

Enterprise and innovation in deprived urban areas  
sharing the European experience

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The Network partners – Amsterdam, Hamburg, London, Milan and Prague – are all actively developing and implementing policies to promote enterprise in deprived urban neighbourhoods. Through LNet, the cities will develop common approaches to realising the economic and social potential of deprived urban areas and practical tools to support enterprise in these areas.

**1. What is innovation?**

The European Commission sees innovation as crucial to meeting the goals of the Lisbon Agenda, to make the EU “the most competitive and dynamic knowledge-driven economy by 2010”. The Commission takes a broad view of innovation:

- It emphasises the importance of both technological and non-technological innovation, such as organisational or presentational innovation
- It targets all sectors, including services and traditional sectors, as well as high-tech sectors
- It also takes account of the all-embracing nature of innovation, arguing for efficient dialogue between all innovation stakeholders

The foundations of EU innovation policy are laid down in the 2005 Communication More Research and Innovation – Investing for Growth and Employment: a Common Approach. This policy document seeks to address the main issues that currently hamper innovation in European enterprises, such as the regulatory environment, market knowledge, and financial and human resources.

The Innovation Scoreboard is the Commission’s benchmarking tool for innovation; it defines innovation in EU Member States according to the following indicators:

- Human resources – for example, the proportion of the population who are science and engineering graduates, or who are employed in high-tech manufacturing and services
- Knowledge creation– for example, business expenditure on R&D as a percentage of GVA and numbers of patent applications per 1000 inhabitants
- Transmission and application of knowledge – for example, the proportion of SMEs innovating in-house, or those involved in innovation co-operation activities (such as knowledge transfer agreements with universities)
- Innovation market outputs – for example, number of sales of ‘new to market’ products

## 2. Recent approaches to innovation

This section outlines recent academic approaches to innovation:

Proponents of Innovations Systems theory argue that the most dynamic companies work in dense networks of other companies and associated sources of knowledge. This approach posits that: “Innovation rests not simply on discovery and invention, but on different forms of knowledge creation such as the adaptation and combination of existing forms of knowledge”. Companies acquire the necessary knowledge for innovation by reaching out into their external environment to a range of sources, including: other companies, including suppliers and competitors; conferences and networking events; journals and trade magazines; universities and research institutes; development agencies; financial bodies, including accountants.

Similarly, Michael Porter argues for a cluster-based approach to innovation. According to Porter’s work, innovation is often characterised by a large number of SMEs generating a range of (normally high-tech) new products with relatively short life-cycles. Silicon Valley and the science-based industrial cluster around Cambridge are influential case studies supporting this hypothesis. Michael Porter emphasises the innovation potential of the high-tech sector.

Richard Florida’s work argues that the ‘Creative Class’ are the driving force behind innovation, entrepreneurial activity and economic growth. This creative (‘bohemian’) class is attracted to regions with “a mix of high-tech industry, outdoor amenities and attractive architecture”. Florida has developed a number of indicators to measure the ‘creativity’ of cities: the creative class share of the workforce; the proportion of high-tech industry; number of patents per capita (‘innovation’); and, diversity. One of his key arguments is that areas that are ethnically diverse are more innovative.

According to these three perspectives, innovation is very much an urban phenomenon. Cities are more likely to provide environments for nurturing innovation; for example, businesses are more likely to be situated close to other companies and universities. Furthermore, urban populations tend to be more diverse than rural populations.

## 3. Innovation in the LNet cities

### *Amsterdam*

Innovation is one of the nine core policy areas of Amsterdam’s Economic Development Department. Public policy places most emphasis on technical innovation; indeed, the Amsterdam Innovation Engine, the most significant innovation project in the region, focuses on three high-tech sectors – ICT, new media and life sciences. The Economic Development Department is also working to stimulate innovation through the development of science parks and business incubators in the region. Increasingly non-technical forms of innovation, such as social innovation, are being recognised in Amsterdam – the debate about the potential of the capital as a creative city, for example, is gaining momentum.

## ***Hamburg***

Innovation – particularly technical innovation – is a political priority in Hamburg. The city promotes itself as a centre of knowledge in six key growth sectors: aviation, port and logistics, IT and medicine, life science, nanotechnology and trade with China (the ‘China-Portal’). Hamburg’s core aims in the field of innovation are as follows: to attract inward investment through the promotion of an ‘innovation friendly’ culture; to promote knowledge transfer partnerships between businesses and research centres; and to develop public-private partnerships in the field of innovation. There is some evidence that Hamburg’s public authorities are starting to embrace a broader view of innovation; for example, Hamburg’s Ministry of Labour and Economic Affairs encourages both technical and non-technical innovation in its bi-annual Innovation Awards.

