

Public summary of PhD-thesis of Rob Heine

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EU subsidized innovation: too complex, too rigid and too costly

The EU has subsidy arrangements to promote innovation in small and medium sized enterprises (SMEs). In this study, 8 entrepreneurs who participated in OP Zuid (a subsidy arrangement for the south of The Netherlands), a consultant of the executing party of this arrangement and some subsidy advisors were interviewed. This led to 240 pages of transcribed interviews which were analysed using grounded theory method. The goal was to gain insight in their experiences with EU subsidized innovation and to produce an EU agenda to enhance the effectiveness and efficiency of the EU subsidy policy.

The study shows that:

- The institutional context of the OP Zuid subsidy practice can be characterized as a 'red tape jungle' (red tape = bureaucracy). Many parties are or can become involved, and the degree of detail in the OP Zuid arrangement is very high. This leads to high execution costs for the subsidizing government agency (the European Regional Development Fund), and high transaction costs for the entrepreneurs.
- The executors of the subsidy have little discretionary power to accommodate entrepreneurial flexibility needs during the innovation process. They are heavily restricted by the 'chain of accountability' of which they are a part.
- Participating in a subsidy arrangement inhibits the entrepreneurial flexibility. The entrepreneurs have to produce a detailed plan of the activities necessary to realize the innovation and a budget plan of the costs that will be involved. Only costs that are projected up front are subsidized. There is little room for changing direction without losing the granted subsidy.
- The policies that are implemented to prevent wasting taxpayers' money, actually cause such waste, as they result in a regime of organized distrust that is costly for both the executing party and the participating entrepreneurs.

Having identified the main 'hurdles' in the subsidizing process from an entrepreneurial perspective, we present a proposal for an EU agenda to enhance the effectiveness or efficiency of subsidized innovation, in two variants. The 'small but realistic' steps of an incremental route and the bold and straight to the root cause approach of the disruptive route.

The incremental route

In the incremental route (coined the 'German style' approach), interventions aimed at enhancing the transparency and the interface (for instance developing a 'click your way through' application form) of the present arrangement are the first steps suggested. Then interventions aimed at enhancing the arrangement itself would be on the agenda. The last steps on this route involve reducing the amount of parties involved and the complexity of the 'chain of accountability' that binds them together. The combination of these two factors was identified as the root cause of the inflexibility and red tape involved.

The disruptive route

In the disruptive route (coined the 'French style' approach), these interventions are presented in roughly the other way around. Now interventions aimed at reducing the amount of parties involved and simplifying the chain of accountability are the first steps. Then the interventions aimed at enhancing the arrangement are on the proposed agenda. Last element to be tackled in this route, is enhancing the execution of the arrangement.

Visitors in a strange land. Subsidized innovation in SMEs. Supervisors: prof. Mathieu Weggeman, TU Eindhoven, prof. Sjoerd Romme, TU Eindhoven, dr. Jimme Keizer, TU Eindhoven.