

Early feedback from interactions with Alsace, Aquitaine, Centre, Limousin and Rhône-Alpes

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I - What Regional policy makers have difficulties to understand but is important

Granularity

Nor sectoral level neither individual firm level: the fact that S3 is not about sectoral prioritization is well understood but more difficult to understand is that you cannot prioritize just one innovation project within a firm (even if there are partners). The argument is: 1) we talk of *specialisation* ; and a region cannot specialise in one innovation happening in one firm; 2) at the very micro-level we see too many good projects – all with some merits so that: 3) more horizontal instruments are designed to support and subsidize the costs of innovation everywhere in the system.

The relevant level to observe, detect and set priorities is of “mid-grained” granularity - the *activity level* at which :

- new activities/projects are involving a group of firms and other (research) partners,
- aiming at exploring a new domain of (technological and market) opportunities;
- which has potentially a certain weight, of a high significance relative to the regional economy (in terms of the kind of structural changes it is likely to generate)

Entrepreneurial discovery projects

The more I am involved in discussion with regions the more I think that the concept of entrepreneurial discovery (*ed*) is absolutely central. Not only because of the word *entrepreneurial* , which is about forcing regions to design an efficient and modern governance mechanism (bottom up; not replicating the soviet plan; entrepreneurial knowledge is the critical input) but also because of the word *discovery*:

Entrepreneurial *discovery* occurs one step earlier than (precedes) innovation:

- This is what will increase the likelihood of many innovations in the near future.
- Because it is one step earlier, the appropriability issue is different than what is usually considered in the case of innovation (IPR, patent, secrecy); here the goal is to maximize the informational spillovers about the value of a new domain; the exploration/discovery process can be and actually should be collective (to maximize complementarities, synergies, critical networks).

-Finally, (in contrast with innovation as new product/process) the word *discovery* means that it is about transforming the economic fundamentals of a sector or between sectors to build new competitive advantages. Discoveries inform where the next specialisations should occur!

Ed is obviously important for less advanced regions but also useful to show the value of S3 in the case of leading regions (“*Yes you are good in innovation, are you as good in entrepreneurial discoveries?*”)

To link the two first ideas (granularity and **ed**): setting S3 priorities involves identifying or constructing these **ed projects** or *new activities aiming at exploring, experimenting and learning what an industry or subsystem should do in terms of innovation n and R&D to improve its situation.*(table below on the scope of S3)

Logic of novelty	Innovation	entrepreneurial discovery
Granularity		
Individual firms	Horizontal policies (many tools)	Not applicable*
Activities		S3
Sectors (other macro structures)	Old fashioned industrial policy	State as entrepreneur/large technological project (nuclear, transport, xx)

*it is rare today that *ed* can be done by one single actor

Going one step further than the *business as usual* exercise of identifying broad themes and domains

This again is important and very difficult but very much needed. Presently all regions are good in making a diagnostic that results in such a thematic or topic structure (clusters, poles de compétitivité (in good French), synergies and intersections and so on and so forth). It is very difficult to make it clear that **this is just a starting point** of the S3 process. **A step further** means that after this structural exercise remains the task of identifying (or constructing) the **ed projects**. Presenting **only** a thematic structure as the S3 is a failure because we do not see the firms’ implications, the projects, the potential move towards real structural effects. A structure is a structure. This is static. By definition the S3 is not a structure but a process and as a process it will generate a new (more diversified) structure.

And so in all French regions I am interacting with, we are at the critical moment of moving from the structural analysis to the **ed/new activities identification**. It is difficult because limiting S3 to a simple identification of themes is very comfortable: you can put everything in the themes and that will make the life of the politicians easier! Themes have some elasticity property ☺ : for example take a single firm which is innovative in a narrow niche of renewable energy based on biomass; the region cannot specialize in that because there is only one actor but the firm will be very unpleased . So let’s create a broad theme (biology and energy) and you can put it in. But we cannot call this specialisation! This is just a (more sophisticated) way of spreading the money.

So it is difficult but this passage (from broad thematic structure **to ed projects**) is mandatory!

