



Lithuanian  
Confederation  
of Industrialists

This document is a summary of the discussion on “Industrial competitiveness: how to respond to innovation challenges”, which took place in Vilnius, Lithuania, on 15 June 2015. The meeting was organised together with the Lithuanian Confederation of Industrialists.



**European Economic and Social Committee**

## **Employers' Group**

### **About the Employers' Group**

The Employers' Group brings together entrepreneurs and representatives of entrepreneur associations working in industry, commerce, services and agriculture in the 28 Member States of the European Union. Its members are genuinely committed to putting their experiences to good use in order to further the European project.

The European Economic and Social Committee is the only European institution that brings together entrepreneurs and people fully involved in the economic and social life of their home country. It puts the views of business across at European level.



**European Economic and Social Committee**

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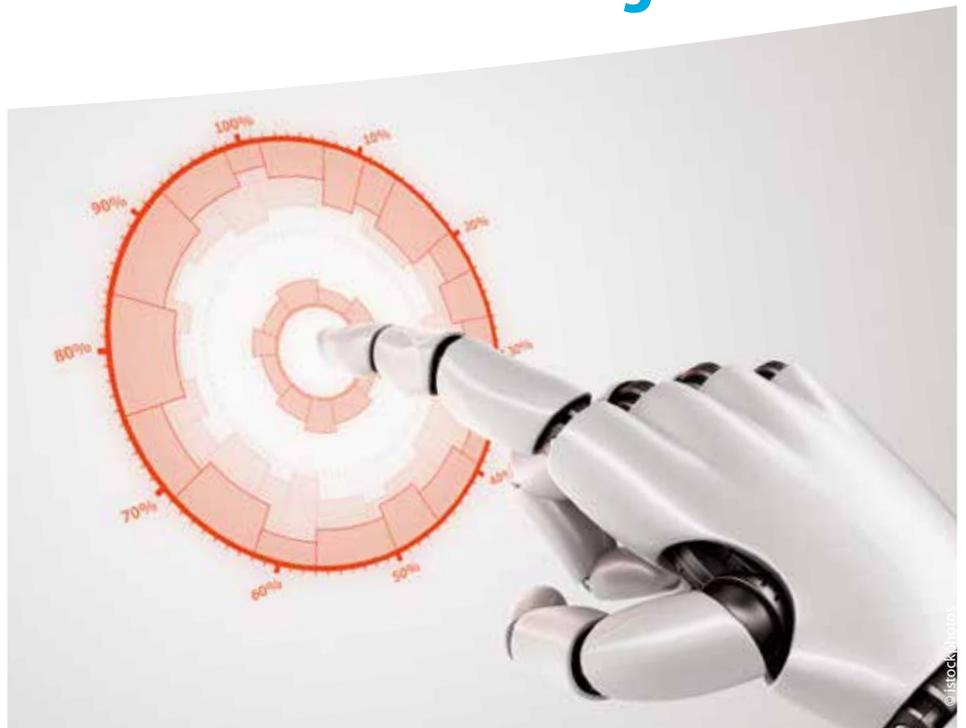
# Industrial competitiveness how to respond to innovation challenges?

Over the past 5 years, 6 million jobs have been lost in the EU, compared to 1 million in the US and Japan combined. The overall tax burden in the EU is 50% higher than in the US and 30% higher than in Japan, and administrative requirements for starting up a new business are 3 times more burdensome in the EU than in competing economies. The EU is less flexible in terms of innovation than other economic powers such as the US and some Asian countries, a fact which was highlighted by the economic crisis. Furthermore, there are substantial differences between EU Member States in the way they treat innovation. Against this background, participants at the conference discussed ways in which innovation could be fostered at EU level, how to create favourable conditions for growth and develop a culture more open to risk-taking. Other main themes were how European companies could benefit from Industry 4.0, how a common European approach towards innovation could be reached and how Lithuania could become more innovative.

