

The Lisbon Council asbl

**Human Capital Index of European Regions for the Purpose of
Advancement of Economic Development and Social Inclusion
in the Short-, Medium- and Long-Term**

Executive Summary

I. Key points

The action was devised in the context of the Europe 2020 Strategy and intended to apply human capital methodology, which up to then had only been examined in the national context, to the regional level of the European Union. The action had four main objectives:

1. **Research:** to adapt the Human Capital Matrix to European regions. This would enable regional policy makers to evaluate the effectiveness of their human capital policies with regards to economic growth and social inclusion;
2. **Policy:** to evaluate human capital-development policy actions in regions and to study how successful regions (1) attract and retain people in employment, (2) improve adaptability of workers and enterprises, and (3) increase investment in human capital through skills matching and upgrading;
3. **Partnership:** the Lisbon Council established important, viable working relationships in the field of human capital with the EU2020 Regions Network and Navarra Region;
4. **Dissemination:** to raise awareness of the role of human capital in economic growth and development and ensure the findings and recommendations would be studied in policy-making circles where they would be most effective.

The action had the following findings, recommendations and results:

1. **Success in human-capital development can be closely tracked by four indicators, which the study identifies as Human Capital Leading Indicators**

Of the hundreds of policies a regional leader has at her or his disposal, detailed statistical analysis of regional human-capital performance shows there are four key indicators where good performance can be closely correlated to local prosperity. If a region can score well in all four, that region is likely to be a wealthy, prosperous and socially cohesive one. The Human Capital Leading Indicators are:

- a. The number of complex jobs in a region or city;
 - b. The number of jobs available for young people and the ease with which young people can find employment;
 - c. The ability to get the unemployed back to work (thereby avoiding high levels of long-term unemployment), and
 - d. The intensity of investment in research and development and the volume of local patent applications, a proxy for the “innovativeness” of the region.
2. **In human-capital terms, regions vary more among themselves than countries do**
Regions within countries vary more among themselves than countries do. The study shows that, in terms of their human-capital profile, Europe’s 271 NUTS 2 regions can be classified into four broadly similar groups: Densely Populated Northern/Anglo Regions; Densely Populated Continental Regions; Thinly Populated West European Regions and Ex-Communist Regions.
 3. **The Europe 2020 Strategy should focus more on regions**
The Europe 2020 Strategy is right to focus on human capital as a key component of European development. But the strategy should contain more precise targets and recommendations for regions and regional policy makers if it hopes to be effective.
 4. **Cities and regions should appoint human capital managers**
Given the vast importance of local decisions to successful human-capital policy making, cities and regions should appoint regional human capital managers to coordinate, evangelise and implement better human-capital creation and deployment.

II. Background

The action was devised in the context of the current Europe 2020 Strategy and intended to apply human capital methodology, which up to then had only been examined in the national context, to the regional level of the EU. It was targeted at all interested stakeholders.

III. Who is your action targeted at?

The action is targeted at EU-level policy and decision makers, national/regional/local-level policy and decision makers, social, economic/business partners, civil society, NGOs, academia, experts, think tanks, media and journalists.

IV. Aims/objectives of your action

The action “Human Capital Index of European Regions for the Purpose of Advancement of Economic Development and Social Inclusion in the Short-, Medium- and Long Term” was structured with the purpose of identifying policy actions which have proven successful on a regional level to 1) create human capital, 2) mobilise human capital, and 3) increase human capital productivity. All three levers have the targets of a) increasing regional economic output, b) spreading the benefit of increased economic output via social inclusion and social mobility broadly, and c) emphasising sustainable economic growth by minimising adverse impact on natural or cultural resources.

