Public consultation on Community innovation policy

Comments from ACCA
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About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management. ACCA has over 71,000 members and students across Europe, whom we support throughout their careers. Globally, we support our 131,500 members and 362,000 students, providing services through a network of 82 offices and centres around the world. We use our expertise and experience in areas such as tax and finance to work with governments, donor agencies and professional bodies to develop the global accountancy profession and to advance the public interest. By promoting our global standards, and supporting our members wherever they work, we aim to meet the current and future needs of international business.

ACCA welcomes the opportunity to use the expertise of our senior members and in-house technical experts to work with European policy makers and provide informed opinion on a range of financial, regulatory, public sector and business areas, including: taxation (business and personal); small business; pensions; education; and corporate governance and corporate social responsibility.

Our responses to specific questions raised in the paper are set out below.

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ACCA's answers to the public consultation

1) Do you agree with the Commission's assessment of the main achievements and shortcomings of Community policies in support of innovation?

The Commission is taking an extremely appropriate step in addressing the innovation gap within the EU. This step is especially timely as the Lisbon Agenda is set to expire in 2010, when the European Union is still likely to feel the effects of one of the deepest recession since the European Economic Area has been established. This comes at the end of a ten year period during which the EU has failed to close the innovation gap when compared to other leading economies. The most recent European Innovation Scorecard shows that there remains a significant gap within the EU when compared to the US and Japan in terms of innovation performance.[1]

The risk which accompanies the current financial and economic crisis is the overall reduction of investment in innovation. R&D intensive businesses tend to be set up during boom economic periods when external investment is easier to come by. Similarly, EU governments are facing extreme demands on their own public spending that may result in reduced activities relating to promoting innovation. For these reasons, the Commission needs to play a timely role in encouraging the innovation agenda within the EU, which will be vital if Europe is to emerge stronger from the economic crisis, able to address the societal challenges such as climate change.

However, any new initiatives and approaches to the EU innovation agenda need to acknowledge that the targets set in the Lisbon Agenda, for Europe to become the most competitive knowledge-based economy in the World by 2010, have failed judged by many of the self-set measures.[2] The Commission therefore needs a completely new discourse relating to innovation, a new approach to policy which takes into account the need for a more coherent structure[3] and a wider interpretation of what constitutes innovation, moving away from crude measures such as R&D investment, including other methods such as technology adoption, imitation and adopting existing knowledge in new ways.

[1] European Innovation Scorecard, 2008
[2] Bruegel Memos to the new Commission: Europe's economic priorities 2010 - 2015
[3] Currently split into over ten separate directorate-generals

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An important part of non-R&D innovation is creativity and design and these need to be equally embedded in the new European Innovation Act to encourage the same level of public support as R&D investments. The focus on the creative potential of firms is now supported by solid evidence. The analysis of the latest European innovation scoreboard shows that countries with a good creative climate tend to have higher levels of R&D and design activities and also strong overall innovation performance.[4] From the UK experience, which has the largest creative sector in Europe, there is growing consensus that creative industries have an important role to play in supporting business innovation in the wider economy.[5] For example, research in the UK indicates that firms that cooperate with creative industries in their supply chain offer more diverse product range and higher quality goods and services; similarly, the more a firm spends on its creative products in terms of its output, the more likely it is to have introduced a product innovation either new to the market or new to their own firm.[6] Therefore, any new innovation policy which addresses the creativity link, needs to ensure that it does not focus solely on the creative industries but rather on the relevance of the creative activity to the innovative potential of any business.

The Commission's focus on the services sector marks a welcome change in terms of innovation policy, which has in the past tended to overly focus on the manufacturing sector. Europe's economies are indeed increasingly moving towards the services sector; for example, since the early 1960s, every industrialised economy has seen services grow, while the manufacturing sector has been declining.[7] Therefore the need to understand how innovation happens in the services sector, and how it can in turn be supported by appropriately targeted innovation policy should form an integral part of the future European Innovation Act.

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[4] European Innovation Scorecard 2008

[5] Frontier Economics (2007) 'Creative industry spillovers – understanding their impact on the wider economy'

[6] Beyond the creative industries: making policy for the creative economy, NESTA Policy Brief, 2008

[7] Coutts, K., Glyn, A. and Rowthorn, B. (2007) Structural Change Under New Labour. 'Cambridge Journal of Economics.' 31, pp.845-861.

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2) Should EU innovation policies have a stronger orientation towards addressing major societal challenges? If so, which ones should be prioritised?
There are a number of major societal challenges facing the EU, such as the ageing population and globalisation, which require a new set of approaches and innovative solutions to ensure EU's long term prosperity.

