competitiveness has led to a focus on

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<sup>1</sup> [http://ec.europa.eu/enterprise/policies/innovation/policy/social-innovation/social-innovation\\_en.htm](http://ec.europa.eu/enterprise/policies/innovation/policy/social-innovation/social-innovation_en.htm)

technology, R&D and economic gains that still threatens to neglect wider, 'softer' elements of innovation despite growing rhetoric around 'social' dimensions.

This paper argues that social and public innovation must be seen as true central pillars of future EU innovation policy, alongside more traditional market innovation. Such a 'total innovation' policy would be well placed to support and exploit the activities of actors across all sectors, allowing social, environmental and economic challenges to be effectively addressed. Given that these actors are most commonly found in towns and cities, where administrations both support innovation and innovate themselves, a more localised innovation policy is needed. Top-down policy frameworks should be replaced by an approach that acknowledges and explicitly supports the variety of local actions that underpin all aspects of innovation.

### **Strategic challenges facing the EU**

'Regions 2020 – An Assessment of Future Challenges for EU Regions' (European Commission, 2008) showed that globalisation, climate change, demographic change and energy would be the key strategic challenges facing the EU in the next 10-15 years. Now these are complemented and augmented by the effects of the deepest recession for a generation.

Emerging from this recession into growth will not simply require providing business support to stimulate widespread growth. Businesses of all sizes have disappeared in recent years, unemployment has risen, various industrial sectors have suffered (Eurocities, 2010) and the future is uncertain for organisations in both the public and private sectors. In averting economic disaster EU Member States have become burdened with structural debts unknown in the modern era. By the end of 2009 France and Germany were estimated to have government debt above 75% of GDP, with the UK close behind at 68% (CIA, 2010). If deficit reductions are to follow a period of large scale Keynesian spending, a smart local strategy is needed secure robust recovery and prosperity.

In 2008 the Commission discussed globalisation using relatively simple terms without recognising the "differing aspects that underlay globalisation" (Drejer et al, 2008, p6). It is "not a single, unified phenomenon, but a syndrome of processes and activities" (Mittelman, 1997, p4). We can talk of globalised production, technology, governance and communications (Strange, 1998) as underpinning economic, social and environmental challenges and opportunities facing the EU today. The globalisation of technology in particular has played "a decisive role in facilitating" (Castells, 2000, p368) changes to our world including the globalisation of production, the opening of financial markets and related changes in forms of work, human movement and financial flows. ICT for example, accounts for only 5% of EU GDP yet has facilitated between 25-50% of overall productivity growth across the European economy in recent years (Commission, 2010b). The recession has reinforced the need for clear mechanisms that if not manage, then shape the increasingly open economic and social arena facing the EU (Harvey, 1989, p125).

Given that "observational evidence from all continents and most oceans shows that many natural systems are being affected by regional climate changes, particularly temperature increases" (IPCC, 2007, p31), climate change must also be addressed. Although 1% of global GDP per annum must be invested to avoid the worst effects of climate change, failure to do so could risk global GDP being up to twenty percent lower than it otherwise might be (Stern,

2006). In other words spending money on green solutions now, saves money later. At a time when resources are limited however, there has been a temptation to value short term gain over larger, longer term benefits and the recession has seen funding move to 'non-green' investments (UNEP, 2009, p24) such as large-scale support for the automotive industry and cuts in renewable energy support.

In 2008 the Commission also emphasised that “demographic change will transform the age and employment structure of our societies, raising important issues of both economic efficiency and intergenerational Equity” (European Commission, 2008, p4) The EU as a whole, and most individual Member States are facing an ageing population, with potentially “48 million fewer 15-64 year olds and 58 million more people over 65” (European Commission, 2008, p8) by 2050. In addition, populations are expected to shrink due to decreased fertility rates, and migratory flows. The consequences of these changes are multiple - pension deficits, challenges to health and social care, and inclusion and cohesion issues that must be addressed across the EU as a whole. The combined effect of these interrelated challenges is that a wide range of products and services, in addition to the fabric of our society must be adapted if we are to live comfortably.

### **EU innovation policy I – too narrowly focused**

Many sectoral EU policies implicitly or in rare cases explicitly support innovation, for example, through moves to adapt to climate change, or to promote new forms of urban transport. Innovation-specific policy has historically sat largely apart from these, setting top-down direction for a particular type of innovation in the EU. Contemporary EU innovation policy can be traced to the Lisbon Strategy, first launched in 2000. Throughout its various forms, the Lisbon Strategy broadly aimed at boosting job numbers and the level of GDP in the EU. This would put in place “better policies for the information society and R&D, as well as step up the process of structural reform for competitiveness and innovation” (European Council, 2000, p2).