The project had four main objectives: furthering research, evaluating policy actions, developing partnerships and dissemination of the results.

a. Research

The research objective of the project was to adapt the Human Capital Matrix to regions. This would enable policy makers to evaluate the short-, medium- and long-term effectiveness of their human capital policies with regards to economic growth and social inclusion.

b. Evaluating policy actions through case studies

The objective was to evaluate policy actions in regions that serve as case studies and to study how the regions (1) attract and retain people in employment, (2) improve adaptability of workers and enterprises, and (3) increase investment in human capital through skills matching and upgrading.

c. Development of partnerships

The Lisbon Council initiated a partnership with the EU2020 Regions Network (formerly the Lisbon Regions Network) in general and six of its members (Bratislava, Emilia Romagna, Helsinki, Sofia, Stockholm and West Midlands) which agreed to serve as case studies for this project in particular. The region of Navarra, which is not an EU2020 Regions Network member, also agreed to take part. By agreeing to serve as case studies, the regions made a substantial commitment to the partnership and the project. As part of their obligations as the subject of case studies, they agreed to set up several interviews for the research team in their respective region, provide pertinent (statistical) information, make a contact person available for the duration of the study and take part in brainstorming sessions as well as the concluding event, the Human Capital in European Regions and Cities Summit. Since the beginning of the project, the Lisbon Council kept the secretariat of the EU2020 Regions Network abreast of key

developments and milestones. In addition, it involved the EU2020 Regions Network closely in the preparation and conception of the Human Capital in European Regions and Cities Summit. The two organisations – the Lisbon Council and the EU2020 Regions Network – co-hosted the event and members of the entire EU2020 Regions Network (and not only the seven regions which served as case studies) took part in the event, thereby increasing visibility of the action, as well as the reach of dissemination.

In addition to the partnership with the EU2020 Regions Network, the Lisbon Council also initiated a partnership with the region of Navarra. This region was chosen because of its deep commitment to – and track record of – investing and nurturing talent, skills and human capital. Furthermore, Navarra is a global leader in the area of eco-innovation, and it was our intention to shed light on the human capital dimension of excellence in this emerging new field of technology and services, which are expected to create many future-oriented, green jobs. All in all, the partnerships with the EU2020 Regions Network and Navarra region have been very fruitful, as well as based on mutual trust and professional respect which culminated in a successful Human Capital in European Regions and Cities Summit at the end of the project on 28 February 2011.

d. Dissemination of the results

Dissemination of the results was a top priority of the project. The Lisbon Council gave the study broad distribution through a specially organised e-mail “blast” on the day of the launch, which sent the study to more than 5000 VIPs and policy makers throughout Europe. In addition, it organised the Human Capital in European Regions and Cities Summit with key regional stakeholders to discuss the results (the keynote was delivered by László Andor, commissioner for employment, social affairs and inclusion; Dirk Ahner, director-general of DG Regional Policy and Xavier Prats Monné, deputy director-general of DG Education and Culture co-chaired a working group analysing the implications of the study for EU regional policy). In addition, the Lisbon Council organised an intensive, half-day “deep-dive” debrief with the seven regions in the study, in which a detailed account of the results was presented and analysed together with the case-study participants. In addition, the study remains available for downloading on the home page of the Lisbon Council website.

V. Results/key findings

The study has the following key findings:

1. Success in human-capital development can be closely tracked by Human Capital Leading Indicators, which are four indicators that the study identifies as closely linked with regional prosperity

Of the hundreds of policy targets a regional leader can choose, detailed statistical analysis of regional human-capital performance shows there are four key indicators where good performance can be closely correlated to local prosperity. If a region can score well in all four, that region is likely to be a wealthy, prosperous and socially cohesive one. The Human Capital Leading Indicators are:

- a. The number of complex jobs in a region or city;
- b. The number of jobs available for young people and the ease with which young people can find employment;
- c. The ability to get the unemployed back to work (thereby avoiding high levels of long-term unemployment);

- d. The intensity of investment in research and development and the volume of local patent applications, a proxy for the “innovativeness” of the region.

Statistical analysis shows that, taken together, these four indicators serve as an excellent forecaster of overall performance in economic development and regional prosperity, explaining fully 71% of regional differences in gross domestic product per capita in a multivariate linear regression. In other words, policy makers who can successfully deliver in these four areas are destined to do well in attracting, retaining and deploying human capital in ways that will give tangible economic and social results to their regions and cities. The study found that other human capital indicators – such as the share of the local population with tertiary education, the employment of 25- to 35-year-old women or the employment rate of the elderly – are much less precise predictors of prosperity for a region. For this reason, we chose to call the main four statistical checkpoints Human Capital Leading Indicators, and we recommend that regional administrators build and develop their human-capital strategy around improving their performance in these areas.

