

## Summary of the expert workshop

# Policies in support of service innovation

30 May 2011, 9:30–16:30 hrs

Hotel Mercure Budapest Buda  
41-43 Krisztina krt., Budapest, Hungary

## 1 Context and objectives

This INNO-Grips workshop was linked with a policy brief on “policies in support of service innovation”. The workshop was attended by 27 experts, including representatives from the European Commission, national ministries and governmental agencies as well as economists, consultants and representatives from business and business associations. The study team presented results of the draft policy brief for discussion and validation.

Most developed economies are more and more developing into service economies. The service sector is not only large and permanently growing, it is also the “substrate” of the technological change by widening *inter alia* the range of science-based knowledge. Consequently, the service sector is an essential contributor to innovation and technological change. The *Service Innovation Expert Panel* in February 2011 pointed out that major differences in the economic performances of Europe and US can be mainly found in the service sector. Therefore, establishing an effective way to spark service innovation has become even more crucial in the EU.

Against this background, the workshop addressed the following questions which are also dealt with in the policy brief:

- What are the various service innovation success stories within and outside Europe?
- What are the best and worst practices? What kind of measures can be regarded as a support, or, on the contrary, as a burden for service innovation?
- What can be translated and applied, and how, of these lessons learnt into the European level of policy interventions?

The workshop served as a platform to exchange views and experiences on innovation trends in the service industry, focusing in particular on the role of government in supporting related processes.

## 2 Main points discussed

### 2.1 Session 1: Relation between policy and service innovation – Presentation of four case studies

#### Presentations

The workshop was opened by Tomasz Jerzyniak, Policy Officers at the European Commission's DG Enterprise and Industry and Principal Co-ordinator of the INNO-Grips project, and Sven Schade, also from DG Enterprise and Industry. They emphasised the importance of context-related, evidence-based policymaking.

In the opening session, four case studies of innovative service companies were presented and discussed. The case studies were embedded into the approach of the Europe 2020 Strategy that highlighted the importance of a smart, sustainable and inclusive growth.

**Renata Anna Jaksa**, Director of ICEG European Center, outlined the interim results of the Indian case study on Infosys Technology. She emphasised the major factors behind the success of Infosys' service innovation (e.g. deregulation and liberalisation of service sector; innovative leadership; economy of scale). Infosys shows how the liberalisation of trade in services can lead to a better business climate, and eventually to productivity growth via increased service innovation capacity. Innovation has transformed the existing business model of Infosys into a modern one which is fully pervaded by the view of global delivery (the so called "Collaborative Distributed Delivery Model" - CDDM).

**Shin-Horng Chen**, Director, International Division at the Chung-Hua Institution for Economic Research, presented a case study on innovation policy for e-healthcare in Taiwan. The case is based on the challenge of an ageing population and the need for policy responses. The Department of Industrial Technology (DoIT), the R&D funding agency at the Ministry of Economic Affairs (MOEA), started promoting technology-based service innovation to address the challenge, including for example e-healthcare services for the elderly (U-Care), people with chronicle diseases, well-being services for the elderly. A key message of the presentation was that systemic service innovation is needed, which deals with external conditions of the firm involved (such as networking, multi-stakeholder involvement, interfacing with third parties). The speaker also stressed the importance of timing and location. The Taiwanese case is also a good example of public and private sector cooperation. The innovation was mostly prompted by the public sector, but needed the private sector to make it happen. There is more and more need for ex post evaluation in order to enhance the efficiency of policies, however.

The other case studies were presented by **Tamás Szemlér**, Senior Research Fellow at ICEG European Center. The case of "Netrisk.hu", the first online insurance broker company of Hungary, shows that first movers are more likely to be profitable provided that the framework conditions are right. In other words, the timing of the start and, later, the continuous development of the service provided were key success factors was. Major factors behind the service innovation were technological innovation (ICT), a sufficiently mature level of Internet penetration, the development of an e-business environment and the "e-maturity" of the population. It was also important, however, that the economic policy framework was stable and transparent. Further policy factors that supported the innovation include the introduction of specific schemes for purchasing computers and for Internet access.

