

Fostering Innovation in Services

Commentary on the policy recommendations included in the final report on innovation, by the Expert Group on innovation in services

Fostering Innovation in Services report presents a range of recommendations that are most useful in stimulating the debate on innovation policy and services. This consultation input will first address some broader themes before going into more detailed comments on the suggested policy measures.

General comments on the report

There are certain general themes that could benefit from further attention:

- *The report ought to recognise globalisation and opening up of the service markets as the framework conditions that bear significant influence on the successful delivery of service innovation policy, as well as wider economic policy within the EU.* Globalisation will bear influence on services on multiple levels including: industry-, business-, occupations-, and service activities levels¹. For instance, the competition often takes place at the level of tasks rather than sectors². Certain highly skilled tasks may turn out to be offshorable, while other highly skilled tasks are not. In particular, many “Information Society” jobs are prone to offshoring since those jobs are only ‘good jobs’ because they do not yet face direct international competition. The underlying theme is that the increased unpredictability should make policy makers more cautious about moving workers or skills in any particular direction. Flexibility is, as always, the key to allowing Europe to seize the opportunities of globalisation while minimizing the adjustment costs.
- *The report ought to make notice of the new European state-aid regulations³ and their influence on service innovation policy.* Member states face a steep learning curve in adopting the new state-aid regulations in the evolving service innovation policy context. Hence, it would be most important to establish an effective knowledge and good practice sharing process that would benefit the delivery of the European level service innovation policy as well as individual member states.
- *It is important to further clarify the roles that different policy actors have in the design and delivery of proposed service innovation policy measures.* In description of each policy measure, it should be made clear what is the division of labour between the European Commission and member states? Also joint and transnational activities should be clearly indicated when appropriate. *Implementation of the Services Directive offers a good example of this. Well co-ordinated national level, transnational level, and joint activities can support each other, and create favourable framework conditions for service innovation.*

¹ Service activities cut across the sectors and clusters, for instance R&D service activities. For detailed discussion see OECD (2006), Innovation and Knowledge-Intensive Service Activities.

² Baldwin, R. (2006) Globalisation: the great unbundling(s), contribution to the project; Globalisation Challenges for Europe and Finland organised by the Secretariat of the Economic Council. The project is a part of Finland's EU Presidency Programme.

³ European Commission (2006), Community Framework for State Aid for Research and Development and Innovation (2006/C 323/01), Official Journal of the European Union C 323/1. 30.12.2006, Brussels, Belgium.

Specific comments based on the proposed policy measures

Box 1 Measuring innovation in services

- *Statistics on services require further development. Co-ordinated efforts by the member states, European Commission, Eurostat and the OECD provide a key to the effective development of more accurate service statistics.*
- *Service related R&D reflects the heterogeneity of the sector itself. Hence, there is a need to develop better understanding on the nature of service **innovation and related** R&D in connection with different types of services.* For instance, service related R&D can be very close to basic research (e.g., insurance mathematics and financial modelling), or close to market activity (e.g., hotel reception process design). CREST working group, R&D in services, is currently working in the area and it can contribute the R&D definition of services.
- *European Commission has many opportunities to facilitate service innovation research and indicator development horizontally (e.g. **CIP and FP7**). However, some specific research initiatives may be introduced on the need basis. Above all, it needs to be taken care of that the research themes, project assessment criteria, and the evaluators do not form a systemic barrier to service research. The inherent bias towards manufacturing industry and technology based projects needs to be dealt with. For instance, typical service innovations are multidimensional, including organisational, service concept, business model, customer interface, delivery system as well as technological elements. This bears significant influence on the R&D activities in services, that also have many distinct features. Such features include: informal nature of service R&D, importance of customer interaction and overall great variety of service related R&D ranging from close to market activities to basic research type activities.*

Box 2 Legal and regulatory Frameworks for Service Innovations

- *More transparent service markets is a key European level issue that bears significant influence on innovation activity. It is important that member states continue their efforts in identifying regulatory problems that defer the development of service markets and innovations. **Overall, policy benchmarking can be an important tool for member states as they develop service innovation policy.***
- *Lack of EU level professional qualifications is a wider issue, not a service specific problem. However, harmonisation of the professional qualifications requires constant efforts.*

Box 3 Supporting IPR for service Innovation

- *Informal IP protection has a very important role in the service innovation context and more detailed information on this will be in the forthcoming report of the DG Enterprise IPR Expert Group, the Marchant report and related material⁴.*

⁴ Kuusisto, J. and Päällysaho, S., 'Informal ways to protect intellectual property in small and medium size businesses', A paper submitted for the IPR Expert Group, DG Enterprise, European Commission, Bussels, January 2006.

Importantly, IP protection in services is not limited to formal IPR methods that tend to be more suitable for industrial manufacturing purposes.