There is however a growing consensus of the need to move towards a low carbon future. Our current reliance on high-carbon technologies mean that this is one of the most imminent threats to the competitiveness and wellbeing of European community and one which almost entirely looks towards innovation for its solutions. This threat and challenge needs to be addressed with economic opportunities in mind. A new landmark study[8] says millions of new "green jobs" could be created in coming decades as a result of the impact of the emerging global "green economy". According to the study, changing patterns of employment and investment due to efforts made to reduce climate change and its effects are already generating new jobs across various sectors and economies. For example, currently, renewable energy generates more jobs than employment in fossil fuels, and projected investments of US$630 billion by 2030 would translate into at least 20 million additional jobs in the renewable energy sector.
The EU policy, while focusing on the potential of green economy for low carbon future, also needs to acknowledge that innovation addressing climate change cannot depend entirely on the innovation of new technologies. These efforts will indeed need to go much wider to include the communities and businesses that operate outside of the green economy. Therefore while addressing major societal challenges, the EU innovation policy and the consequent public support measures must adopt an inclusive approach, engaging the society and the wider business community, instead of solely supporting those industries that are most likely to bring new technological advancements.

[8]Green Jobs: Towards Decent work in a Sustainable, Low-Carbon World, UNEP/ILO/IOE/ITUC, September 2008

3) What are the most important remaining obstacles for the EU to unleash its full creative and innovative potential, in particular through innovative SMEs?
ACCA believes that the innovation potential within SMEs should be at the heart of the proposed European Innovation Act. Creating conducive environments for entrepreneurial innovation would significantly improve Europe's competitiveness on a global stage. Eurostat recent figures show that between 2004 and 2006, SMEs grew in number and in the number of persons employed by them almost twice as fast as large enterprises.[9] More recently, since the recession began, one in every five net jobs lost in the UK has been replaced by a self-employed person[10], demonstrating that the role of entrepreneurs during economic downturns is also crucial. In fact, some of the most innovative and fastest growing companies were started during recessions such as Wal-Mart (1962), Starbucks (1971), Microsoft (1975) and Virgin Atlantic (1982).[11] Recent international research indeed confirms that innovative business ideas, which carry high risk and uncertainty, are more likely to be pursued by individuals during recessions. This is said to be due to a number of reasons, one of them being lower opportunity costs during recessions, such as high unemployment rates for example, and the general feeling of having 'little to lose'.[12] Therefore SME entrepreneurial and innovative potential should not be taken for granted at any stage of the economic cycle. Considering their growth before the economic crisis, and their resilience during the recession demonstrates that a new comprehensive strategy to encourage EU innovation must indeed start with the SME sector.

Existing SME policy measures
Many of the existing SME policy measures can themselves utilise SMEs' inherent potential for innovation. For example, increasing the rate of entrepreneurship, as outlined in the Small Business Act, can itself achieve higher innovative activity. New firms challenge the existing environment by creating competitive pressure not only by introducing new products or services themselves, but also by encouraging established firms to compete by changing their own practices. Other existing initiatives, such as creating the single European market also need to be pursued with more vigour for the benefit of innovation. The Single Market has been promoted as one of the key benefits of the European Union; removing barriers to trade within which small business should, in theory, be one of the key beneficiaries. Currently, however, only 8%[13] of SMEs trade across borders demonstrating that progress so far has been limited. The size of the potential market is a critical factor in developing

[9] Eurostat Statistics in focus, 71/2009
[10] ONS, "Labour Market Statistics" Statistical Bulletin, June 2009
[11] Koellinger, P.D. and Thurik A.R., Enterpreneuship and the Business Cycle, 2009
[12] Ibid.
[13] European Small Business Act, 2008

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innovative products or services and for an average SME, this is still likely to be confined to their domestic market, due to the complexity of dealing with varying standards, regulations and legal environments. Where US companies for example can exploit a significant domestic market for their commercial activities, individual European countries are unable to offer similar opportunities. There is considerable potential for the EU to assist small firms in moving beyond local markets, which is especially pertinent for those businesses involved in developing niche products or services and therefore may need to rely on cross border trade to develop an adequate market share.