Banco Santander is the largest bank of the Eurozone with around 180,000 employees. This case can be viewed as "smart growth" enabled by a global view of customer service. The success of Banco Santander is largely based on product and service innovation. Three main factors are particularly relevant: the human factor (the history of Santander is bound to the Botín family, the members of which took a determining role in guiding the bank through its 154 years), internationalisation (well planned strategic alliances, acquisitions, mergers and establishments of affiliates) and the efficient use of technology and innovation (the integration of IT systems and the constant creation of innovative services and products).

## Discussion

The presentations were followed by lively discussion. Several comments referred to the issue whether the EC could/should formulate any particular policy conclusions from the case studies. Sven Schade argued that the cases also warned us not to neglect the multi-actor and multi-dimensional aspects of service innovation, which was clearly the case in Taiwan. It was suggested to differentiate between firm-level service innovation and service innovation through internationalisation. Questions were also raised concerning the division of labour within the public-private cooperation described by Taiwanese case. A participant said that cooperation between public and private entities is quite a rare phenomenon in some countries. While many agreed with the proposed approach of "systemic service innovation", the question was posed whether a company should aim at creating a system or rather concentrate on providing a service.

A participant pointed to significant differences among various types of service innovation and suggested that these should have been reflected upon in a more explicit way when selecting and conducting the case studies. Another comment was that business model (organisational) innovation was more likely to entail service innovation.

## 2.2 Session 2: INNO-Grips findings on service innovation policy

### Presentations

**Olivér Kovács**, Research Fellow at ICEG European Center, and **Magdolna Sass**, Senior Research Fellow at ICEG European Center and Institute of Economics of the Hungarian Academy of Sciences, presented the main results and conclusions of the policy brief.

Olivér Kovács said the EU was facing four "macro"-challenges (demographic, climate change, changing characteristics of emerging markets and relatively low level of labour-productivity). The importance of service sectors and the potential of service innovation should be framed against these challenges. His main message was that promoting service innovation could serve as a catalyst in bridging the innovation gap and, what is more, to reach the EU2020 highlighted goals: smart, sustainable and inclusive growth. The Policy Brief aims to capture the policy aspects of services innovation. To this end, the Policy Brief followed the approach by starting from the micro level by addressing the questions of what made service innovators successful, what they did and what kind of policy environment dominated their businesses. The main features of service innovation called the attention to the importance of multidimensional character of service innovation policy, i.e. there is need for harmonised interaction among various policy areas (R&D, labour market, competition etc.).

The speaker emphasised that service innovation was the output of the permanent and intensive interactions and weaving relations among providers, partners, competitors, customers, suppliers and clients, by utilising feedback mechanisms. As a consequence, service innovation has more qualitative outcomes than innovation in manufacturing. Service innovation can be much more easily imitated or adapted by others, however; protection is more difficult. What is more, permanent service innovation is needed which hampers to a certain extent the diffusion of service innovation because firms always have to assess when the given and adoptable service innovation will be outdated (if that time will come relatively soon, the firm can decide not to adopt it). Considering and assessing the issue of internationalisation through service innovation often problematic, the research face obstacles with regard to the quality and amount of available data and used methods in capturing service trade.

Magdolna Sass presented the policy conclusions the authors have drawn from their analysis. She underlined the importance of being a "messenger of good practices" and the implications of differences between the EU Member States (e.g. strengths and weaknesses, specific characteristics of their economies). She recommended that European policymakers should consider different approaches and policy treatments on service innovation. The promotion of Europe-wide initiatives (e.g. similar to the Swedish Entrepreneurial

Quest) for young manufacturing and service firms involving various stakeholders could contribute to knowledge exchange and networking. Further recommendations concerned trade in services (to pursue the adaptation of the instructions of the IMF's Balance of Payments Manual) and to promote exchanges among the Expert Panel on Service Innovation and the CIS-team in order to establish the way how service innovation activity could be captured by the Community Innovation Survey in a more vigorous way.

**Brigitte Preissl**, Editor-in-Chief at Intereconomics, discussed the study results. She missed in the conceptual framework a recognition of the heterogeneous character of services and service innovation. She also said that the policy conclusions were not yet sufficiently based on the new empirical evidence (the case studies), but rather on the existing literature. She said that what was really needed at the present state of policy developments was a systematic analysis of programmes targeted towards service innovation. She posed the question what kinds of areas are not targeted or concerned by the already existing policies. This systematic analysis should investigate whether the policy programmes are showing a progress in different dimensions (e.g. are they subsequent or substitutive; what can we say about the issue of complementarity, industry and technology specification). She also recommended to reconcile specific problems and general conclusions. As innovation is a moving target, policy design requires continuous monitoring and evaluation.