Box 4 Servicing the Research Needs of Services

- *It is important to make more effective use of the wealth of relevant socio-economic research that already exist. There is a need to build more effective linkages between socio-economic research and service innovation research.*
- *'Service R&D Challenge Call' is too wide topic for a call as such. European Commission has many opportunities to facilitate service innovation research and indicator development horizontally. However, some specific research initiatives may be introduced on the need basis. Above all, it needs to be taken care that the research themes, assessment criteria, and the evaluators do not form a systemic barrier to service research.*

Box 5 Better Innovation Networking Links for Services

- *Member states ought to adopt new innovative policy programmes that can promote demand for external expertise in innovation projects. One way to do this is to offer demand-stimulating incentives for those who can make use of expert services. By creating demand also the supply and quality of expert services can be improved. Voucher schemes offer one example of such activities, however comprehensive evaluation results of such schemes are not yet available.*

Box 6 Education, Learning and Skills for an Innovative Service Economy

- *Entrepreneurship and innovation ought to have a more prominent role in the curricula in the European education system. Further on, the education system should guarantee certain level of 'technology literacy' for every student.*
- *Life-long learning opportunities ought to be available on a wider scale in member states. Such, adult education offers good opportunities to provide services and innovation relevant skills across the working age population.*
- *The role of tax credits and public funding ought to be addressed separately in the report. Policy makers should receive information on the full portfolio of service innovation policy related instruments and possibilities to combine different measures. Tax credits, like many other tools, can be used as a tool across a range of service innovation policy measures, not only in education, learning and skills context.*

Box 7 Supporting Access to Finance for Service Innovation

- *Access to venture capital type of financing would not appear to be quite as critical issue for innovative services as it is in the case of manufacturing. One reason being that many innovative services do not to require as heavy capital investments as the technological innovations do. However, innovative services that are growing very rapidly do need venture capital type of financing.*
- *Innovative services access to finance should be incorporated into the broader agenda of entrepreneurship policy. Innovative services and their financing should be equally well known among the financing experts as is the case with*

technological innovations. Relevant issues include; better understanding of the valuation of innovative services and the effective use of IP protection in services context.

Box 8 Clusters and Innovation in Services

- *Regional clusters represent the operational environment where service innovation policy can be tailored to meet the specific needs of the surrounding economic environment. Such regional approach can be a basis for effective bottom-up developed service innovation policy that can stimulate demand as well as supply of innovative services.*
- *Horizontal policies play an important part, for instance, structural funds and service innovation policy should support each other and thus facilitate effective delivery of the policy measures.*
- *European service cluster alliance for best practices could possibly be one of the specific actions. However, it should be firmly linked with real life business activities within regional clusters where innovative service business plays a prominent role. Possibly such activities could be linked together with the other networking activities described in the Box 12, Innovation Service Exchange Network.*

Box 9 The Role of Demand in Stimulating Innovation in Services

- *As a general principle, demand driven service innovation policy represents a highly relevant perspective as described in the Aho report⁵ and several other recent documents⁶. However, policy actions described in Box 9 could be moved to the specific policy actions section.*
- *Market transparency and standards represent most key issues in connection with service innovation policy, and it is important to develop horizontal policy making in the area.*
- *Specific Action: The use of standards and regulation is highly effective way to influence markets and the development of innovative services. At the same time, increasing regulatory burden can also be an effective barrier to innovation and the development of competitive services. Hence, standards and regulation needs to be used in a very focused manner in the carefully chosen areas, for instance in, a) sustainable energy production, and b) in connection with public procurement. Sustainable energy production and environmental issues represent an area where supportive regulatory environment could effectively stimulate the development of innovative services. In the future, global markets for energy and environment related expert services look very promising. Public procurement related standards and regulations represent another promising areas where demand driven policy measures can stimulate innovative services. At present the number of demand driven policy measures is very limited and they represent an area that has a lot of development potential. Standards and regulation can provide impulses that*

⁵ Aho, E, Cornu, J. Georghiou, L. and Subirá, A (2006) Creating an Innovative Europe - Report of the Independent Expert Group on R&D and Innovation appointed following the Hampton Court Summit, January 2006, European Commission, Brussels, Belgium.

⁶ Council of the European Union (2006), PRESS RELEASE, 2769th Council meeting Competitiveness (Internal Market, Industry and Research), Brussels, 4 December.

initiate development in this policy area, which is still at a very early stage of development.

Box 11 European Service Innovation Institute (EISI)

Our view is that it is not viable to set up EISI as a separate institute. However, EISI type activities should be part of the European Institute of Technology (EIT) and it would represent a highly relevant activity in connection with this institute.

Box 12 Innovation Service Exchange Network

Innovation Service Exchange Network could be a combined activity together with the European Innovation Platform for Knowledge Intensive services. This would eliminate the possible overlaps and these network activities could complement each other.

Box 13 High Risk, innovative Service Product Support Initiative

Service innovation related market intelligence and piloting actions could be part of service related innovation policy portfolio. However, any activities that can be seen as marketing support for innovative services, should be avoided if they are in violation of state-aid regulations⁷.

⁷ European Commission (2006), Community Framework for State Aid for Research and Development and Innovation (2006/C 323/01), Official Journal of the European Union C 323/1. 30.12.2006, Brussels, Belgium.