

LNet Second Dialogue Report

Enterprise and innovation in deprived urban areas
Lessons from innovation

Introduction

Innovation is a difficult notion to pin down. The term no longer applies only to a small number of businesses operating in the high technology sectors; with concepts such as 'social innovation' gaining momentum, innovation is spilling out beyond the world of business into government agencies and the third sector. Yet as the concept becomes harder to define, it also fills with potential. What makes innovation special? How is innovation defined in each of the LNet partner cities? And can innovation help policy makers to turn around the fortunes of deprived urban areas?

LNet partners have been asking themselves just these questions, building a picture of innovation in their different countries and bringing together practitioners and experts from the field to understand and unlock the potential of innovation for promoting sustainable regeneration in deprived urban areas. Many lessons for the future have been uncovered and are discussed below.

1

Definitions of innovation

Innovation is typically viewed as a process that occurs within businesses, involving the commercial exploitation of new ideas. Innovation can exist in all sectors, not just among high-tech firms, and is as much about process as about product. The European Commission sees innovation as central to its Lisbon Strategy for economic growth, which aims to make the European Union “the most competitive and knowledge based economy in the world by 2010”.

Increasingly, it has been recognised that innovation can take place in both business and social contexts. In fact the European Commission defines innovation as: ‘The successful production, assimilation and exploitation of novelty in the economic and social spheres’. Social innovation, in this context, can refer to innovations occurring within non-business organisations, such as government agencies and the third sector.

The key questions emerging here are:

- **How is innovation defined in each of the LNet partner cities?**
- **Is there a consensus view regarding the definition and concepts of innovation that are being used?**
- **How can the understanding of innovation be enhanced?**

2

Innovation and urban deprivation

Innovation has been characterised as an urban phenomenon. Proponents of Innovation Systems theory argue that the most dynamic companies work in dense networks of other companies and associated sources of knowledge. Companies acquire the necessary knowledge for innovation by reaching out into their external environment to a range of sources, including suppliers and competitors, and sources of knowledge such as conferences, universities and development agencies. Other approaches have argued that ethnic diversity is a driving force behind innovation, entrepreneurial activity and economic growth. Cities are therefore 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.

Lack of innovation potential is not usually understood as a component of urban deprivation. Rather, approaches to urban deprivation tend to focus on issues such as income, employment, health, education, urban environment and crime. 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.

Indeed, according to a report by the New Economics Foundation (2003)¹ if deprived urban areas in England could become as successful at generating innovation as the rest of the country, then “there could be 88,750 more businesses trading than there presently are – in other words, there are almost ninety thousand ‘ghost enterprises’ failing to provide jobs, income, economic vitality, security and regeneration”. The following section will explore the barriers to innovation inherent to deprived urban areas.

The key questions emerging here are:

- **How do the members of the Learning Network understand deprivation?**
- **What constitutes deprivation in each of the LNET cities? Does the notion of the deprived urban area differ between countries participating in the Learning Network?**
- **Can lack of innovation potential be viewed as a component of urban deprivation?**

¹ New Economics Foundation (2003), *Secrets of their Success*, (London, New Economics Foundation).

3

Barriers to innovation in deprived areas

Separate analyses of the barriers to innovation in deprived areas have been conducted by each of the LNet partners. Interestingly, whereas the barriers we came up with were remarkably similar, sometimes the causes attributed to these barriers varied considerably.

- For example, poor urban environment and infrastructure, such as poor transport links and high crime rates, has been identified by all partners as a major barrier to innovation. Yet this barrier manifests itself in diverse ways; for instance, in London, the lack of affordable premises for innovative small businesses is seen as a significant infrastructural challenge. By contrast, the space issue is less of a problem in other LNET cities where other issues take precedence.
- Many innovative small businesses cite problems accessing finance as a key barrier to growth. Again with this barrier, the perceived causes vary among the LNET partners. For instance, while there is sufficient public money around in Hamburg to promote innovation, there is a significant lack of demand and awareness of these funds among small businesses. In other LNET partner cities, it was the lack of supply of finance that constitutes a more significant barrier to innovation.
- LNet partners have also highlighted the lack of interchange between businesses and poor linkages between knowledge resources (e.g. universities) and small businesses as barriers to innovation. Indeed, according to Innovations Systems theory, described above, innovation tends to thrive in an environment where businesses can 'reach out' to their external environment, including to competitors and sources of knowledge, such as universities. Again, the causes attributed to these barriers vary among LNet partner cities. For example, while Prague blames the lack of interchange between businesses on the lack of business-to-business networking opportunities in the region, the Milan partners argue that the sheer complexity and multitude of networking opportunities in their region have hampered interchange between businesses.
- Human resource problems and a lack of an innovation culture also constitute major barriers to innovation in deprived areas. LNet partners attributed these barriers to a range of causes, for instance: social exclusion, manifesting itself in ethnic conflict, youth disaffection, crime and drug abuse; the fact that many people living in deprived areas have a shortage of skills for innovation, and can lack the confidence to innovate; the lack of innovation role models, and; the 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.

The key questions emerging here are:

- What are the barriers to innovation in LNet partner cities? What are the causes of these barriers?
- How can these barriers be tackled? What role should policy play in tackling the barriers to innovation in deprived areas?

4

Exploring the potential of innovation

The notion that innovation could constitute a tool to turn around the fortunes of deprived areas is an attractive, if under-developed, idea which the LNet partners will look to explore in more detail over the coming months.

European Commission proposals for the next round of the EU Structural Funds (2007-13) replace current Objective 2 and 3 streams with a strengthened *Regional Competitiveness and Innovation* component, thereby putting innovation at the heart of urban renewal. Clearly, the Commission has identified the potential for innovation in ensuring regional development and cohesion across Europe.

Deprived areas face many barriers to innovation, yet they also have various competitive advantages which they are able to 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.

Further, innovation is not only an economic concept; it can also exist in non business or social organisations. Indeed, social innovations, for example by government agencies, may prove key ingredients in transforming the aspirations and achievements of people living in deprived areas.

The key questions emerging here are:

- What competitive advantages exist in deprived areas? How can policy makers build on these advantages in order to promote innovation?
- What potential is there for innovative public policy measures to promote urban renewal in deprived areas?

5

Next Steps

The European Learning Network will, over the next months, engage practitioners and policy makers from across Europe in a dialogue on the promotion of innovation – both economic and social– in deprived areas.

In its various manifestations across Europe innovation has the potential for overcoming disadvantage in deprived urban areas. By tackling the barriers to innovation, and building on comparative advantages, policy makers can begin to attract innovative businesses to deprived areas. Such policy measures – which, crucially, must work to prioritise innovative approaches themselves – are particularly valuable as they have the potential to bring lasting economic prosperity to deprived areas, which is sustainable long after public funding has run out.

The LNet Learning Method is a process of continuous learning, from experiences, policy developments, on the ground initiatives and discussions.

The LNet Learning Method on innovation includes:

- **The completion of a questionnaire on innovation in the different partner cities, enabling comparisons and enhancing mutual understanding**
- **The preparation of quality assured case studies**
- **Structured dialogue with practitioners and field experts**
- **The refinement of a toolkit to support local actors in their policy and project activities**
- **The development of follow up policy recommendations**