**Juraj Stancik**, Analyst at the European Commission DG Joint research Centre Institute for Prospective Technological Studies, suggested that the results presentation in the Policy Brief should be better aligned with the specified research objectives; in particular, he was missing the identification of drivers and barriers for service innovation in the draft report. Also, he recommended that policy recommendations should address in particular the removal of identified barriers. He stressed that the issue of employment protection was crucial (even it is a politically loaded issue) and urged the authors to devote attention to this aspect.

## Discussion

An issue raised in the subsequent discussion was how to differentiate between the nature of innovation in services vs. manufacturing, and hence between policies targeting one or the other. The challenge is that innovation in services cannot easily be isolated from manufacturing, as the latter includes services such as after sales, maintenance and repair. The big question is whether it makes sense to treat services differently than manufacturing in that respect at all. A participant suggested that the analysis of the creative industries could help to get a better understanding on the nature of service innovation. Participants also raised the importance of social capital for innovation in services, which is linked to the exchange of tacit knowledge, requiring stable and trust-based relationships. It was suggested that the EC could devote even more attention to social capital as a key driver of innovation.

Another comment focused on the role of ICT-related R&D as a critical success factor for service innovation, pointing to a study by IW Consult Cologne which carried out a factor analysis of different input factors to innovation performance. Other issues raised were the changing characteristics of services, and the challenge that quality assurance and standardisation are much more difficult in case of service innovation than in case of product innovation in manufacturing. Discussants also suggested that the demand side should not be neglected in innovation policy; in particular the potential of public procurement should be further examined.

A discussant reminded the participants that structural reasons are behind the rationale of innovation policy. He supported a horizontal approach for innovation policy as indicated in the Policy Brief.

## 2.3 Session 3: The Smart Guide to Service Innovation: How to better use Structural Funds for promoting service innovation

### Presentation

**Sven Schade** suggested in his presentation a possible scheme to categorise services into three groups (for the purpose of analysing the role of innovation and related policies): (i) services linked to the idea of "smart growth", based on knowledge and innovation which is pervaded mainly by goods innovation rather than services; (ii) services consisting in the treatment and analysis of data; and (iii) services bound to the location where they are provided, i.e. which – in contrast to the first two groups – cannot easily be relocated.

He also discussed the mandate and role of different Directorate Generals of the EC in this context. As the EC has a role in coordinating policy developments in several domains (e.g. service innovation policy), it is important to have reliable information of what the Member States are doing in this domain. He therefore suggested two approaches how the work of the EC can be supported through recommendations from studies such as INNO-Grips: either the recommendations have to "move up", i.e. suggest which DGs should be involved and with what mandates; or, by contrast, with a "move down" approach, i.e. suggesting concrete, practical actions which DG Enterprise and Industry should take to promote innovation in the best possible way within their mandate.

## 2.4 Session 4: Conclusions for future innovation policy design

### Presentation

The final session concentrated on the implications of the observed trends in service innovation for future policy design. Speakers were asked to address three main questions: What are the key objectives? Which areas are particularly relevant to be addressed? And which policy instruments promise to be effective?

**Anita Wesolowska**, Managing Department for Competitiveness and Innovation Programmes Ministry of Regional Development Warsaw, provided an overview of how innovation objectives are reflected in the use of means from the structural funds in Poland. Poland is currently preparing a new "Strategy for the Innovativeness and Effectiveness of the Economy", which shall be coherent with the Europe 2020 Strategy and set new directions for innovation policy. This strategy will, inter alia, put much more emphasis on the importance of non-technological innovations (marketing, organisational innovations) in line with the concept of open and user driven innovations.

