

News release

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The power of simplicity – Streamlining the EU innovation policy *European innovation policies need to be streamlined in order to produce economic benefits*

Five major challenges

While many countries in the world make efforts to reach a sustainable growth, the need for a focused approach of innovation policies is more and more obvious in the European Union. Studies that have been carried out so far have confirmed that innovation is the main source for competitive advantage, technological change and economic growth.

A series of programs and projects has been developed within the EU community to stimulate innovation, which bring just as many implementation challenges. Ernst & Young and the renowned think tank – the Centre for European Policy Studies – have carried out a research on 680 business leaders from 15 EU member states, in order to identify these challenges and the perception on the EU innovation policy.

The Power of Simplicity study has revealed that only 27% of respondents, many of them decision makers in the private sector – presidents and executive directors are aware of efforts undertaken by the European Commission on the innovation path. 82% believe that community policies in this field are fragmented and poorly coordinated. Moreover, 69% of respondents think there is a disparity between the EU policy and the specific needs of various industry sectors.

The global competition and the imperative to keep Europe a pioneer in certain strategic fields placed under the innovation umbrella orients more and more political decision factors and business leaders towards innovators.

According to the Ernst & Young study, the EU innovation policy should be based on addressing the following five challenges:

1. The complexity of EU innovation policy

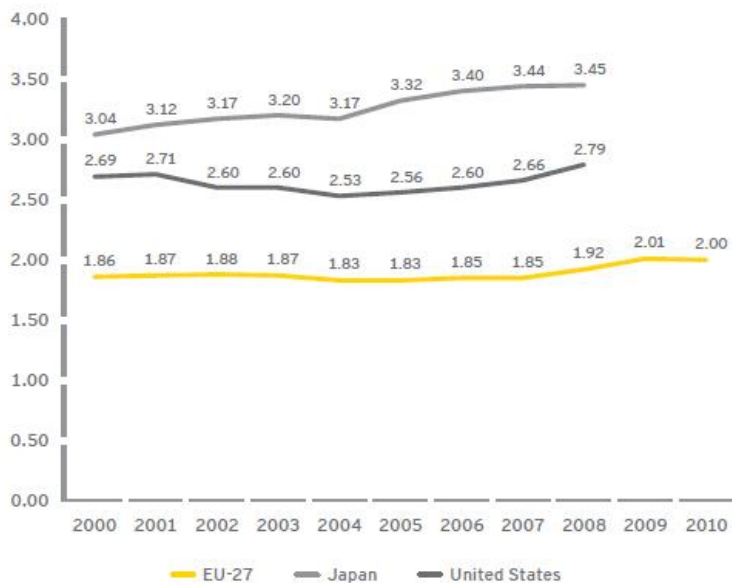
Distributed in too many programs, actions and strategies, the EU innovation policy is traced through intricate decision chains, objectives and strategies. The result is large expenditures of public money by various circumstantial decision centers, agencies and institutions. The objective of becoming innovative and competitive has led to the creation of new programs which overlapped with already existing ones. 82% of respondents to this study consider that the European funds allocation process must be simplified, while 69% believe that EU innovation policy is not sufficiently adapted to the industry sector needs. 82% of respondents think that the present policy is fragmented and needs better coordination.

2. The research & development gap (R&D)

A high concentration of public funds is registered at EU level, compared to a lower percent of private funds among the financing sources for research & development projects. In the USA, South Korea and Japan, private sector expenditures with R&D have been rising in the recent years; 69% of respondents see this innovation policy approach as more effective. The only European countries where the R&D expenditure level exceeds 2% of GDP - Sweden, Finland and Denmark – are also the top ranking countries in terms of

innovation performance. Regarding the innovation policy, 91% consider that the EU and national governments could do much more to encourage innovation creation, while 58% are in favor of a EU centralized innovation policy.

Figure 2 – R&D % spending on GDP, 2000-10



Source: Eurostat (t2020_20), OECD.

3. Sector competitiveness and the IT problematic

The reduced technologic specialization of many European companies is one of the factors causing the innovation gap, so often mentioned by the European Commission. This aspect is, by far, weakest in what the communication and information technology is concerned. Relevant in this case is the gap registered by the 27 member countries regarding the scientific specialization degree. From this point of view, Europe lags behind Japan in sectors such as electronic, audio-visual and telecommunication components, and behind the USA on medical equipment. Of those surveyed 61% say they have a dedicated innovation or R&D department within their organization and allocated 5% of their turnover on research and innovation. Ernst & Young study recorded a majority opinion (94%) of respondents on the role of education, perceived as an element of competitive advantage and support of innovation transfer.

4. Inadequate infrastructure

Building an infrastructure that address EU's present needs is a rather difficult task. Although initiatives have been launched to develop network infrastructure across member states, 73% of our survey want the EU to spend more money building a common broadband infrastructure. This requires a redirection of investment to areas such as distributed computing infrastructure systems, which would enable round-the-clock access to data and increased productivity for European researchers and would-be entrepreneurs.

5. Limited financing options

The absence of an integrated market for many of the most innovative sectors including, most notably, knowledge-intensive services, is a key issue. Financial markets are also currently disjointed and the level of regulation varies across borders, due to the differentiated approaches in the legislative area. In this context, we can observe that the lack of harmonization prevents cross-border venture capital investment and the creation of funds in areas where financing for innovation is the most needed. Therefore, the adoption of a well-

articulated regulatory system alongside with an accelerated and effective implementation of the Single Market would stimulate innovation and growth.

Three possible solutions

In this context, and based on the five challenges highlighted in this study, Ernst & Young recommends a three-tier approach to innovation in the EU:

- ▶ **Layer 1** – Governments should act as leaders and investors by creating the main building blocks of an innovative environment through the creation of a world-class infrastructure, a high-performing education system and research and innovation-friendly legal rules.
- ▶ **Layer 2** – Governments should create funding and facilitating initiatives to strengthen links between researchers, entrepreneurs and private investors with the help of public funds and tax credits.
- ▶ **Layer 3** – Governments have the key task to “nudge” existing innovation efforts toward long-term policy goals through the strategic use of public procurement and launching of a long-term number of partnerships to support innovation.

Currently, the search for a compatible solution by which EC to put in relation the competition area with the innovation is emerging as a priority. Nevertheless there is no magic formula. Creating a more effective innovation policy is definitely an ongoing process which involves a cross-EU policy-makers, business leaders, researchers and citizens. Such a combination of insights and resources creates a smarter and more streamlined innovation that will underpin the economic resurgence across EU.

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#### About the research study

In this second report on Governments and Innovation, Ernst & Young, in cooperation with the Centre for European Policy Studies have revealed a number of possible solutions for innovation policy simpler and more effective EU. The analysis is supported by a study involving 680 business leaders from 15 member states. The countries involved were Britain, Germany, Holland, France, Ireland, Belgium, Finland, Sweden, Austria, Hungary, Poland, Italy, Greece, Spain and Portugal. The interviewed business leaders are CEOs managers, presidents, and financial executives. 23% of the companies represented have an annual turnover exceeding EUR 1.5b, 44% between EUR 150m and 1.5b, and 33% under EUR 150m.

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