2. Regions vary more among themselves than countries do

Regions vary in human-capital performance more among themselves than countries do, based on close comparison of Human Capital Leading Indicators at the national and regional level. What’s more, the Human Capital Leading Indicators have less predictive value at the national level than they do at the local level due to the homogenizing effect of national statistics. This has important implications. Nations, because they are made of collections of regions, often contain vastly different levels of human-capital development within them – differences whose special characteristics are somehow lost when statistics are aggregated at the national level. Therefore, it is particularly hard for national administrators to improve or target widely varying human capital situations with a single, one-size-fits all human capital policy. Because of this, we recommend that many human capital development decisions and strategies be delegated to the regional level, where they can be most effective. Nations should also make sure that regions have the authority and resources they need to develop successful human capital strategies.

3. The Europe 2020 Strategy should focus more on regions

The Europe 2020 Strategy, adopted by European heads of state and government in March 2010, is half right: it is right to focus on human capital as a key component of European development; it is wrong to address the member states rather than the regions as the principal decision maker in this field. Of the Europe 2020 Agenda’s five explicit targets, four targets are explicitly human-capital related. This makes Europe truly unique: it is the only major global actor which has come out so clearly and forcefully with a strategy for future prosperity based on human-capital development. But the programme misses the larger point – if you want success in human capital development, you will have more chances by going directly to the local level, where policy making is most direct and effective. Therefore, we believe the Europe 2020 programme should “ensure that each European Region tailors the Europe 2020 strategy to its particular situation and translates the EU goals into regional targets and trajectories.”

4. Cities and regions should appoint regional human capital managers

Given the vast importance of local decisions to successful human-capital policy making – and the need to ensure that flagship national and European initiatives like

Europe 2020 are effectively implemented – we believe cities and regions should appoint regional human capital managers to coordinate, evangelise and implement better human-capital-raising policies at the local level. Successful regions are already doing this, such as the seven regions studied in the paper. In each of those regions and cities, this vital task was taken up by informal networks or formally responsible agencies, coordination groups, task forces, locally committed NGOs or just enthusiastic individuals who, by their actions and agenda, have become largely self-appointed human capital managers for their region. Should the policy of appointing regional human capital managers ever be systematized and more broadly adopted, the human capital manager would design, develop and seek to implement a human capital strategy for the region. Such a strategy would steer and focus resources to those levers that achieve the most, and disregard levers that are less effective. The kaleidoscope of coordination and prioritisation by the regional human capital manager could include:

- a. the shaping of educational institutions from kindergarten to adult learning towards the needs of the regional economy;
- b. the attraction of particular types of industries and businesses;
- c. the fostering of particular types of innovation and entrepreneurship;
- d. the provision of childcare facilities for working parents;
- e. the integration of peripheral social groups into the labour market, and more.

By formulating and articulating a regional or local human capital strategy, the human capital manager will identify a few critical targets against which the public can hold him or her and all other decision makers in the region to account.

VI. Implications for relevant stakeholders

Policy makers should focus their regional policies on improvements in the Human Capital Leading Indicators identified in the study. Statistical analysis shows that success in these four indicators is a very good proxy for overall success in the human capital field.

Policy makers in the EU should focus much more on the regional level than on the national level if they want to fulfil the Europe 2020 Strategy's goals, because the regional level is where the real power to initiate and manage change lies. Policy makers in regions should appoint a manager for their human capital strategy.

VII. Conclusions

Even in an age of globalisation, the village remains our principal point of contact with the outside world. It is the place where we raise our families, earn our livelihoods, build our homes, develop our social connections and invest the vast majority of our time. It is the first point of contact most people have with government, policy, regulation and public administration. And, precisely because so many of us now enjoy unprecedented choice in our decisions of where to live, it is still the place where policy makers should look first if they want to conceive and deliver the kind of improvements that will sustain our way of living for generations to come. That is the central conclusion of the study. The challenge may indeed be global – but the solution is local.

The evidence presented in the study shows that human capital – and human-capital development – are areas where local policies can have the fastest and most direct effect. After all, nations are only collections of regions, many of them having less in common with their

neighbour than with their peers in far-away lands. Nations may worry about human capital, but it is the cities and regions within them that do the most to determine how much of it there is, how effectively it is deployed and how much value it will be able to create.