## HOW TO FOSTER INNOVATION AT EU LEVEL?

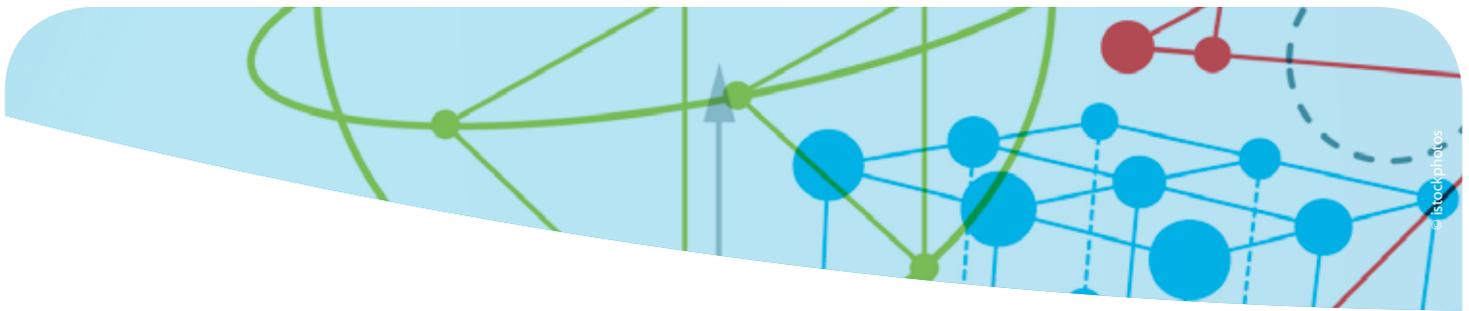
The business sector in Europe believes it is time to redefine EU priorities, by putting competitiveness first, implementing the better regulation agenda and offering better support for innovation. To improve the environment for investments in innovation and to address issues underpinning it, an appropriate framework must be put in place. Such a framework must include the following:

- reaching agreement on the TTIP, in order to urgently improve EU companies' access to the US market by eliminating tariff and non-tariff barriers;
- improving access to finance, in particular for SMEs, by



- implementing the banking union, improving the lending capacity of banks but also supporting alternatives to bank lending, including equity venture capital;
- ensuring the smooth functioning of Economic and Monetary Union, by carrying out necessary structural reforms at national level, reducing public spending and prioritising investment rather than tax increases;
- improving digitalisation, by promoting the digital single market and removing existing legal fragmentation, as this could add more than EUR 2000 billion to the EU's GDP by 2030.

It is a real concern for European businesses that the legislative process in the EU is too slow for the rapid pace of technological changes. The digital single market is expected to be implemented over 4 or 5 years, by which time the EU's competitors will be far ahead. A sense of urgency needs to be instilled in the minds of decision-makers. The business sector in Europe is hopeful that the legislative pace can be stepped up to match the pace of technological change. Meanwhile, Europe should get rid of overregulation where this impedes the development of innovative technologies. At present it is very expensive to do business in Europe and many innovative companies choose to relocate.



Europe needs to regain the global leadership in innovation, create the right conditions for investments and promote stronger collaboration between universities and business. Furthermore, the EU must promote smart legislation and get better at putting together skills, know-how and entrepreneurship.

The business sector in Europe agrees with the recommendations of the 2015 OECD Innovation Strategy and its 5 conditions for innovations to thrive:

- a skilled workforce that can generate new ideas and technologies, bring them to the market and implement them in the workplace;
- a sound business environment, requiring common rules for EU Member States and predictability, rather than state subsidies;
- a strong, efficient system for knowledge creation and diffusion, requiring strong ties between universities and businesses;
- policies that encourage innovation and entrepreneurial activity, often at regional or local level; 5) a strong focus on governance and implementation, as Europe could benefit from a horizontal approach and the wider adoption of programmes such as Industry 4.0.

Additionally, to truly foster innovation, Europe needs also to change its mind-set. Europe needs to develop a willingness to take risks, accept that failure is a possibility when starting a business and welcome venture capital as an alternative form of funding.

## PROMOTING INDUSTRY 4.0

The fourth industrial revolution is digital, revolving around the power of the internet and 4 megatrends: mobile technologies, social media, big data and cloud computing. Entrepreneurs have to step up their efforts and embrace these new ways of doing business in order to become competitive, by utilising the internet as a sales channel and adopting these 4 megatrends.

Industry 4.0 started as a German growth initiative intended to take advantage of ongoing technological innovations. It involves the horizontal and vertical connection, communication and cooperation of products, services and people. The underlying vision

is that products and services can be interlinked and new innovative value chains can be created. Industry 4.0 also envisages intelligent machines raising productivity and producing at a much cheaper price. Huge-scale fragmentation of the value chain is already being brought about. This facilitates a far more important role for SMEs in the value chain and offers a larger market share for start-ups.

