

## Recommendations on the Innovation Principle Implementation

During its meeting on 23 May 2017 in Stuttgart, at the Fraunhofer Institute, the tripartite, independent High Level Group on Innovation Policy Management, set up following an initiative in the Competitiveness Council<sup>1</sup>, continued to ‘think outside-the-box’ how to improve innovation policy making. The HLG on IPM is an open innovation approach by governments, in collaboration with business and academia, to inject innovative policy ideas into the EU.

In the view of the HLG on IPM, the innovation principle is potentially the most significant policy making innovation since decades, provided that its implementation is consistently coached throughout the institutions and that none continue traditional path dependency.

### Key recommendations

The HLG on IPM<sup>2</sup> recommends :

- The innovation principle should become a guiding tool for two different functions of the Commission, coaching and legislating. It should be a twin of the precautionary principle, because the combination of research and innovation nearly always offers (a) solution(s) when risks have been scientifically assessed.
- Whenever useful or necessary, specific innovation deals between the Commission, governments and industry should be considered as the preferred option, with transition periods that can realistically take account of the global competitive needs that European companies face. Innovation takes place in small, medium and large companies, the latter often acting as locomotives, and all should have the appropriate framework conditions (be they European or nationally determined).
- The innovation principle should end the confusion between research, which is the development of knowledge, and innovation, which is the impact of knowledge on markets and society. Horizon 2020 and FP9 should therefore become more policy oriented and focussed on innovation. European and national funding combinations must be provided in function of desired outcomes, clearly defined economic and/or societal objectives from the perspective of users, involving business and academia, with flexible operations based on continuously evolving research needs and opportunities, and, importantly, with a sunset clause. This requires much more openness to inputs from outside the administrative system and much less detailed bureaucratic planning.
- The innovation principle should be the basis of a new operational culture at all levels and be spread consistently through the system. It presupposes a transversal and multi-disciplinary innovation mind-set throughout the entire innovation policy chain: in the Commission, but also in

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<sup>1</sup> Council of the EU, 5-6 December 2011, Presidency Note.

<sup>2</sup> Members participate in their personal capacity. All recommendations for action and all ideas for further consideration have not always been agreed on by all members. But the report is based on a very wide consensus.

Council, Parliament, in agencies and national ministries. In camera decision making before truly open consultation processes are terminated undermines credibility in the process.

- Such a deep but urgent shift can only be achieved if the innovation principle is given a steward with an overarching role (a Commission vice-president and one, or two DGs); it should not be encapsulated vertically somewhere in an administrative system. Such a steward(s) must take thought leadership and promote political openness and administrative culture change, and full transparency (with the support of the innovation council ecosystem)<sup>3</sup>.
- The innovation principle should be used as a key check in impact assessments for policy and regulatory proposals not only in the Commission, but also in the Council. This can realistically be done only with stakeholder involvement. The European Single Market requires a coherent and complementary approach between European and national policies for economic and social innovation in order to avoid efficacy losses and widening already existing economic and social gaps (again with the support of the innovation council ecosystem).
- To allow flexibility and experimenting, the Court of Auditors should change character and adapt its traditional ways of auditing, which create only obstacles for innovation without added value. Instead of procedures, it should focus on outcomes. This change can be achieved more easily by adapting new methods of auditing, as it is already done in other volatile, uncertain contexts.
- Innovation demands co-creation, therefore an informal process should be considered before the formal one. National parliaments should take co-responsibility for designing bottom-up inputs, supervise the European & national framework conditions for start-ups and scale-ups, as well as the potential of all structural funds for economic and social innovations.

### Additional considerations

#### 1. Objectives

##### a) Change starts in the minds

The innovation principle should bring a much needed culture change in the EU institutions, where many appear to live in a parallel universe. Traditional legalistic and procedural thinking are unable to deal with unpredictable and uncontrollable events in complex transformation processes currently ongoing. They lead to inefficacy and loss of legitimacy.

When the precautionary principle was introduced, responsibility was assigned internally in the Commission to ensure its entrance in the culture of policy making and to steer its application; it then spread to other EU institutions. In general, it has served the EU well.

A comparable process leading to a paradigm shift in favour of innovations needs to be repeated now. Therefore, the innovation principle needs to become owned, and such ownership can be multiple. Ownership allows stewardship which is the ability to conceptualize problems and to facilitate analysis, to align views and interests and to create engagement and make co-creation possible.