The strategy and its predecessors in sectoral policy areas, such as the Bangemann Report (Bangemann, 1994) took inspiration from the US and saw innovation as the key to unlocking Europe’s economic potential. It took an economic-centric perspective that saw GDP and employment as the key indicators of prosperity, with R&D central to driving innovation. There was an unfortunate failure to understand that “support for innovation is not the same as support for R&D” (Kay, 2009, p1), or to recognise the importance of addressing wider issues and challenges such as climate change in new and dynamic ways. One of its outcomes, the Innovation Scoreboard, has subsequently emphasised indicators such as productivity increases, patents, and employment levels. Essentially innovation was seen as an objective rather than tool.

By 2002 the Spring Council reinforced the link between innovation, economic growth and research by setting the goal of raising overall research investment in the EU to around 3% by 2010 (European Council, 2002, p20). When it was noted that R&D targets were not being met, the response remained focused on market based, economic focused measures. For example, the 2005 action plan for research and the innovation policy (European Commission, 2005) retained a focus on universities, research institutes, GDP and business. Similarly the 2006 Aho report emphasised science-industry relations and business markets, but failed to extend to include non-market innovation or to discuss innovation in relation to societal challenges.

The wording of the 2006 broad based innovation strategy for the EU strategy appeared to mark a departure from previous economic-centric documents, arguing that “all forms of innovation need to be promoted, for innovation comes in many forms other than technological innovation, including organisational innovation and innovation in services” (European Commission, 2006, p4). Yet despite new language being used, innovation was again discussed in economic, market terms aimed at GDP growth.

There have been several key shifts in the European innovation landscape since 2007. The EU policy approach has emphasised demand-side measures that impact on innovation, without necessarily being entitled innovation policy. For example, the Small Business Act (SBA) was adopted in 2008, providing the first step toward a European wide SME policy framework. Recently, the European Investment Bank (EIB) and several EU funding programmes have focused on new financial engineering techniques. Yet, as noted by the earlier Aho Report, there has been a dramatic decline in venture capital investment and key innovation drivers at a local and regional level have largely been neglected in EU policy.

To address this, a working paper that informed the Barca report introduced changes to the Triple Helix Model of innovation, particularly highlighting the fact that intermediaries such as chambers of commerce and technology transfer offices are critical to the innovation process (Seravalli, 2009). Such a declaration served at the very least to challenge orthodox thinking in EU innovation policy, and its reliance on a narrow set of actors, processes and objectives.

Yet over the last decade the Commission appeared reluctant to alter its approach towards a broader vision of innovation. This is despite growing consensus that innovation involved more than EU policies and strategies discussed. Such a position was summed up in calls from the Business Panel on Future Innovation Policy. Comprising independent experts and business leaders, the panel released a final report that argued for EU policy to broaden its conception of innovation to focus on social and public innovation (Business Panel, 2009, p3). This reinforced earlier arguments made by Paul Krugman who criticised the EU’s focus on international competitiveness, asserting that strong domestic conditions, not global markets and innovation, were the real drivers of improved living standards (Krugman, 1994).

## **EU innovation policy II – failure to change**

Perhaps as a result of external criticism, the Commission appeared to alter its approach to innovation policy in 2009. At this point the potential for innovation to be used as a cross cutting method to tackle widespread challenges came to the fore. Following a series of thematic Commission Working Documents, a 2009 Communication reviewed Community innovation policy. It opened not by arguing for targets or new legislation, but with an explicit statement that “Innovation cannot be organised by decree. It comes from people, and only people” (European Commission, 2009, p3). Even more crucially, the Commission argued that:

*“Innovation is the precondition for the creation of a knowledge-based, low-carbon economy. Mastering this transformation is crucial to remain competitive in the globalised world and to achieve wider societal goals in a sustainable way under the pressure of demographic changes, the climate challenge, scarce resources and new security threats.” (ibid. p3)*

This addition of addressing societal challenges to an existing focus on competitiveness highlighted that innovation is neither an explicitly economic process, nor indeed an objective itself. It is instead a way of working that can be used to achieve social, economic and environmental goals. However, the Commission simply replaced economic determinism with technological determinism. When discussing societal challenges such as climate change or demographic change, it was with reference to new and innovative technologies, as opposed to broader investigation of new ideas and ways of working. Similarly, when outlining a growing role for the public sector in innovation due to the impact of decreased budgets, it was the public sector's ability to work with or bring in new technologies that was emphasised (European Commission, 2009). Main actions included tackling a backlog in R&D indicators, this time creating a European Institute of Innovation and Technology (EIT) that now funds large-scale research partnerships, as well as moves to implement large-scale public Private Partnerships under the Seventh Framework Programme (FP7).