Single European Patent System
One of the most relevant examples of where the EU has failed to see progress in terms of developing the Single Market is the Single European Patent system. The current system remains unnecessarily complicated and expensive. The fact that once granted, the European patent has to be validated in each member state where protection is needed, including application, translation and renewal fees, makes the system especially inhibiting to SME. The European protection system is at least four times more expensive than the US, Chinese or Japanese systems acting as a cost deterrent and thereby putting SMEs at a distinct disadvantage when looking to protect their inventions. It is estimated that a single EU Community patent would reduce patenting costs in Europe by around 60%[14], enabling innovative European SMEs to compete on more of a level playing field.

Awareness Raising and Business Support
It is important however to bear in mind that the efficient formal protection systems form only part of the innovation jigsaw, and small firms need to be equipped with business skills in order to turn their invention into a commercial success. We know that only between 2 and 10 per cent of granted patent applications are commercially successful[15] demonstrating that the protection system is only one of many factors in closing EU's innovation gap. From our own research, we also know that one of the key issues relating to protecting intellectual property is awareness. ACCA has recently conducted research[16] into the extent to which SMEs take advantage of the opportunities presented by IP law and the extent to which accountants and other advisers are able to help them in protecting their assets and their rights. The main conclusion of the research is that SMEs are not generally aware of IP issues and hence often fail to take the steps which are available to them to protect their assets and to

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[14] Van Pottelsberghe Bruno, Ibid.
[15] Van Pottelsberghe Bruno, Lost Property; The European Patent system and why it doesn't work, Bruegel, 2009
[16] Pitkethley, Robert, *Intermediation of Intellectual Property Awareness*, ACCA Research Report No. 107, 2009

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value them properly. ACCA is planning to conduct activities later in the year to help accountants engage better with their SME clients so as to raise their awareness of IP issues.

Understanding the role of Intangible Assets

In order for Europe to build new, knowledge-intensive industries, it will have to rely on innovative start-ups. SMEs are already the major providers of jobs in the knowledge based industries,[17] relying overwhelmingly on their intangible assets to generate value and income streams for their business. ACCA's own research[18] has identified 29 individual SME intangible assets, many of which directly relate to innovation processes within SMEs but which cannot be legally protected. Our research clearly shows that issues involved in developing and exploiting intangible assets differ from those involved in managing physical and financial assets; the lack of concrete form and the general absence of functioning markets for intangible assets make their valuation problematic in comparison with physical assets that are regularly bought and sold in transparent markets. Therefore, understanding how intangible assets are developed, valued and protected and how they relate to innovative performance within small firms will be of crucial importance as the EU moves towards a new innovation strategy, ensuring that this agenda moves beyond formal legal protection systems. ACCA would be pleased to be involved in any such future activity, sharing our existing research and expertise.

4) What could the EU do to provide adequate access to finance to SMEs and entrepreneurs?

The Commission is right to focus on finance as a key constraint for innovative businesses. It is important to note that, contrary to popular belief, perceptions of a scarcity of funds have not been proven to significantly discourage would-be entrepreneurs in Europe or the US.[19] Nevertheless, lack of finance does direct entrepreneurs away from capital-intensive sectors, sectors with significant start up costs (including those of Research and Development) or ventures that cannot guarantee positive cash flow at the early stages. In many cases, this bias towards lifestyle businesses and incremental innovation[20] may affect Europe's ability to increase productivity as well as create and sustain new industries.

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[17] Knowledge Economy & Enterprise, the Work Foundation, Jan 2009

[18] Martin, Chris and Hartley, Julie, *SME Intangible Assets,* ACCA Research Report No. 93, 2006

[19] Grilo, I. and A.R. Thurik (2008), Determinants of entrepreneurial engagement levels in Europe and the US, *Industrial and Corporate Change*, 17(6), 1113-1145

[20] Builds on what is already there, modifying existing functions and practices, source NESTA

There is a good deal of evidence of market failure in the EU in financing innovation. In the current economic climate, innovative SMEs have actually been *less* likely to receive all of the bank lending they sought than non-innovators (54% v. 58%). They were also less likely to receive all of the trade credit sought (59% v 65%), as indeed any other type of external credit (41% v 54%). This is despite the fact that innovators' business outlook improved more significantly in the first half of 2009 than that of non-innovators.[21]