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<sup>3</sup> See HLG on IPM recommendations on the European Innovation Council, Stuttgart 23.5.2017

This will hopefully facilitate to move away from a traditional research policy approach towards a more comprehensive orchestrating of the innovation chains with desired policy outcomes, in EU and in those Member States which do not already do so (unfortunately half of them, as illustrated by the Innovation Scoreboards or other innovation rankings). This responsibility should be equally clearly assigned in order to ensure the culture and process changes, crucial to support the innovation ecosystems required today and in the coming decade.

Such culture changes must be accompanied by dedicated executive development efforts in house and outside, by a much more varied recruitment policy, and by further improvement in consultation procedures. A web portal in itself does not constitute consultation, it only gathers opinions. Real consultation is organised scepticism.

#### b) Steering between two policy lighthouses

The goal of the European Union 2020 strategy was to create smart, sustainable and inclusive growth, capable of tackling several intertwined issues in a combined policy framework toolbox.

The introduction of the precautionary principle helped the EU to move away from the paradigms of the industrial age towards a more inclusive combination of competitiveness and sustainability. Efforts were made, but the traditional path dependency of decision making process maintained the EU in a regulatory-based approach. Silo thinking prevailed, preventing a full scale system change. As a result, efficacy gaps appeared in the framework conditions for companies, be they large or small, and this led to emigration of opportunities.

The introduction of the innovation principle should now help to move policy making fully into the paradigms of the digital age, keeping the objectives of competitiveness and sustainability and making them the complementary pillars of welfare and well-being of citizens. The innovation principle, by relying on socio-economic studies and comprehensive impact assessment, should be used as a step to find remedies and improve policy and regulations and other regulatory instruments and procedures. It needs to be promoted top-down and bottom-up, in a challenge-based approach. It should also stimulate new forms of governance and inter-European collaboration (such as the EUREKA model).

But Member States should realize that there can be no real innovation ecosystems in Europe if the legalistic division of competences is not overcome in practice through new forms of collaboration. It should serve as a warning that 70% of global venture capital goes to the USA, whereas in terms of research both USA and EU have comparable capabilities. This negative situation for Europe's growth and innovation can only happen because of the different tax treatment, a national competence, of equity and debt. This changes the opportunity costs and risks for start-ups and scale-ups in the whole Single Market. The HLG promotes the ecosystem concept precisely to overcome such a dichotomy and to bring a pragmatic approach to innovation.

#### c) Improving evidence

It is widely recognised that the principal goal of the EU is to support Member States to improve their competitiveness. This is the basis for their welfare provisions to their citizens. However, there

seems to be no common definition of competitiveness and how to measure it across Member States and over time.<sup>4</sup>

Indicators used at present contain measurement errors and international comparison is insufficiently reliable because there is no single or harmonised set of data. As a result, impact assessment studies (IA) may not offer the supposed evidence, particularly in a comparative perspective, which is important given the diversity of Member States' conditions, which are not adequately represented in statistics. Also the competitiveness of corporations operating across countries is not captured as it should. However, their R&D investments are a very important element of innovation and thus of country competitiveness.

The Commission needs to be commended for its efforts to date but this work should be pursued without delay in order to improve the quality of IA as a basis for policy making and to ensure that corporate contributions to competitiveness can be taken into account and that eventual collateral effects can be managed pro-actively.

#### d) Permanently evaluation and reform

The ongoing evaluation of Horizon 2020 is a useful exercise to analyse if and how the money spent is leading to new economic and/or social value. It should be extended to all research investments made by Commission's directorates general and by all other EU institutions. The innovation principle requires a permanent process of evaluation, feedback and amendment (if required). A sunset clause is lacking in most of this funding; However, poor evaluation leads to absence of follow-up, leaving results achieved dormant.

On the one hand, public money is used to stimulate research, and on the other, the framework conditions to ensure that the results are scaled up and introduced as innovative products and services on the market are not met. An average of 2% GDP is dedicated to R&D&I opposed to the 3% objective set out for the EU, and investment in public and private R&D remain insufficient to bridge the innovation gap that separates Europe from its competitors.

