

**Policy
recommendations
for boosting the
innovation
capacity of
SMEs**



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Overcoming barriers to SME innovation

SMEs are an essential component in a regional economy for creating local jobs and with a high potential for innovation. However they need external support to innovate and to develop, to help them overcome several clearly identified barriers. We have carefully analysed seven interregional cooperation projects encompassing 93 good practices. This brochure offers a list of recommendations for regional and local authorities based on the most appropriate good practices identified in the INTERREG IVC projects. Each barrier identified is matched with good practices that could help the most.

Philippe Delearde and Séverine Ouvry were contracted by the INTERREG IVC programme to analyse, benchmark and capitalise on the wealth of knowledge generated by cooperation projects in the field innovation capacity of SMEs.

These policy recommendations are the result of a two-year analysis, providing targeted actions for those involved in this policy field.

1.

First barrier: Difficulty accessing finance for innovation

It is a seemingly perennial problem but one certainly exacerbated following the recent global financial crisis and current economic slowdown. Innovation is costly and companies face investment choices regarding scarce resources. Innovation is often in competition with other business functions for this investment.

→ **Regional policymakers have to develop financial schemes to help SMEs finance their innovation process.**

Different sources of public and private financing can be implemented to support the SMEs' effort in innovation (vouchers, guarantee for bank loans, etc.), but what seems very efficient to us is the voucher system. It is a financial tool that enables SMEs to freely select the support they need (market analysis, intellectual property protection, technology transfer, first design, etc.), without being asked to provide the cash support. The voucher systems that have been developed by *DISTRICT+* and *PERIA* projects focus on such aims. However they address two different topics: the R&D card developed by *DISTRICT+* finances the external knowledge supplier and helps the company define its needs, while the innovation

voucher proposed by *PERIA* is only to finance the supplier. The R&D card has been successfully transferred from Västra Götaland, Sweden to Lower Silesia, Poland. The future of the voucher scheme is promising as the EU Horizon 2020 programme seeks actions to define a label for it. This good practice is useful then not only for regions that have no voucher system and that want to implement it, but also for regions that already have such schemes because they can work on the label conditions.

2.

Second barrier: Lack of innovation management skills

Innovation processes from generating ideas to generating profits with new products / services need to be managed. An increasingly complex innovation system combining "open innovation" approaches with closed ones requires more sophisticated in-house innovation management skills on the part of firms, if the innovation process is to be efficient and effective. However, this is a field still under development and diverse approaches to innovation management exist.

→ **Regional policymakers, who often have responsibility for education, have to develop**

programmes addressing this lack of skills in companies.

This could be achieved either by internal employee training in the SMEs, or by providing access to external support. The latter approach is quicker, more adaptable to the need of the SMEs and less costly. The *INNOHUB* project developed a centre providing advice and consultants (“*SIGNAL*”) which we find very appropriate as the business model tends to become self-sustainable. It also addresses the third barrier: insufficient marketing of innovation. Another good practice we recommend is the “*Parenthood Projects*” initiative, in which large companies provide an innovation mentoring service to smaller ones. Developed by Enterprise Flanders (Belgium) in the *ERIK ACTION* project, this practice has been proven very efficient (4 600 SMEs have participated over 10 years) and has been transferred to Lower Austria.

3.

Third barrier: Insufficient marketing of innovation

SMEs often have difficulties marketing innovation developed in-house (product or process) in particular with regards to internationalisation and exploiting public procurement opportunities. New business opportunities are being driven by three types of public or pure market drivers:

- The promotion of lead markets in a bid to restore EU competitiveness.
- The creation of new market opportunities related to the search for technological and other solutions to societal challenges.
- Expanding markets abroad.

→ **Regional policymakers have to develop initiatives to foster the marketing of innovation.**

Several practices can be used to achieve efficient innovation marketing, like digital marketing, public procurement, or developing a corporate image. The *SMART+* project has addressed this issue through its *IART Territories* sub-project on two levels: firstly, by putting the company at the centre of any actions; secondly, by supporting the creation of a cluster. The cluster (in the

tourism sector in this case) fosters cooperation among companies to create innovative and sustainable solutions for tourism. Clustering is an efficient approach to enhance market innovation as it enlarges the network and the visibility of an innovation.