Finance shortages restrict innovation mainly by reducing investment. Research carried out by the Economist Intelligence Unit (EIU) shows that 50% of European SMEs have put investment on hold and 18% have cancelled investment plans altogether over the last two years as a direct result of poor access to finance. In both respects, the investment capacity of Europe's SMEs has been more severely affected than that of their counterparts in North America or the Asia-Pacific region, primarily because of a sharper fall in bank lending. Additionally, Europe emerged as the only region in which the supply of finance was cited as the most important constraint for SMEs over the next two years.[22] With nearly one in three European SMEs (30%) saying either they are uncertain of when the supply of finance will recover, many could go on postponing investment indefinitely, to the substantial detriment of the European economy. Worse still, our analysis of the EIU findings suggests that much of the new-found confidence of SMEs around the world is based on an assumption of strong productivity gains, which will be impossible to deliver while investment is still falling and innovation is dangerously close to a standstill.[23]

[21] The Gallup Organisation, op.cit

[22] Economist Intelligence Unit, "Surviving the drought – Access to finance among small and medium sized enterprises" October 2009. The question was phrased as follows: "Which of the following steps has your company been forced to take as a direct result of a decline in availability of finance? Please select all that apply."

[23] ACCA, CGA-Canada and CPA-Australia, "Access to finance for the small and medium sized enterprise sector: Evidence and conclusions" October 2009.

Finance for Innovation

While we are pleased that the EU is willing to consider a broad definition of innovation[24], it is important to note that different types of innovation have vastly different financial implications. Unless these are addressed individually, the Commission's objectives could very well not be met – and any performance metrics will turn out to be misleading.

- **New or disruptive technologies** generally require a great deal of pre-revenue investment, and the businesses that commercialise them are likely to be cash-negative for a long period of time. These businesses, which are themselves often start-ups, are particularly risky, with only a brief trading record and high mortality rates. Traditional bank credit is ill-suited to the financing of such ventures, yet business owners are often reluctant to consider equity finance for fear of losing control over their businesses.

- **For more mature sectors and technologies**, innovation is a matter of long-term investment in research and development as well as workforce skills. Debt is much more of a part of the solution among these innovators, but with supply recovering very slowly there is a case for intervention in order to address market failure in the financing of growth capital.

- Finally, a lot of the innovation carried out by SMEs is **incremental** – changes products or services were found to be the most commonly cited type of innovation when SMEs were surveyed by the Commission in September.[25] This type of innovation very often doesn't build on access to finance at all – indeed some innovations are born from scarcity rather than abundance of finance. Micro-credit may be an effective aid here, although often business support interventions will be more relevant.

[24] "Communication from the Commission: Putting knowledge into practice: A broad-based innovation strategy for the EU" September 2006

[25] The Gallup Organisation, op. cit.

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Providing Long-Term Growth Capital
Funding long-term growth capital would benefit from carefully structured products delivered through the European Investment Bank. EIB finance is itself exempt from state aid regulations, allowing a great deal of flexibility in the supply of finance and allowing the alleviation of rather significant market failures. In order to make the most of this aspect of EIB lending, the Commission should consider the potential for the EIB to lend directly to SMEs or to utilise non-bank commercial intermediaries. The Commission will still need to be careful in targeting such interventions. We know from the UK experience with the Rowlands Review of Long-Term Capital that the specifications of any such scheme can drastically change its scope; our analysis in the UK showed that depending on the government's appetite for growth, the offering could be relevant to as many as 11 per cent or as few as 1 per cent of SMEs.[26] The Commission therefore need to be aware from the outset that how such schemes are defined radically impacts on how many SMEs it can ultimately reach.

Improving access to equity finance
Only about 6 per cent of growing SMEs in the Eurozone said they would prefer to finance growth through equity issues.[27] Elsewhere in Europe, demand is not much higher – for instance, only 2 per cent of UK SMEs used equity finance in 2007, and their number appears to have fallen since 2004. It is important to note, however, that the latent demand for equity is substantial. In the UK, current users are only about one-tenth of all potential users.[28]

Equity finance has indeed been hit very hard by a number of factors, from falling wealth levels among high-net-worth individuals to the withdrawal of investors deterred by the prospect of multiple rounds of financing. SMEs themselves are now reluctant to engage with equity investors and are pessimistic about its future potential as a source of funding. For instance, nearly one third (31%) of all Eurozone SMEs that would prefer to use equity finance expected equity investment to dry out completely. Additionally, poor valuations emerged as the greatest obstacle to raising equity finance.[29] The EIU study already cited also found that SMEs expect an anaemic recovery for equity

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[26] ACCA Submission to the Rowlands Review of Growth Capital, August 2009.
[27] European Central Bank, "Survey on the access to finance of Small and Medium-sized Enterprises in the Euro Area" September 2009.
[28] Cosh et al. "Financing UK SMEs: The 2007 Survey". August 2008. The authors point out that the use of equity finance among SMEs regardless of growth prospects had fallen from 7% to 2% between 2004 and 2007.
[29] European Central Bank, "Survey on the access to finance of Small and Medium-sized Enterprises in the Euro Area" September 2009.