Such 'flattering to deceive' continued in President Barroso's Political Guidelines for the Next Commission. Critically it acknowledged that "innovation is not just about product development: it is about how our society changes and improves" (Barroso, 2009, p29). Yet referring to "bring together the power of public procurement, a new strategy on intellectual property rights and Community funds and instruments to promote innovation" (Barroso, 2009, p26) served to emphasise improvement and change through economics above all else.

Europe 2020 is the latest strategic document focusing on innovation. Developed in the aftermath of the recession this document emphasises securing economic prosperity and competitiveness, and discusses innovation in those terms (European Commission, 2010). Yet the associated Innovation Union initiative highlights the way in which the effective tackling of strategic challenges such as climate change, health and demographic change should be the objective of innovation policy, as opposed to simply pursuing innovation as a goal in itself (European Commission, 2010c). Europe 2020 provides a potential springboard to a broader, more holistic innovation policy across the EU better suited to the strategic challenges explored above.

Commissioner Geoghegan-Quinn, Europe's first innovation Commissioner is tasked with overseeing the next stage in the EU's innovation policy. She herself has challenged the Commission's past work, stating that what is to come will be "fundamentally different" (Euractiv, 2010) to past policy, arguing for a more holistic, cross cutting policy. Unfortunately, the focus on social enterprise in recent discussions of social innovation (European Commission, 2011) implies an economic standpoint that means much remains to be done if perceptions and interventions can evolve.

## **Total innovation**

Pursuing a new approach to innovation policy requires a much more complete understanding of innovation itself. The term innovation is most often used to refer to the process of producing and putting in place something new, be it a product or process. In most discussions, innovation is seen as a single thing, process or concept, often scientific, technical and/or R&D focused with scientific or economic objectives. In truth an innovation can be almost anything – for example new ways of communicating such as blogs, new forms of government such as neighbourhood forums, or new products such as the ipad.

By remaining focused on new products and technologies as key outcomes of innovation, EU

innovation policy has failed to capture the significant and widespread social, economic and environmental impacts of less tangible innovations such as organisational changes. It has also contributed to confusion. Technology for example, is both an outcome of innovation and a way of achieving innovation. This has been acknowledged in annual studies such as the European Commission's Digital Competitiveness Report (Commission, 2010b), yet policy has still to adequately explore this. In reality the end product of social, market or public innovation may be a new technology or process, and on the other hand, technology can be used to achieve outcomes in social, market or public innovation.

EU innovation policy should not fixate on a particular type of outcome such as technology or patents. It should instead be based on a clear objective to support actions of all types that will lead to innovative ways of addressing both existing problems such as energy efficiency in local housing and future unknown societal needs.

*Market innovation* is the first of three innovation types that should form the pillars of EU policy. This refers to the development of products and services to improve economic performance – be it productivity, profit, employment or GDP growth. This is the main focus of the EU's current innovation policy and is seen as particularly important to move the economy from recession to recovery, focusing on the need to improve EU global competitiveness. Rarely developed in the public or third sector, it is the private and research sectors that are dominant.

There is little doubt that such traditional, market-oriented innovation will be an important basis for responses to strategic challenges. The development of products in the private and research sectors will inevitably have substantial impacts on our wider society. Yet market innovation with its emphasis on profit maximisation fails to take advantage of the potential for innovation held across society.

*Social innovation* is therefore a vital complement to market innovation. Put simply, social innovation refers to “new ideas, institutions or ways of working that aim to fulfil unmet social needs or tackle social problems” (Young Foundation/NESTA, 2007, p6). Whereas market innovation relies on research institutes, universities and private enterprise, social innovation is “predominantly developed and diffused through organisations whose primary purposes are social” (Mulgan et al, 2008, p8). By developing an innovation policy based on social innovation, the EU would be in a position to take advantage of the skills, knowledge and insight held by numerous community, voluntary, charitable and social organisations.