## ***London***

The London Development Agency (LDA) has a broad approach to innovation; London Innovation, an LDA initiative to support innovation in London, defines innovation as “an attitude, a mindset and a creative process”, encompassing the “exploitation of new and smarter thinking, be it a product, service or process”. The three targets of the LDA, in order to increase innovation in London’s businesses, are as follows: encouraging competitiveness, creativity and enterprise; increasing knowledge transfer and innovation in business; and, promoting London’s universities as one of the capital’s key global strengths.

## ***Milan***

The Milan Province views innovation as essential to maintaining industry competitiveness in the region and focuses predominantly on technical innovation. Public policy in this area – ranging from skills development to the provision of appropriate finance – aims to support research, both at pre-competitive and applied stages, and to encourage the diffusion of innovation. Technology transfer also constitutes a key area of innovation policy in Milan. As part of Milan’s innovation strategy, a new ‘Innovation Palace’ has been established, offering a range of innovation services to SMEs and working to disseminate good practices.

## ***Prague***

The Czech Republic’s Association of Innovative Entrepreneurship defines innovation as “technical, organisational, financial and business activities aiming to develop a new or marked-improved product, technology or service”. One of the strategic goals of the Prague Region is to promote an infrastructure for innovation. As part of this framework, a programme of support has been set up to develop the innovation capacity of the region and improve the human resources for innovation in Prague. This programme is currently held back by poor co-ordination among public sector agencies, yet it is hoped that setting up a Regional Development Agency in Prague may improve the situation.

## 4. The importance of innovation for the Learning Network

LNET partners are all actively developing and implementing policies to promote economic development in deprived urban neighbourhoods.

Lack of innovation potential can be understood as a component of urban deprivation. Generally, approaches to urban deprivation – tending to focus on issues such as income, employment, health, education, urban environment and crime – do not consider innovation capacity as a core component. However, clearly, these factors do impact on the innovation potential of enterprises in deprived areas; for example, high crime levels in an area constitute a clear deterrent to inward investment, and lack of skills can impact on the ability of businesses to develop and exploit new ideas. The following section (Section A) will explore the barriers to innovation inherent to deprived urban areas, as well as looking at various LNet case studies of how these barriers have been tackled by public policy makers.

Innovation could also constitute a tool to turn around the fortunes of deprived areas. This is an attractive, if under-developed idea. Section B will consider the various innovation strengths of deprived areas, and explore the idea that innovation itself could be used as a mechanism to regenerate deprived urban areas. Again, various case studies will be given.

### A. Barriers to innovation in deprived areas

Deprived urban areas face many barriers to innovation; the following will be considered below:

- Poor urban environment and infrastructure
- Lack of an innovation culture and lack of skills
- Lack of business to business networks/Linkages to knowledge resource assets
- Lack of access to appropriate finance

#### ***Poor urban environment and infrastructure***

Infrastructure and environmental problems, which hinder innovation, can include:

- Lack of transport links and high crime rates. These problems tend to reinforce a poor image of the location which has an adverse affect on inward investment.
- Weak business bases. According to Innovations Systems literature and cluster theory (described above) innovation thrives when businesses (often in the same sector) are located in close proximity. A weak business base leads to a limited diversity of economic opportunity and is less likely to stimulate innovation.
- A lack of high-quality premises. For example, incubator space and science and technology parks, which can help small businesses overcome difficulties accessing appropriate business accommodation at key stages of their development, are often lacking. (Some of the LNET regions have commented that low buying power leads to empty premises which also constitute a barrier to innovation).

### **Amsterdam: Improving the urban environment and providing business premises**

Amsterdam South East is one of the city's most deprived urban areas, suffering from poor housing, unemployment, social problems, crime and poor quality surroundings. As hotspots for crime and drug abuse, the local parking lots embodied the area's social problems and had fallen into disuse and disrepair. Over the last couple of years, however, the local authority has worked to regenerate the garages. Much of the infrastructure now provides affordable business accommodation for start-ups, and the urban social and economic environment of the area has improved greatly.

### **Hamburg: Improving infrastructure and attracting inward investment**

Channel Hamburg e. V. is a public-private partnership aiming to regenerate the Inner Harbour area in Hamburg-Harburg. This area suffered a period of industrial decline in the 1970s and 1980s and faced several barriers to innovation, including infrastructure problems (lack of a critical mass of companies and lack of affordable workspace) and a negative image which has acted as a disincentive to inward investment. The partnership aims to tackle these barriers by promoting a positive brand for the area and through physical regeneration projects. A technology centre, which has attracted high-quality businesses to the area, has been set-up to drive forward both these objectives. Channel Hamburg considers that its strong partnership approach, which involves many local businesses, as crucial to its success.