finance, whether from individuals or from institutions.[30] Yet the merits of equity investment remain the same. In fact the Flash Eurobarometer Survey of SME finance in September found that businesses using equity finance were weathering the recession much better than others, and more of them were growing than shrinking in revenue terms.[31]

As venture capitalists focus on increasingly later stages in the lifecycle of a business, and thus lower risk/reward profiles[32], filling the equity finance gap will be impossible unless the Commission considers more innovative ways to support investment by business angels.[33] To some extent this is a matter of stimulating demand: creating the business support infrastructure that will enable SMEs to fully factor the true advantages and disadvantages of equity finance into their financing decisions. Key intermediaries, such as accountants, will be pivotal in this process as they have the potential to reach a high number of discouraged SMEs. Demand can also be stimulated by achieving better valuations, which SME owners can do by carefully managing, measuring and accounting for their intellectual property and other intangible assets.[34] The EC could for example develop standards for valuing such assets, in collaboration with the accountancy profession, and enforce their use among government-aided providers of finance.

New principles for growth finance

Member states, however, will still have some difficulty supporting SME access to equity finance and especially angel investment as they are restricted by EU state aid rules. Any realistic level of direct subsidy requires the state to assume a substantial level of risk and presents a further distortion of the market. The Commission's decision to issue a temporary framework for State Aid earlier this year has been welcomed by SME organisations (e.g. UEAPME), but it will need to be updated frequently to ensure that it remains relevant in the longer term. The Commission will need to develop a new temporary framework for State Aid, specifically addressing economic recovery, one that updates the Commission's thinking on subsidising growth capital and equity investment. This would

[30] Economist Intelligence Unit, "Surviving the drought – Access to finance among small and medium sized enterprises" October 2009.
[31] The Gallup Organisation, op.cit
[32] "Financing innovation and SMEs" Commission Staff Working Paper, September 2009.
[33] Detailed proposals can be found in "Improving SMEs' access to equity finance" ACCA SME Committee, July 2009
[34] See for instance C. Martin and J. Hartley, "SME Intangible Assets", ACCA Research Report No. 93, 2006

inevitably involve updating the Risk Capital Guidelines of 2006[35], the Estoril declaration of 2007[36] and the Temporary Framework for State Aid of 2009.[37]

Evidence base
The evidence base for EU's innovation policy needs to go beyond the levels of innovation itself and encapsulate other policy areas which have a direct impact on innovation performance. For example, while the information collected on innovation indicators has grown over the last few years, information on business angels has not seen similar improvements. The EC should consider developing, in association with the Association of European Business Angels Networks (EBAN) and other stakeholders, means of capturing more and better quality data on the activity of business angels. ACCA is already involved in a similar process in the UK, led by the Department for Business, Innovation and Skills (BIS), which should report in early 2010.

5) Could the EU contribute to exploit the innovation potential in public services?

A substantial body of research has been undertaken on innovation in the private sector whereas in the public sector this has been more limited. For the EU to exploit innovation in public services it is critical that there is an understanding of why innovation within public services is important and what methods, mechanisms and contexts are proven to foster innovation.

In the context of globalisation, the economy, ageing and climate change, it is important that innovation takes place to give EU citizens a sense of security, social cohesion and community, as well as having access to health and education, low crime and sense of well-being. Since public services touch the interests of so many across Europe and are entrusted with socially important functions, innovation in the sector is crucial. EU member states and public services are adaptable and do innovate in order to develop new solutions to old problems by effectively aligning resources to meet needs and redefining strategies and tactics. The socio-economic outlook for the future will mean that public services will have to continue to learn how to innovate further,

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[35] Community guidelines on state aid to promote risk capital investments in small and medium sized enterprises *Official Journal of the European Union C 194 , 18/08/2006*
[36] The Estoril declaration: "Principles and Good Practice Policies on the Financing Innovation Value Chain" Proceedings of the Forum, *Financing Innovation? From ideas to the market* Estoril, October 2007
[37] "Communication from the Commission — Temporary Community framework for State aid measures to support access to finance in the current financial and economic crisis" *Official Journal of the European Union C 083 , 07/04/2009*

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particularly, if they are to respond to the rapidly changing environment and citizen's/business expectations.