Such organisations currently operate in innumerable settings, developing innovative ideas and ways of working based on real societal need, as oppose to top-down policy drivers. Historic outcomes include the Big Issue magazine, developed in the UK to provide a self-help based income to the homeless, or the alternative coffee trading enterprise Cafédirect. On first analysis the link between social and market innovation seems process rather than outcome based – both rely on new ideas working successfully, but for apparently very different outcomes. Yet social innovations can have numerous impacts similar to those of market innovation. For example, initiatives that improve health can lead to a reduced drain on public resource as healthcare costs reduce, and increased labour market inclusion and ultimately wider prosperity as worklessness reduces.

This link between social and economic is illustrated in the social enterprise. These are “not-for-profit private organisations providing goods or services directly related to their explicit

aim to benefit the community” (Deffourney and Nyssens eds, 2008, p5). They are not charities, but are rather social businesses, fulfilling a societal need in a manner that relies on all the hallmarks of private enterprise but with profits recycled. Definition and support schemes vary however. In Finland for example, a social enterprise has been defined slightly differently – as any sort of enterprise that is entered on the relevant register and at least 30% of whose employees are disabled or long-term unemployed<sup>i</sup>. Future EU policy could provide clarity on definition across the EU, and better support these agents of innovation through practical measures such as allowing recipients of EU funding to make and recycle profits if a social enterprise model was adopted<sup>ii</sup>.

The third pillar of a total innovation policy is *public innovation* - “new ideas that work at creating public value” (Mulgan, 2007, p6). The public sector comprises large organisations with substantial human, physical and economic resource and is key in this element of innovation. Cities, regions and other forms of government or public sector organisation are constantly innovating in order that they can provide better services, achieve targets across all policy areas, tackle challenges and take advantage of opportunities in areas as diverse as child poverty and climate change adaptation. Relatively bureaucratic drivers such as the need for greater public sector efficiency and cost effectiveness post-recession simply add to the drivers for public innovation.

A key challenge to effective public innovation is the dichotomy between short-term targets and long-term objectives, as organisations with short-term horizons may be reluctant to embrace change or risk. Other hurdles include organisational cultures that shun innovation, or lack of experience in learning from outside organisations (Mulgan, 2007). If the key challenges facing the EU are to be addressed, such obstacles must be negotiated, as “innovation is as important to the delivery of healthcare and education as it is to industries such as manufacturing, retail and the creative economy” (DIUS, 2008, p4). Given that public innovation is often “driven primarily by the need to improve poor performing public services in response to changing social needs” (Young Foundation/NESTA, 2007, p8), the pressures exerted by the recession and socio-economic challenges mean that public innovation will be vital. The EU can play an important role in facilitating this by encouraging partnership working across sectors, facilitating networking, changing public sector cultures and of course providing resource.

### **Localising innovation policy**

Given the broad nature of total innovation, policy should not be based on a top-down approach. Indeed given that local and regional levels deliver around 70% of all European policy, a bottom-up approach seems logical (CoR, 2009, p3). Policy should be built from the local level, taking advantage of local expertise and experience. It is after all at the local level that the actors involved in social, public and market innovations operate, and where the strategic challenges in need of innovative responses are most keenly felt. At the same time, regional and local governments deliver a majority of public services across the EU and manage considerable public spending (Jackson, 2010, p2; Commission, 2004, p7).

Towns, cities and regions are home to and have close relationships with almost all actors or stakeholders relevant to innovation. These include SMEs, entrepreneurs, research institutes, universities, social enterprises and community and voluntary organisations. Indeed, as far back as 1969 the importance of diversified metropolitan areas in supporting innovation was highlighted (Jacobs, 1969). It is also at the local level that we not only find such a wide



variety of organisations and actors, but where the fabric and everyday life allows synergies to be created across divisions and sectors, ultimately leading to an innovative environment (Landry, 2006. Florida, 2005).

Local authorities are vital beyond their role as home of innovators. Administrations are constantly supporting and indeed undertaking innovation in a range of issue areas. They use cross-cutting processes and tools to support or promote innovation, and are vital in underpinning successful local innovation strategies. Such success is based not on top-down policy, but the relationships between a locality's assets including location, infrastructure, skills base, and institutions, for example, universities, NGOs, government and businesses. It is possible to highlight a series of core areas in which local administrations undertake activities to support and drive forward innovation.

