

Craft and SME priorities for the new R&D and Innovation Strategy

UEAPME's Contribution to the Informal Competitiveness Council (14 and 15 July 2010)

1. Definition of Innovation

The overwhelming majority of SMEs carry out innovation activities which are neither based on R&D nor follow a linear process. Innovation in SMEs is more an on-going permanent process driven by small entrepreneurs and their staff. This kind of innovation plays a much more important role for economic growth than usually recognised and it includes new and improved products and services, new processes, new markets, new work organisations and management concepts. According to different studies, only 6 to 10% of all innovation is based on new technologies.

Furthermore, innovation in SMEs results from the need to react to customer needs or new standards with the aim to get a new contract or to stay in business. In these cases, SME owners are not even aware that they act as an innovator.

Therefore, UEAPME asks for a definition of innovation that goes as far as possible and includes those types of innovation which are characteristic for SMEs.

2. Capacity of SMEs to innovate – most important factors

Innovation in SMEs is mainly based on existing technologies and the processes are driven by clients, suppliers or within networks and clusters. Most of the “inventions” made by innovative SMEs are non-tacit knowledge difficult to certificate by licences or patents.

Therefore, the capacity of SMEs to innovate depends mainly on:

- well qualified entrepreneurs and staff members, who are innovation minded
- access to existing technologies and technology-transfer institutions
- access to financial means that can carry some risks
- access to necessary infrastructure (technical facilities, training centres, ...)
- necessary capacities to manage innovation processes
- existence of networks and clusters
- existence of support structures at national and regional level, like innovation brokers, incubators, innovation agencies, etc.

3. Main problems for SMEs to innovate

The factors listed above are also reflected in the main problems SMEs have to exploit their capacity to innovate:

- SMEs, especially on the continent, depend to a large extent on debt financing, but an increasing number complains that on the one hand banks are less and less able or willing **to finance riskier projects**, such as innovation and start-ups, with credits and loans and on the other, the market does not provide sufficient equity finance at all and especially not below 2 Million Euro, which would be needed by most of the SMEs.

At the same time, SMEs and financial intermediaries complain that European financial support instruments (CIP, FP7 and Structural Funds) are not accessible for SMEs or not adjusted to their needs.

- Even highly innovative SMEs refrain from protecting their intellectual property rights, because of the current IPR regime in Europe, which is complex, costly and does not meet the needs of smaller innovators.
- The main barriers as regards **access to existing technologies** are high information costs for SMEs and the expensive and complicate patent systems. Furthermore, the results of publicly sponsored research are not always made available at reasonable costs.
- SMEs report shortage of **qualified personnel** they need and do not have the resources to qualify their staff themselves.
- SME owners often have difficulties to **design innovation projects** and/or **to handle innovation processes**, especially if bigger changes in technologies and production process are involved, and would need adequate support services.
- SMEs have **difficulties to cooperate**, especially at cross national level but also at national level, because they often do not have the **necessary internal resources**.
- SMEs, especially those from new Member States, report deficits as regards the availability, the quality and the accessibility of **SME support services** and as regards the **quality of administration** and the stability of the regulatory framework. Both discourage SMEs to invest in innovation and long term and risky projects.

4. Main policy recommendations to exploit SMEs' capacity to innovate

In the meantime it is widely recognised that the EUROPE 2020 targets will not be achieved, if the capacity of Europe's economy to innovate does not improve and the innovation potential of SMEs is not exploited. Therefore, UEAPME demands to following recommendation to be included in an upcoming European Research and Innovation Strategy:

- Innovation policy has many dimensions and the competences are divided between European, national, regional and even local levels. Therefore, a clear **allocation of responsibilities** in line with the subsidiarity principle is necessary in order to foster competition between "innovative regions" and to formulate European policies which have a clear added value.

- The **existing financial support instruments** at European level have to be streamlined and better coordinated. Furthermore, the development of new financial instruments, which are able to carry risks better like Mezzanine Instruments, will be necessary to ensure financing of innovation, especially in an early stage.

Finally, any financial instrument for SMEs has to be adapted to their needs and must be made attractive for SMEs and intermediaries. Instruments which are not taken up by the market are useless and a waste of money.

- **European Programmes**, which are by nature complex and administrative burdensome due to the requirements coming from financial regulations, have to be simplified as far as possible and may create better results if they are used to improve the innovative environment for SMEs (training centres, laboratories, incubators, etc.).
- In the area of **State aid regulation**, the new framework for R&D and Innovation from 2006 includes SME relevant aspects of innovation and the integration of the SME relevant part of the framework into the General Block Exemption Regulation reduced also the administrative burden for State aid provider. Now it has to be made sure that these extended possibilities are used.
- The existence of **high quality innovation support services** is especially crucial for SMEs to increase their innovation capacity and has to become for example an integrated part of each regional innovation strategy.
- To give an example, **Innovation vouchers** have been proved to be a very simple and efficient instrument to support the transfer of technology within the innovation triangle (research centres, universities and businesses).
- **Networks and clusters** create a very fruitful environment for innovation in SMEs. Any support for such networks and clusters has to be designed in a way that also SMEs can profit from them.
- The **next generation of innovation support programmes** has to be better integrated as regards the different steps of innovation (feasibility studies, R&D, knowhow transfer, commercialisation / prototypes, training) processes and the various support services.

Furthermore, **innovation support programmes** at different levels (European programmes, programmes supported by Structural Funds and national / regional programmes) should be designed in a way that allows **mobility between the levels**, if needed.

- The creation of a really **European Patent System** which is simple, easy accessible and affordable for innovation SMEs and which allows them to defend their IPR effectively.
- All relevant **stakeholders**, including SME representatives, have to **be involved** in the **development of innovation strategies** and support instruments as well as their implementation at all levels. The needed coherence between the support measures for different steps on innovation processes should be ensured by new governing structures which also include the stakeholders.

5. Towards a new Framework Programme on R&D (FP8)

The Framework Programme for R&D plays an important role to foster R&D activities in the SME sector and contributes to close the existing R&D spending gap to the target (3%) set by the Lisbon and again by the EU 2020 Strategy. In contrast with the importance of this programme, we see in the current FP7 a reduction in the share dedicated to enterprise research in general and a misallocation between SME resources for thematic programmes and SME specific programmes. Please see the UEAPME document "[Towards FP8](#)"¹ for more details.

Therefore, UEAPME proposes for FP8:

- to set a stronger focus on applied research, by **increasing the budget for enterprises** and competitiveness from 25% to 40%;
- to **earmark 15%** of the overall budget for enterprises **for SMEs** (not only 15% of thematic programmes) and to ensure by appropriate and well-timed actions that this target will be achieved;
- to better balance the **budget for SME specific measures** and thematic programmes (50%-50% instead of the current 20%-80%);
- to cover with **SME specific programmes** not only R&D in the narrow sense, but also feasibility studies, transfer of technologies and commercialisation within the limits of the State aid regulations.

Brussels, 13 July 2010

For further information on this document, please contact:

Gerhard Huemer, Director of Economic and Fiscal Policy

UEAPME

Rue Jacques de Lalaing, 4

B-1040 Brussels

Tel: +32 2 2307599

E-mail: g.huemer@ueapme.com

¹ http://www.ueapme.com/IMG/pdf/100610_towards_FP8_paper.pdf