In the UK a key push for public sector innovation has been the need to provide prompt, improved and personalised services to citizens. A 'one-size fits all' approach to delivering public services is outdated. Rising citizen expectations and developments in total quality management have meant that the delivery of public services has had to change. In the same vein efforts have been made to shift the focus away from measuring inputs to outputs and outcomes to improve the delivery of public services. Other drivers of innovation have included the need to achieve increased efficiencies and for public services to capitalise on the full potential of ICTs, particularly, in terms of efficiency gains and improved service provision and delivery.

The EU could help to foster a political, social and economic environment which supports public services to respond more effectively to meeting the needs and rising expectations of citizens, improve the delivery of outcomes particularly for areas of policy where there has been little progress, capitalise on the full potential of ICT and focus on public services being more efficient. For example, delivering services through partnerships and/or using public procurement to finance innovation. Some examples of how the EU could exploit innovation in public services are set our below.

Using public procurement to promote and finance innovation

Public procurement accounts for 13% of EU GDP and as such provides member-states and indeed the Commission with a powerful lever for achieving desired outcomes. The Commission's communication outlining good practice in improving SME access to the public procurement market[38] has been well-received and could be complemented with a similar communication on increasing the share of innovative products and services in public procurement. Through public procurement, EU governments have a distinct opportunity to drive innovation as much of the delivery of public services relies on the public procurement process. Government departments can derive significant benefits from encouraging innovation through public procurement including efficiency savings, as any lower cost solutions are likely to require innovative approaches In fact, public procurement can be used further in order to improve and standardise credit terms between contracting authorities and SME suppliers. This could provide innovative SMEs that are government contractors with easier and cheaper access to invoice finance thereby removing one of key obstacles to innovation.

[38] European Code of Best Practices facilitating access by SMEs to pubic procurement contracts, Commission Staff Working Document, June 2008

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Involvement of the private and/or voluntary sectors

The Commission should explore further opportunities for involving the private and voluntary sectors to deliver public services, particularly given the social, economic and environmental challenges facing the EU. This could include opening up parts of the public sector to private competition, developing partnerships that involve private sector delivery and involving volunteers and user engagement in public services. Recent innovative examples in public services in the UK include public private partnerships, local health and well-being boards made up of all sectors including citizen's panels, crime reduction partnerships and a total place initiative which looks at how a 'whole area' approach to public services can lead to better services at less cost. Total place seeks to identify and avoid overlap and duplication between organisations – delivering a step change in both service improvement and efficiency at the local level, as well as across Whitehall in the UK.

Use of information technology

Effectively harnessing technology provides a catalyst for innovation programmes in providing improved public services and can significantly impact on service delivery. E-government, the internet and web-based technologies can transform the way services are delivered and the relationship between the public service provider and the citizen. As the European Policy Centre (EPC) identified, the potential of ICT based innovations goes beyond incremental improvement in the efficiency of existing products and services. IT and electronic communications offer a radical change to the way people live and work and they will drastically transform how services are provided, requiring new business models to replace traditional ways of doing things. More specifically in relation to addressing environmental issues there is a potential for homes, offices and cities can make different and smarter use of energy.[39]

Empowerment of communities, users/citizens and staff

Successful public service innovations are those that consult with the communities and citizens with regard to improving public services. Those public services that listen to their views of citizens and service users and play them into their implementation plans are more likely to design services which are tailored to meeting the needs of service users. Similarly, empowering staff by demonstrating a greater tolerance for the management of organisational risk will encourage them to take the initiative to develop new programmes which strengthen and promote the public sector. Harnessing the cultural diversity in

[39] European policy Centre, Economic recovery to a greener economy: mobilising ICT – based innovations, July 2009

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public services across Europe is also important. For example, it is widely known that diverse teams of people are more creative than homogeneous teams.

Shift performance measurement to outputs and outcomes
Over two decades budgetary reform in OECD countries has involved "an increasing emphasis on outputs and outcomes".[40] Transformational change will only occur if it is supported by a shift away from traditional budgeting (which offers a snapshot description of current practice in a given EU country) to performance budgeting. As the ODI research illustrated successful transformation of public services will only take place if the following underlying principles are met:

- Output based budgeting
- A strategic context to the condition of resource allocation;
- Public annual reporting in terms of outcomes and outputs; and
- Resource allocation tested against future plans.[41]

This shift in emphasis will require a renewed focus on programme performance by EU member states. This will be in addition to the traditional focus on administrative controls and procedures.

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[40] Overseas Development Institute (ODI), Results-orientated budget practice in OECD countries, March 2003
[41] Ibid.