To make the contextual conditions for companies even worse, regulatory trajectories dating from the industrial economy still influence the decision-making process. This is partly due to the human resources policy in the EU institutions, which recruits people from too narrow a background, and which are unattractive for highly competent young people with deep knowledge of current sciences or industry developments and relevant experience. Yet, the key challenge is to re-design the methods of policy and rulemaking to adapt them to the rapid technological change in a digitalised economy, in order to achieve the twin objectives of sustainability and competitiveness.

This integrative thinking is emerging (eg. Circular Economy Package, Digital Union) but remains too weak to become a game changer. The innovation principle needs to create a fluid and coherent process of orchestrating the framework conditions for a smooth operation of the innovation value chains in industries and in services.

A key deficit in improving innovation policy management also lingers at the national level, given the low rate of enforcement by many Member States who sometime lack the necessary resources

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<sup>4</sup> Davide Castellani & Andreas Koch, Mapping Competitiveness with European Data, Bruegel Blueprint series XXIII, Brussels 2015

and will for implementation. Regulatory impact assessment should also thus include an examination of national enforcement capacities, together with ex-post assessments and mechanism to assist them.

e) Process innovation

One cannot govern a digital economy with the culture and methods of the industrial one. In today's highly volatile and complex context, the transition to the future cannot be controlled, but only managed by mitigating transition costs and negative impacts on society as not all effects of regulation, notably on technological and scientific progress and innovation, can be determined a priori.

Therefore, it demands a deep effort of reflexion and multiple intertwined reforms which go beyond traditional regulation or standard setting methods. Innovation ecosystems development demands coaching and alignment of views by multiple actors. Co-creation processes can help manage rapid technology transformation and integrate divergent interests. Since innovation cannot be regulated, but only stimulated and managed, the new European Innovation Council should evolve into the main supportive body for these transformation processes. The Council decision on the innovation principle, on technology neutral regulation and innovation deals all point in the right direction.

The current Commission has taken several steps towards improving and modernizing its processes. But none of these have been able to set in motion a fundamentally novel dynamic. Innovation requires fluid, open processes moving from independent foresight to comprehensive impact assessment, operating in cooperation with (peer reviewed and reality checked) research inputs of other stakeholders; supervision of scientific quality; a final check on the completeness of impact assessments and potential effects on economic and social innovation. The connectivity between the various bodies (such as EPSC, RSB, SAM, JRC, REFIT), and between them and the Directorates General of the Commission, is a work in progress which requires consistent leadership and more creative thinking. Whereas the nomination of vice-presidents with a coordinating role is also a step forward, designating a steward for innovation would give a strong impetus to the required overarching culture and process changes.

f) Forgotten reforms

The implementation of the innovation principle should not be bureaucratized or centralised in the traditional ways as new policies require new organisational and managerial set-up. Setting the proper framework to unleash the potential of the innovation principle is key to Europe's success. This includes reforms in multiple sectors such as education, accepting a culture of risk and a long-term vision. There needs to be more agility in the functioning of the system, so the EU can evaluate its own instruments and identify its blockages.

Also the Court of Auditors could help the EU to handle the challenges of a new age, if it would complement its current work with new methods.

Finding and delivering solutions to the rapid technology developments, which drive economic and social change and Europe's competitiveness, requires an innovative auditing approach which

takes into account the uncertainty and complexity of innovation processes. They require authority to be delegated to a higher degree to operating officials which cannot always be strictly locked in by procedures. Instead, it would be better to have ‘compliance officials’ addressing compliance and, if necessary, agree to justified deviation for the sake of flexibility and efficacy during the process of decision making. The innovation principle requires to make rules which focus on principle and objective rather than being excessively descriptive. Experiences exist in international organisations which could be very helpful for an innovative approach by the Court supporting innovation policies, including the procedural context of research policies which should lead to innovation.

### **Conclusion : tackle the system’s delivery problems**

As President Jean Claude Juncker said “Jobs, growth and investment will only return to Europe if we create the right regulatory environment and promote a climate of entrepreneurship and job creation. We must not stifle innovation and competitiveness with too prescriptive and too detailed regulations” (Address to the European Parliament, July 2014). The gap between promises and delivery is today, together with inequality, the main cause of legitimacy problems of governance systems. The concept of, and the requirements for innovation ecosystems will help a lot to overcome those. The innovation principle is the new cornerstone.

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