### **Local authorities as service providers**

First, administrations perform a critical role as service provider to millions of residents, businesses and organisations across the EU. Indeed they provide services in the most direct manner to underpin the work of all actors involved in innovation.

By providing support, advice and training to SMEs and other businesses, local administrations and their partners contribute to private sector stability and capacity, in turn boosting the potential for economic prosperity and growth. This is reflected in the provision of lifelong learning and training to residents and employees. Knowledge is of course vital to the modern economy in Europe, and without local public sector support, large numbers of workers would have no access to the skills needed to participate in the knowledge economy.

#### *Amsterdam - Supporting start up companies*

*The city of Amsterdam is a structural partner of the Suikeroom Foundation, a fund for ethnic start-up companies financed by established companies. The fund was created in 2006, based on the observation that ethnic minority entrepreneurs often lack the connections and networks needed to successfully start a business. Entrepreneurs receive guidance for building a solid business plan and after selection they are introduced to investors.*

*The foundation acts as an investment fund, so investors earn profit when the business is successful, and the entrepreneur remains the majority shareholder. Ethnic minority entrepreneurs are considered as potential profit-making and equal partners from the outset, and not as a target group for charitable donations. The initiative has had success in building businesses in 'new economies' such as ICT and creative industries, with the model highlighting the importance of localised, tailored support services.*

Less overtly economic services include delivering housing support to large numbers of residents. A social aspect of the administration's activity, this ultimately contributes to widening participation in the economy, with stable housing situations allowing individuals to confidently seek both employment and training. When employment is absent, it is often the

local authority that steps in to provide not only financial assistance, but also valuable advice on gaining a new job, or on options for retraining and switching careers. By doing so, they are often help avoid cases of long term, structural unemployment that undermines the transformative potential of local, regional and national economies.

*Berlin – employment assistance to disadvantaged groups*

*Kumulus-Plus creates new services for immigrants and ethnic minorities in Berlin, with an emphasis on boosting general employability for disadvantaged groups. 11 partner organisations have linked their activities that were previously separated across the public, social and private economies in a model that challenges the compartmentalisation of services. Sub projects cover a range of themes such as:*

- *assessing worker skills, competences and potential.;*
- *training vocational counsellors;*
- *and unlocking job opportunities through support to SMES and entrepreneurs.*

*The project has succeeded in bringing new groups into the wider economy, boosting the capacity of with annual figures showing over 2500 regularly access the service, with around 800 receiving training or assessment, and hundreds finding permanent employment.*

Administrations are also adapting the way their traditional services are accessed, by pioneering e-government systems. The very best examples not only provide cases of public sector innovation, but also present opportunities for greater interaction with citizens, businesses and other government bodies, potentially informing policy and promoting citizen involvement in service design and delivery

*Stockholm - Municipal e-services*

*The City of Stockholm's e-services program provides residents access to city services. The portal is the city's primary channel for providing information and services to residents. Residents can also blog on the website and suggest e-services for the city to consider offering in the future. Overall goals for the programme include:*

- *widespread use of standardised internet forms for services;*
- *reductions in manual information handling in favour of automation;*
- *and improvements in the 'searchability' of city information.*

*There are now 37 different ongoing e-service projects. The current focus is on e-service management of comments and complaints about city operations (i.e. elderly care, parking, health) and the City of Stockholm continues to involve the users in the development of its e-*

*services. The result has been a dramatic increase in the instances of residents accessing city information, with a corresponding rise in public interaction and dialogue with service providers and decision makers as awareness increases.*

### **Local authorities facilitating innovation**

An important factor underpinning the success of local administrations in supporting innovation is that they are in a unique position to act in the best interest of a locality and its stakeholders, as opposed to favouring particular sections or elements. Administrations work across sectoral divisions, gathering and interpreting intelligence and data, appreciating the number and variety of organisations and actors operating in the area at a given time. The result is that they are uniquely positioned to intervene to facilitate innovation.

A natural consequence of such impartiality is the ability to convene and lead partnerships. Indeed this is central to the local remit, as they have the representative authority, legitimacy and strategic overview necessary to bring together partners from across sectors to work together towards common goals. The impact on innovation has the potential to be large, given the need for interaction between stakeholders for truly effective innovation to take place.