The center of gravity of S3 is firms (or let's say entrepreneurial process) not public research

I realized this after having experienced some (light) hostility from the public research representatives during meetings in regions and I understood that the ERDF was mainly used in many regions to finance and develop the public research capacities (with one bad justification: other funding mechanisms such as FP7 are too competitive!). However, the rationale of S3 is to finance **ed projects** not public research as such. Public research will get its part of ERDF of course but as partners in and contributors to **ed projects**.

This is an important point but not so easy to explain because what we say: "the focus is firms" and what they see "the objective n°3 of the cohesion policy which is firms' competitiveness is not included in S3 conditionality" are somewhat in contradiction (although I understand now the point about firm's competitiveness as not part of the S3 conditionality).

II – What regional policy makers like and is important

Inclusiveness

The idea of an inclusive S3 does not mean that we need to have one priority for each sector (that would be very technocratic!) but that every sector should have a chance to be present in S3 with a strong **ed project**. The point is that it is relatively easy to identify good **ed projects** coming from the most dynamic parts of the economy (i.e. in the high tech clusters) but just taking these projects would make a very narrow S3 and will not be efficient since these are precisely the less dynamic sectors that desperately need structural changes! A good S3 policy process will not be the one that puts the basket under the tree and wait for the 6 first ripple apples falling down into it; would it not be also useful to try to catch some apples that are more difficult to discover and to get? I have introduced this idea with the little tale of the sleeping giant (agro-food), the excited goblins (the high tech clusters with so many great projects) and the hungry dwarfs (SMEs with poor capabilities).

Again inclusiveness does not mean that *there will be something for everybody*. Rather it means that everybody can be in if...strong **ed projects** are built (a big if of course for the sleeping giant and the hungry dwarfs).

Inclusiveness is a strong idea that policy makers like because it makes S3 more broadly acceptable by stakeholders and the broad society. However, I think it is important not just because policy makers like it; this is also a matter of efficiency in resource allocation.

Policy makers acknowledge the fact that inclusiveness increases the level of difficulty for practical implementation. For example, the fact that in some (dynamic) parts of the economy good **ed projects** are likely to be found easily and rapidly while in other parts this will take time and policy effort (to construct these projects) implies different timing and therefore a principle of spreading out the funding: a couple of priorities can be set at t1 while a few others will be set at t2 or t3 just to give time for building strong **ed projects**.

Priorities taken now will change in the future

Policy makers like the idea that priorities are not taken for ever: after 5/6 years the activities that were prioritized at t1 have perhaps succeeded perhaps failed but in any case they are no longer new! So they should exit and as mature activities those that have succeeded will finance their innovation expenditures through more horizontal instruments. And so at t5/6, truly new activities will take their place in the S3. With that we introduce the idea that S3 is a dynamic process; new decisions will be taken soon; those not selected today will get a new chance the next time.

Footnote: the idea that priorities need to have a clause for exiting S3 after an appropriate amount of time has elapsed is aligned with the new thoughts of Competition DG about the limitations of funding and aid addressed to innovation clusters (Issues paper : *revision of the state aid rules for R&D and innovation*; 12.12.2012)

Horizontal policies can be included in S3 as for maximizing the likelihood of *ed* in the near future

It is understandable that regions still need ERDF to finance such horizontal programs like incubators, improving the innovation culture of SMEs or developing better mechanisms for technology transfers. This can be part of S3 because all these sorts of horizontal (or transversal) actions are supposed to help the ***ed process*** in the future. But this should not be done at the cost of ***not*** financing the vertical priorities, which is the main goal

III The key point

The passage from structural analysis of clusters, strengths, synergies and so on to the identification of ***ed projects*** is the main issue: crucial and difficult. The mental vision of a regional politician is to put "all the good things" in the S3 showroom (for good and bad reasons). They start accepting to be sharper in choice and to go one step further in identifying ***ed projects*** beyond the simple definition of broad themes, as they understand the granularity level, the centrality of ***ed***, inclusiveness and the evolutionary logic of S3; i.e. S3 is a process not a structure!