Furthermore, consumers become customers, as they will be able to personalise products and services and place tailor-made orders directly suited to their needs. Companies will be able to monitor what customers want and be more geared to offering it to them. Thus, the fourth industrial revolution focuses not only on manufacturing and technical innovation but also on social innovation. It can also create regional supply systems and regional ecosystems as a business innovation allowing suppliers to do the manufacturing themselves.

Meanwhile, good initiatives facilitating Industry 4.0 have been launched at national level, and best practices should be exchanged. For instance, public-private partnerships are required to foster innovation and harness the benefits of the digital revolution. Further funding can be secured through Horizon2020, the European Commission's flagship programme for innovation.

Countries and regions must learn to choose their battles wisely, identifying industries where they can be strong. Once priorities are identified, venture capital and the Structural Funds can help develop the industries which might be able to bring a competitive advantage to that country or region. Furthermore, companies should create synergies in order to develop innovative businesses. To this end, they could create field labs where ICT companies could meet and start coaching programmes for those who are ahead to pass on their expertise.

Europe also needs an appropriate legislative framework e.g. in the field of data protection and copyright.

## A COMMON EUROPEAN APPROACH TO INNOVATION

While it is important to invest in technological innovation, this does not have an economic value in itself. In order to create





economic value, innovations have to be brought to the market. For this, a collaborative approach is needed from all those involved. Innovation is not only about companies, but also governments and educational institutions. These three types of actors must understand each other's agendas and learn to cooperate in a productive manner.

When it comes to governments, there are differences in EU Member States' acceptance of the existing paradigm shifts. Some have already embraced Industry 4.0 and an innovation-friendly approach, while others are still resisting changes. The role of the European Commission and the EESC is to spread information and push for the creation of common standards.

To succeed, businesses require the services of skilled people who can understand the technological changes taking place and adopt innovative business plans. Jobs in the companies of the future will be different in nature from today's jobs. Employees will need to join the digitalisation agenda. Thus, we must adapt and match people's skills to these new jobs and to the requirements of a modern, more innovative society. For this, better cooperation between businesses and universities and research institutes is needed.

Universities should become more entrepreneurial. At the moment, the link between businesses and academia in Europe is suffering. Europe is aware of the importance of education, but so far the applicability of existing research has been low. To change this, partnerships between technology schools and business schools must be developed. With the creation of such partnerships, young people pursuing technical studies would have a better understanding of what businesses need and of the requirements to succeed on the marketplace. More students would become less risk-averse, more attracted by a career in the private sector rather than an academic career and more ready to take part in innovative ventures.

In addition to this, trade unions should not act defensively, and, when it comes to innovation, should take a collaborative approach instead of a counterproductive, confrontational one. Trade unions must work together with employers to push for better policies facilitating innovation and Industry 4.0, because this is where the jobs of the future will be created.

Businesses also need to make sure they are able to create an environment where employees are engaged and better able to use their knowledge, skills, creativity and experience. In order to foster workplace innovation, companies must facilitate good conditions and apply appropriate human resource management.

## INNOVATION IN LITHUANIA

At present, Lithuania is an average innovator. Industry invests less in research and development than the other Baltic states and the EU average. Scientists are incapable of offering the right kind of research for industry. Furthermore, despite being able to boast a large proportion of people with higher education, those who aim for higher education in Lithuania are more inclined to choose social sciences than exact sciences, which means that their input into developing new technologies is limited.

When it comes to funding, Lithuania needs to attract more venture capital. The venture capital that arrives in Lithuania comes mainly from the US or Israel. Often, start-ups that attract venture capital relocate abroad, in particular to Silicon Valley. Capital Markets Union will hopefully increase the amount of venture capital in the EU. Setting up venture capital funds in Lithuania should improve start-ups' possibilities of receiving financial capital. The Lithuanian business sector is looking forward to a successful TTIP agreement which will allow more flexibility for US funding in Lithuanian companies.

On the positive side, industry accounts for 20% of the country's GDP and Lithuania is the only European country where industry has been growing in the last 10 years. Minor innovation is needed in design and management processes but there is no need for any significant changes in innovation strategy. The changes that need to be made have already been identified, with the priority being to increase the number of young people with PhDs in technical studies through advertising campaigns. Lithuania has also already had significant success stories, having found comparative advantages in the laser and biotechnology industries.