With the new strategy, the Government intends to address existing challenges such as the relatively low level of R&D expenditure in Poland (as % of GDP), the below average share of private sector contributions to total R&D expenditure, a lack of tax incentive schemes and the relatively low level of cooperation between research and business. The level of R&D expenditure shall be increased to at least 1.7% of GDP by 2020, and private sector innovation activities and R&D investments shall be stimulated. Also, it shall be avoided that too much money from the structural funds go into operational maintenance. The new strategy will also lead to some changes in the organisation, such as a shift in the distribution of resources from the central to the regional level.

The speaker discussed caveats of the proper assessment of a projects' innovativeness. She supported the view that the existing criteria –which are often biased towards technological innovations– make the evaluation process extremely difficult, in particular in case of non-technological service innovations.

**Paweł Zerka**, Analyst in the "Strategies for Growth" Programme, DemosEUROPA, continued the new member states aspect by pinpointing out that innovation in services can be considered as an opportunity. He argued that the service sector played a very important role in the New Member States and that it had a great hidden potential, as Central European countries were well positioned as service providers: many of the new member states dispose of a highly educated workforce at lower costs, which could be an attractive

proposition to attract business. Since services are much less R&D-intensive than manufacturing sectors (as pointed out in the Policy Brief), he emphasised that currently weaker performing countries could improve faster than in other business areas. He then turned to the issue of social capital (in particular competencies and interpersonal relations), which he felt was the main critical success factor for a durable innovative service sector in the new member states. He criticised that Poland currently performed weak in social capital, but mentioned some areas of "hope", such as a relatively strong creative sector (including design and arts). He suggested to develop a "Social Capital Strategy", such as the one currently under development as part of Poland2030, which puts more emphasis on the creation of social attitudes and competences.

**Luis Rubalcaba**, Full Professor at University of Alcalá, gave presented insights on public-private innovation networks in services and drew conclusions about policy implications. He said that services had moved into the focus of policy and innovation policy only in the past 10 years, notably after the bubble of the new economy. This had to do with major challenges and characteristics of service sectors and service innovation, such as the increasing in off-shoring services to low-wages countries, and low productivity gains in services. He argued for a horizontal view of industrial policy design, notably to focus on enhancing business support services.

He then presented the results of a study project entitled "The Contribution of Public and Private Services to European Growth and Welfare, and the Role of Public-Private Innovation Networks", which analysed service sectors and innovation trends in these sectors at the macro, meso and micro level. At macro level, an important finding was that there is no single model of service economies in Europe; instead, the project found five models with significantly different institutional and social characteristics: the Anglo-Saxon, Central continental, Mediterranean, Nordic and CEEC model. Prof. Rubalcaba accentuated not only the lack of valuable evaluations on policy impacts, but also the importance of the relationships involving invisible innovation and invisible performance that should also be taken into account by public policies.

As far as the meso level is concerned, the project found that less than 15% of innovative private firms cooperated with public bodies; however, cooperation had a positive impact on innovative performance. In fact, the most innovative systems (such as the Nordic countries) had a higher level of cooperation. At the micro level, the project carried out about 40 case studies (in fields such as transport, health, knowledge intensive services and tourism) in different countries.

The project results suggest that the role of promoters and drivers are essential, as well as the integration of a particular individual innovation network within a wider systemic and social network. The researcher therefore recommend that policy could aim to strengthen service-specific innovation and innovation capabilities of firms, users and other agents involved in innovation. Additionally, facilitating co-operation and networks involving service and social innovation on the one hand, and empowering the public sector and the third sector for cooperation on the other hand, are crucial elements. This requires a coherent approach with contributions from different policy areas, including R&D, innovation, public procurement, standards, employment, skills and regional development.

## Discussion

The discussion started with the issued of data and indicators. It was mentioned that the currently available indicators for innovation activity are far from being the best guidance for making policy decisions; even if further data could be collected, these would also be "indicators" only. Participants therefore stressed the importance of comprehensive programme evaluations as evidence for policy makers on "what works and what doesn't." The participants agreed that there was a need for a horizontal approach in the design of policies in support of service innovation, especially in case of the use of Structural Funds. The importance of social capital was broadly supported, although it was acknowledged that it was difficult for the EC or member states to directly address the formation of social capital with dedicated policies.



## 2.5 Concluding remarks

In his closing remarks, Tomasz Jerzyniak, European Commission, DG Enterprise and Industry, Principal Coordinator INNO-Grips, emphasised that the workshop was to open discussion over the presented draft version of Policy Brief and to provide opportunity for expert to share their thoughts. The rationale of specific service innovation policy is not yet clear enough and shall be sharpened, however. He said that the draft Policy Brief was a good start towards that direction.