### **Prague: Providing business incubation**

Prague's Technology and Innovation Centre (TIC) was founded in May 1991, on the site of a disused military base, as the first of its kind in the Central and Eastern Europe. Set up as a PHARE programme pilot, the Centre was later accepted as full member of European Business and Innovation centre Network (EBN). The main objective of the TIC is to support the creation and development of innovative small and medium-sized businesses, through the lease of offices and workshops for businesses. SMEs in the incubator can also take advantage of the other services on offer: information about intellectual property and patenting; help with technology transfer partnerships between business and Charles University; networking opportunities; and financial support services.

### ***Lack of an innovation culture and lack of skills***

Many deprived areas lack an 'innovation culture'; this has a number of causes, including:

- Social Exclusion – manifesting itself in ethnic conflict, youth disaffection, crime and drug abuse – can be rife in deprived areas, acting as a major barrier to the fostering of an innovation culture. Many people in deprived areas lack the confidence to innovate.
- Social exclusion is reinforced by lack of skills and training; a shortage of skills is also a barrier to innovation. Although innovation does take place in deprived urban areas (for example in the creative sector) many entrepreneurs lack the knowledge and expertise to market their innovative products and ideas, and expand their businesses. Low knowledge of and interest in intellectual property rights protection also constitutes a barrier to innovation. The shortage of skills for innovation is due in part to a lack of dedicated and tailored businesses support structures for businesses in deprived areas.

- Innovation role models can work to raise awareness of innovation and foster an innovation culture. Such role models are often lacking in deprived urban areas.
- Flight of successful entrepreneurs and innovators to more affluent areas can lead to cyclical decline and a lack of innovation role models in deprived areas.

#### **London: Promoting the skills for innovation**

The London Development Agency's two-year 'Inspiring Innovation' project works to promote the skills for innovation and build confidence among London's black and ethnic minority food sector entrepreneurs, through: up-skilling workshops (such as 'How to package and present your product to meet customer needs') and providing businesses with food sector role models. The project has been successful due to the emphasis on both tailored and high-quality support – workshops and mentoring sessions were delivered by food sector experts, such as representatives from large supermarket chains. The partnership with Southbank University, which houses a food technology centre, was vital to ensuring high quality and tailored support.

#### ***Lack of business to business networks/ Linkages to knowledge assets***

- Poor co-operation and communication among businesses constitutes a barrier to innovation. Of course, this problem is likely to be due, in large part, to a lack of businesses in the first place. However, a lack of networking opportunities also reinforces this problem.
- Poor co-operation between businesses and research institutions can also be a barrier to innovation in deprived areas. In some cases, this problem is due to a lack of proximity of businesses to knowledge resources (e.g. universities). However, often, even when businesses are located close to universities, little knowledge exchange takes place between them.

#### **Milan: Encouraging Technology transfer**

The Milan Region worked to facilitate technology transfer partnerships between SMEs and research centres, as part of an EU-funded project with three other regional development agencies in France, Germany and Spain. Although the project was not designed specifically for deprived urban areas, it was successful in promoting innovation in the North Milan area (a region which suffered post-industrial decline in the 1980s and 1990s). The project involved intensive marketing campaigns, including direct visits to enterprises, to promote technology transfer across the region. The project was successful due to its focus on one-to-one support with selected enterprises, helping them define their technical needs, work out solutions and linking them up with research institutions.

#### **London: Promoting networking among SMEs**

There is a lack of dedicated support for designer-maker SMEs in London, which often represent disadvantaged communities such as black and ethnic minorities and women. Hidden Art is a successful scheme tackling various barriers to the development of this sector, such as isolation, lack of networking and information sharing and lack of access to global markets. Hidden Art works by offering designer-makers a platform, or 'virtual incubator' space, to network, exchange ideas and exhibit and sell work, products and designs. Hidden Art owes its success to its strong branding, which attracts designer-makers to the network in the first place, as well as attracting the customers that help the designers expand their markets.

### ***Lack of access to appropriate finance***

Businesses in deprived areas often lack access to appropriate finance due to the following:

- Banks/investors are often less willing to invest in deprived areas. Research suggests, for instance, that black and ethnic minority businesses (disproportionately living in deprived areas) consistently have more difficulty gaining access to finance than white-owned companies, with African Caribbean businesses faring worse in securing finance than any other group.
- Limited opportunities for start-up finance mainly in the hi-tech sectors. This is due, in part, to the inappropriate structure of venture capital funds and lack of business angel finance.
- Lack of knowledge about appropriate sorts of finance: this is compounded by a lack of investment readiness support which can give businesses in deprived areas the expertise to access appropriate finance through helping with business plans and giving advice on how to pitch to lenders.