#### *Social Enterprise in Liverpool*

*The City Council has been supporting social and community businesses since 1994, with key initiatives including:*

- *the Liverpool School for Social Entrepreneurs which offers year-long action learning for aspiring social and ethical entrepreneurs;*
- *the Liverpool Academy of Sustainable Enterprises which offers focussed business support and capacity-building;;*
- *the Liverpool Sefton Social Investment Bond, a £3m-£5m loan fund for social enterprises;*
- *and a Social Enterprise Development Service offering business advice and grants to new and existing social enterprises .*

*As a result of these and other interventions at the local level, Liverpool now has more than 250 social businesses with a combined turnover in excess of €60m.*

Highly tangible facilitation tasks undertaken by local administrations involve providing financial resource to stakeholders involved in innovation. There are examples, particularly in France through the pôles de compétitivité, where towns and cities have provided substantial grants or in some cases loans to a variety of actors involved in all aspects of innovation. Whether it is used to finance R&D activities or the training of social entrepreneurs, such financial assistance is of great value to those seeking to work innovatively. Similarly, local authorities may manage both general and specialised funding and grants from a variety of sources other than their own budgets, distributing them to organisations across all sectors, supporting vital actions and interventions.

### *Manchester Innovation Investment Fund*

*New Economy manages the Manchester Innovation Investment Fund, a £7m strategic partnership between the Northwest Regional Development Agency (NWDA), National Endowment for Science, Technology and the Arts (NESTA) and Manchester City Council. The objective of the fund is to raise Manchester's capacity for innovation by investing in a number of projects proposed by institutions, groups, firms and individuals. Projects are required to provide around 30% match funding and the lessons from the fund are being fed into innovation policy development in the UK.*

*Projects include Creative Credits, a pilot scheme aimed at demonstrating how the innovation capacity of SMEs in businesses outside the creative industries may be improved by stimulating B2B knowledge transfer from the creative industries.*

Due to their position as service and infrastructure providers, local level administrations are uniquely able to lead on or put in place pilot projects to test new ideas and solutions across all thematic areas. It is towns and cities therefore that are prepared to not only provide support for innovators, but also put end products into practice. This can be done on variable scales at the local level, none of which can be achieved through top-down EU policy or interventions alone.

### *Málaga - Smartcity project*

*Málaga's SmartCity project involves developing a large-scale distributed energy network, with the administration and its partners using ICT not only to run and manage a smart energy grid, but also as a means of facilitating and enabling innovative actions including:*

- *individual carbon footprint measurement;*
- *internet-based home energy management;*
- *and smart distributed energy generation and storage.*

*The local authority led project covers around 12,000 residents and delivers 63MW of energy per year. It is expected to reduce carbon emissions by 20% in the project area.*

## **Local authorities, governance and infrastructure**

In the widest sense, local administrations put in place the framework within which innovation takes place. They develop and implement public policy for the common good, in turn shaping, promoting or indeed hampering innovation. For example, setting spatial planning or housing policies in a particular way can heighten the need for innovative solutions to challenges such as energy efficiency in housing. As major purchasers, administrations are also able to foster innovative approaches to challenges by setting strict procurement requirements, often acting as first markets for new products as has been the focus of past EU

innovation policy. The importance of the local and regional government role is supported by financial figures showing that in some Member States such as Germany, the annual budget for local and regional authorities actually outstrips that of national government<sup>iii</sup>. Just as important is the capacity to adapt the internal policies and processes at play in an administration. If done correctly such change has the potential to foster improved institutional and professional learning, and enhance the capacity for public and wider innovation through new tools and processes such as data management techniques, or care services for the elderly.

#### *The Hague – Cutting red tape*

*The project 'Red Tape' sees the City of The Hague pro actively seeking out and reducing bureaucracy that affects entrepreneurs and residents in the city. Senior officials are currently developing a work package that includes 478 proposals that will ultimately reduce red tape for entrepreneurs by around 40% and for residents by around 20%.*

*The initiative recognises that easy access to services is vital not only for economic growth, but also for residents seeking to improve their lives. A variety of approaches such as reducing the number and complexity of regulations, and increasing the use of technologies such as the internet underpin this highly transferable example of public innovation.*

Linked to the role of policy maker is that of developing and maintaining the physical infrastructure in which innovation actors undertake their day to day business. Whilst many physical developments are privately owned, the underlying infrastructure is most often public owned and maintained. Each administration is therefore affecting the overall innovative capacity of the area as a whole with each decision relating to transport or ICT policy.