### Contact and further information

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#### About INNO-Grips (Global Research on Innovation Policy Intelligence)

This workshop is organised under Lot 1 of the "INNO-Grips" work programme (<http://www.proinno-europe.eu/innogrips2>), which is one of the pillars of the European Commission's "PRO INNO Europe" initiative (<http://www.proinno-europe.eu>). INNO-Grips Lot 1 gathers evidence on innovation policy developments worldwide and analyses specific aspects and trends in more detail. The services of the current INNO-Grips period are provided by empirica GmbH, Bonn (<http://www.empirica.com>) in cooperation with ICEG European Center, Budapest (<http://www.icegec.hu>), based on a contract with the European Commission, DG Enterprise and Industry. The current service period is running from February 2010 to January 2013.

## Annex: List of participants

<b>INNO-Grips Workshop: Policies in Support of Service Innovation</b>					
Budapest, 30 May 2011					
	<b>Title</b>	<b>Name</b>	<b>Country</b>	<b>Institution/Organisation</b>	<b>Position</b>
1	Mr.	Arnold, René	Germany	IW Consult	Research Analyst
2	Dr.	Bianchi, Annaflavia	EU	Freelancer	Senior Economist
3	Ms.	Candela, Bravo	Portugal	Inovamais	Senior Consultant
4	Ms.	Dimova, Adriana	Bulgaria	Applied Research and Communications Fund	Project Officer
5	Ms.	Fekó, Adrienn	Hungary	ICEG European Center	Research Fellow
6	Ms.	Jaksa, Renata Anna	Hungary	ICEG European Center	Director
7	Mr.	Jerzyniak, Tomasz	EU	European Commission, DG Enterprise and Industry	Principal Co-ordinator
8	Ms.	Krčmářová, Lucie	Czech Republic	Ministry of Industry and Trade	Department of Innovation and Investments
9	Mr.	Kmec, Michal	Slovakia	Joint Technical Secretariat, VÁTI Kht	Programme manager
10	Mr.	Kovács, Olivér	Hungary	ICEG European Center	Research Fellow
11	Prof.	Musto, Stefan	Hungary	Technische Universität Berlin, University of Debrecen	Professor of Economics
12	Dr.	Pazour, Michal	Czech Republic	Technology Centre ASCR	Researcher
13	Mr.	Pislaru, Dragos	Romania	Group of Applied Economics	Executive Director
14	Dr.	Preissl, Brigitte	Germany	Editor-in-Chief Intereconomics, German National Library of Economics	Senior Researcher
15	Mrs.	Rangus, Vanja	Slovenia	Member of the Expert Panel on Service Innovation, Creativity for Innovation (c4i)	Manager
16	Dr.	Reinstaller, Andreas	Austria	Austrian Institute of Economic Research (WIFO)	Research staff member
17	Prof.	Rubalcaba, Luis	Spain	Universidad de Alcalá	Professor of Economics
18	Dr.	Sass, Magdolna	Hungary	ICEG European Center	Senior Research Fellow
19	Dr.	Schade, Sven	EU	European Commission, DG Enterprise and Industry	Policy Officer
20	Mr.	Selhofer, Hannes	Germany	empirica GmbH	Project Manager
21	Dr.	Shin-Horng, Chen	Taiwan	International Division at the Chung-Hua Institution for Economic Research	Director, Research Fellow
22	Ms.	Smarzcz, Raphaela	Germany	IW Consult	Research Analyst
23	Mr.	Stancik, Juraj	EU	DG Joint research Centre Institute for Prospective Technological Studies	Analyst
24	Prof.	Szabó, Katalin	Hungary	Corvinus University of Budapest	Professor of Economics
25	Dr.	Szemplér, Tamás	Hungary	ICEG European Center	Senior Research Fellow
26	Ms.	Wesołowska, Anita	Poland	Ministry of Regional Development, Department for the Management of the Competitiveness and Innovativeness Programmes	Deputy Director
27	Mr.	Zerka, Paweł	Poland	demosEUROPA	Research Analyst