The “*Foreign Trade Fairs*” good practice focuses on innovation marketing. It has been developed by the Saxony-Anhalt region, Germany, part of the *PERIA* project. It is an initiative that encourages SMEs to attend a foreign trade fairs to strengthen their market position. This practice has a high transfer potential and has been adopted in Hungary with the introduction of new rules for calls under the ERDF operational programme. Even though Hungarian partners of the project operated at the regional level, they succeeded in adapting this practice into a national programme.

4.

Forth barrier: Lack of research capabilities in SMEs

This barrier affects most firms, but can be addressed by better links between the SMEs and the knowledge providers (universities, research institutes, technology transfer offices, private research bodies, designers etc.). An innovation strategy must be based on two pillars: “open innovation” and “internal innovation”. “Open innovation” requires a good knowledge of the ecosystem and the capacity to develop collaborative research, technology transfers and innovation activities between companies and between public and private organisations.

→ **New innovation policies should be developed to increase links between SMEs and technology and knowledge providers.**

While innovation is not only technology-based, R&D and technology transfers are still required. For regional policymakers, it is important to find a way to increase SMEs awareness of open innovation and to facilitate their links with other technology stakeholders. Two practices from the *ERIK ACTION* project, can be highlighted.

First, partners developed a series of brokerage-type events based on the industrial specialties of the territory, to create links between SMEs and other technology providers. The added-value stemmed in particular from the accompanying measures that were put in place to encourage the SMEs to sign an agreement with the technology centre (TT Andalusia, Spain).

Second, the “Innovation Assistant” initiative encourages SMEs to employ recent graduates to overcome barriers to innovation. It was developed by the Lower Austria region and was one of the most popular practices. The Opole Region, Poland, transferred the practice, indicating the growing opportunities for small bilateral transfer projects. Later, the Lodz Region, Poland also adapted the practice and implemented it in 2011.

5. Fifth barrier: Weaknesses in networking and cooperation with external partners

Adequate and regularly updated information is crucial for assessing the baseline situation about

greenhouse gas (GHG) emissions and climate vulnerabilities, as well as for orienting future activities. The availability of data and information at regional and local level about GHG emissions and climate change impacts has been identified as a key challenge for regions.

→ **Regional policymakers must create an environment and ecosystem that will favour the links between SMEs and other stakeholders.** SMEs risk isolation and being unaware of potential activities in their area or of methods to solve issues like internationalisation, intellectual property rights, marketing, or human resources. Over 20 practices and policy actions directly addressed this barrier in our analysis, focusing mainly on cluster creation, cluster management, cluster internationalisation and examples of various network types.

The *MINI EUROPE* project has highlighted the importance of such a network by promoting “Bretagne innovation network” as a good practice (RDT Bretagne). The *INNOHUB* project has developed a regional innovation network at city scale to gather all the stakeholders supporting innovation in SMEs (“Innovation Regional Network”). It has been transferred from Loures City, Portugal to Ballerup City, Denmark.

Learn more, do more...

A full analysis report has been produced and is accessible through the INTERREG IVC website. It gives all the details regarding the projects, their good practices, the conditions for transferability and some views on the next seven year programme (INTERREG EUROPE).

It is very important to support innovation in SMEs and several EU programs will address that point: Horizon 2020 and its SME instrument where SMEs will be allowed to directly apply to European projects, COSME, Structural Funds etc. Those EU programs will be complemented by national and regional schemes as well as private initiatives (crowd funding, foundations etc.). INTERREG EUROPE, as a tool to increase cooperation among regions, will facilitate the implementation of such programmes.

This publication is one of a series of twelve thematic policy recommendations. For more information and downloads, visit:

www.interreg4c.eu/capitalisation

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© INTERREG IVC
Joint Technical Secretariat
Région Nord-Pas de Calais,
Les Arcuriales – Entrée D, 5e étage,
45 rue de Tournai – 59000 Lille – France
T.: +33 (0)3 28 14 41 00
F.: +33 (0)3 28 14 41 09
info@interreg4c.eu
www.interreg4c.eu