#### *Broadband in Eindhoven*

*In 2003 Eindhoven stated its ambition to develop a fibre optic NGN network for all companies, residents and organisations in the city by 2011. Different areas of the city have been systematically surveyed on whether they wish to be linked to the network, and in areas where 40% or more say yes, the network is put in place. By late 2009 around 100,000 households and over 450 businesses and institutes were covered, with further work being done on connecting all schools and identifying business needs.*

*The objective is to encourage the use of the network for thematic work such as health, social inclusion and education. Ultimately, investments will be integrated in one overall network, with linked services from all kinds of organisation.*

Authorities also own substantial numbers of properties, in numerous forms. The result is a base of physical infrastructure that can be adapted easily, developed quickly or have its use changed when appropriate. Local administrations are able to provide premises for all stakeholders from entrepreneurs to charitable organisations engaged in innovation, with incubators and low rent properties being popular products.

*Business accommodation in Gateshead*

*Graduates in Gateshead (GIG) supports graduate enterprise and spin-off activities in Gateshead through the provision of 12 months rent-free business accommodation in Greensfield and Team Valley business centres, offering associated guidance, access to mentoring and links to the business support network.*

*The council continues to work with Newcastle and Northumbria universities to deliver the 'Graduates in Gateshead' initiative, providing business accommodation to graduate enterprises and university spin-offs in council business centres. To date the scheme has assisted 14 businesses, creating 30 jobs. Six businesses are currently benefiting from the initiative and five have gone on to occupy space commercially within Gateshead.*

### **Conclusion – towards EU total innovation policy**

Given the broad social, economic and environmental issues facing the EU today, an EU innovation policy must not simply be economic, market or technology focused. It must reflect the way in which innovation is a process to achieve the core objectives of the EU, rather than seeing innovation as an end goal in itself. It should also reflect the three main types of innovation that can lead to solutions for shared challenges – market, public and social – as well as differing methodologies including technological and non-technological. In doing so the EU policy could frame a coherent set of enabling measures not simply for Universities or business. This would allow for a much better integration of central and sectoral policies, leading to increased clarity and outcomes.

In order to best facilitate effective innovation, European policy and associated action plans should explicitly recognise and promote the role of the local level in all aspects of innovation. Local authority involvement in policy planning and implementation at the national and EU levels will ensure that strategic policy frameworks are based on collective knowledge of real problems and opportunities. Such a bottom-up approach would also lead to the needs and wishes of locally-based innovation actors being better accounted for in policy. Beyond these fundamental changes in approach, there are specific actions that can be put in place at the European level to improve the efficacy of existing policies and associated funding programmes.

Local administrations and the multi-sectoral stakeholders involved in innovation could be given 'space to innovate'. This would be a time limited exemption from certain statutory obligations that may be argued to inhibit innovation. Amendments could therefore be made to State Aid, Structural Funds and other EU framework regulations to remove bureaucratic barriers to innovative actions. Examples may include allowing a greater integration of EU funds at the level of implementation, or removing certain areas of intervention from State Aid rules. The result would be easier implementation of projects such as fast broadband, currently inhibited by state aid rules<sup>iv</sup>, that could enable all forms of innovation in the future.

Recognising the importance of social innovation and the role of community and voluntary

organisations as well as social enterprises in it, the EU could provide greater support through a funding programme on social innovation, echoing the SME focus of the Competitiveness and Innovation Programme. Funding rules and regulations should be extremely simple for projects funded by the programme, allowing organisations with low administrative capacity to benefit. Existing bureaucratic rules that impact heavily on social organisations could also be amended. An example would be amending Article 55 of ERDF regulations to allow charities/social enterprises to ‘profit’ from ERDF-funded projects on the basis that this profit will be re-invested in the local community for regeneration/entrepreneurial type activities.

There is therefore clearly potential for a new style of innovation policy at the EU level that would act on previous Commission declarations. To put this in place will require a rejection of a long standing emphasis on economic and technological outcomes. This will present the Commission with the challenging prospect of better integrating divided sectoral policy, and embracing the local level more than ever before. The question remains therefore, whether words will be matched by deeds.

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**Dr John Dodd** received his PhD in international political economy at Newcastle University, having researched European and international labour markets. He is an experienced European policy researcher, with significant experience of policy research and development in the public sector. Focusing on EU regional and innovation policy he has held roles in the UK local government sector, and in Brussels as a policy officer representing local governments across Europe. During this time he has worked on areas as diverse as the future of Europe 2020 and EU cluster policy, to flexible labour markets and active inclusion.

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