#### **London: Helping businesses to access finance**

Obtaining appropriate finance is one of the key barriers to growth, and indeed survival, of SMEs. Evidence suggests that small businesses in deprived areas, in particular, do not have enough information about the different types of finance available and therefore which kind of finance would be right for them. In addition, these businesses are often not professionally prepared enough to be able to present a good case to finance providers. The Access to Finance Programme is designed to overcome these barriers; it works by helping innovative SMEs, based in deprived areas, to obtain the professional advice they require to get them finance ready, for example, assistance with business and financial planning and presentation skills. The scheme has been successful due to its emphasis on both high quality support and strong links with the private sector.

### **B. Competitive advantages in deprived areas**

As evidenced above deprived areas face many barriers to innovation; however, there are also various competitive advantages which these areas could build on in order to stimulate innovation and economic development. For example, disadvantaged areas often benefit from a concentration of people, services and activities. This constitutes a key strength in the context of innovation; a concentration of people implies, for instance, the presence of markets which may be currently underserved – such markets can provide key opportunities for innovative entrepreneurs. In addition, deprived areas often benefit from a significant commitment of public resources which can, in turn, be used to boost innovation – e.g. through London’s public sector-funded ‘Inspiring Innovation’ project, described above.

This section will explore how the competitive advantages of deprived areas could be built on, exploring how innovation itself can also be used as a tool for regeneration.

### ***Creative people, classes: capitalising on diversity***

Richard Florida (see above) has argued that diverse areas can attract the 'creative classes' that are responsible for innovation.

Indeed, in London at least, many deprived areas – which are typically characterised by high levels of diversity – are home to thriving creative industry businesses. For example, the growing creative sector in Deptford (embracing digital media, design and visual, and performing arts sectors) is stimulating regeneration in the area.

The case study below explores how innovation in the creative sector, combined with public sector support, is working to turn around the fortunes of deprived areas in London.

#### **London: The Creative Hub initiative**

The London Development Agency has committed to establishing ten Creative Hubs across London over the next two years. Creative Hubs aim to stimulate regeneration by building on the success of innovative creative industry businesses (e.g. in Deptford) which are thriving in many of London's deprived areas. Creative London (the LDA's creative industries support agency) describes the 'Hubs' as a "method of delivery", rather than a programme, which combines their four core areas of support: talent; enterprise; property and showcasing.

'Hubs' are not just incubators for small businesses, but have a wider remit. Still in their inception stage, they are intended to promote creative enterprises by forming a "network that will drive the growth of creative industries at the local and regional level, providing more jobs, more education and more opportunities for all Londoners". In general, they will offer a space for networking, business support activities and promoting local talent and businesses, as well as providing access to private and public funding and links to industry and academic institutions.

By fostering the diversity and innovation inherent to the creative sector, the Creative Hub initiative is using innovation as a tool for regeneration.

### ***Social innovation***

It is important to remember that innovation is not only an economic concept; innovation can also exist in social organisations, such as social enterprises and community development finance institutions – e.g. micro-credit schemes, credit unions. Social innovations may prove key ingredients in transforming the aspirations and achievements of people living in deprived areas.

The case study below shows how an innovative micro credit scheme, which operates as a social enterprise, is working to help disadvantaged groups in east London.

## Social Enterprise in London

Street Cred is an innovative micro-credit project for pre and post-loan support, targeting women with a business idea who are in low income jobs or on benefits in east London. It provides a stepping stone for women, enabling them to start-up a business. Street Cred uses a system of banking, based on trust and mutual respect, reversing conventional banking practice by removing the need for collateral. Street Cred is based on the logic of 'helping people to help themselves'. The initiative has been successful due to its responsiveness to local needs and the flexibility of its delivery (school-friendly hours and 'group' delivery ensuring that clients do not feel 'on their own'). It has been particularly successful in reaching out to disadvantaged groups.

## 5. Concluding remarks

Deprived areas often have enormous potential for innovation through capitalising on: the diversity of their populations; the sectors that tend to thrive in diverse communities, such as the food and creative sectors; the opportunities for social innovation; the commitment of public sector resources; and, the high concentrations of people, activities and services. However, as documented above, there are also many threats to innovation.

The following sorts of initiatives to tackle barriers to innovation in deprived areas are encouraged:

- Ensuring appropriate premises are available for businesses. Business incubation, for example, can increase businesses' chance of survival at challenging stages of their development
- Identifying local skills needs, and up-skilling where appropriate. Up-skilling schemes can work to build confidence and provide entrepreneurs with role models
- Provision of finance, such as community investment finance for businesses which have been turned down by mainstream lenders. 'Investment readiness' support – working with entrepreneurs to build confidence, impart knowledge about different types of finance, and help with business planning and pitching skills – is also vital
- Provision of networking opportunities, which can help businesses to access information and guidance, as well as helping them to build supply chains
- Knowledge transfer: Helping businesses in deprived areas to build links with universities and research centres
- Improving businesses' access to market intelligence and helping to build supply chains
- More policies to promote clustering – perhaps through rolling out initiatives like the Creative Hub initiative if it is successful

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