



Study on the development of diagnoses and regional innovation strategies in the French regions under the ERDF Operational Programmes for the 2007 – 2013 programming period

Summary

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Study carried out by ADE in collaboration with LL&A

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Summary

This summary relates to the study mission on the *development of diagnoses and regional innovation strategies in the French regions under the ERDF Operational Programmes for the 2007-2013 programming period*.

This mission was carried out by the firm *Aide à la Décision Economique* (ADE), in partnership with Louis Lengrand & Associés (LL&A), between January 2009 and June 2010 at the request of the European Commission. This summary engages only its authors and does not necessarily reflect the opinion of the European Commission.

1. Context of the study

Lisbon Strategy and “Europe 2020”: priority to innovation and the knowledge economy

Innovation and the knowledge economy are determining factors for maintaining the European Union’s competitiveness, and thus for growth, investment and employment objectives.

For the 2007-2013 period, the Commission decided to concentrate cohesion policy interventions around the three priorities of the Lisbon and Göteborg strategies. The first consists of encouraging innovation, entrepreneurship and growth of the knowledge economy by supporting research and innovation. This priority is taken by the French *National Strategic Reference Framework* (NSRF) which planned that nearly 45% of ERDF funding allocated for the 2007-2013 period would be directed in this field, thus contrasting with the relatively limited amounts of the previous programming period.

The cohesion policy thus constitutes the main tool of this strategy’s implementation over the 2007-2013 period, in particular through its “*Regional Competitiveness and Employment*” and “*Convergence*” objectives.

Regions have a key and growing role to play in these fields. Although innovation and research policies are generally initiated at the European and national levels, it is mainly at the regional level that the concrete actions are deployed, articulated and coordinated. The territorial dimension remains essential and innovation can thus only be approached in a global and partnership way, at the level of the “*regional innovation system*” by involving all the players of a territory, whether they are public or private, institutional or operational by involving them in a collective dynamic. The territorial dimension of the innovation policy also makes it possible to adapt the policies to regional and local specificities.

But innovation cannot be decreed. It is not enough to increase the means or to declare one's intentions to generate innovation and ensure the effectiveness of the action of public authorities in this field. A strategy should also have a global vision in order to be formalised, by involving the decision makers, the players and the companies, by setting up the conditions of interaction and open and transparent modes of governance.

It is the true challenge to take on, complex and participative, but it is a virtuous process which gradually enables the development of innovation potential in the regional territory.

In order to help the regions better tackle this matter, the Directorate General for Regional Policy (DG REGIO) and the Interministerial Regional Planning and Development Committee (DIACT) set up a working group on innovation which met in 2005 and 2006. The group made a report "le défi de l'innovation, l'enjeu de la gouvernance" (*"the challenge of innovation, the issue of governance"*)¹ which raises a number of questions and offers some recommendations that could guide regional partners in the preparation of the Operational Programmes (OP) and the development of their strategies with respect to innovation.

This shared reflection confirmed not only the strategic emphasis on the policy of supporting innovation, but also the leading role given to regional partners and the importance of open modes of governance to define and implement strategic priorities.

Situation of France in Europe in terms of innovation

According to different sources, the majority of French regions are at risk of falling behind in terms of innovation. France is ranked tenth among European countries on the European innovation scoreboards. It is regarded as an "innovation follower" and only three regions were ranked above the European average in 2006 (*Ile-de-France, Rhône-Alpes and Alsace*). France has two types of problems: not only too small investments in R&D and innovation, but also innovation policies which are not "efficient" enough (*in terms of obtained results in comparison with the volume of mobilised resources*).

Negotiation of the Operational Programmes and formalisation process of the RIS

Innovation was thus one of the key issues of the ERDF OP for the 2007-2013 period and the concentration of the ERDF OP's means on this theme marked a profound change in France compared to the 2000-2006 period.

ERDF funding devoted to innovation for the 2007-2013 programming period has appreciably been increased compared to the previous 2000-2006 period in all European Union countries. The effort made by France deserves to be stressed with 31.4% of ERDF

¹ "Le défi de l'innovation, l'enjeu de la gouvernance: Contribution à la réflexion sur le cadre de références stratégique national et la préparation des programmes opérationnels de la politique régionale européenne 2007-2013 dans le domaine de l'innovation" (*"The challenge of innovation, the issue of governance: contribution to the reflection on the national strategic reference framework and the preparation of European regional policy operational programmes for 2007 - 2013 in the field of innovation"*), summary of the work of the working group concerning innovation co-steered by the DIACT and DG REGIO, March 2006, <http://www.drrtmip.cict.fr/IMG/pdf/060331RapportGroupeInnovationFinal.pdf>

funding but it remains behind however compared to European leaders, such as Denmark (69.2%), Finland (54%), Austria (49.2%), the United Kingdom (45.8%) or Sweden (45.6%).

Beyond an appreciable increase in the amounts devoted to innovation, the issue for the 2007-2013 OP was also to place innovation at the heart of the regional development strategies and to reinforce the effectiveness of the authorities' action in this field.

The OP projects presented by regions in 2007 failed to fully meet the expectations and the questions raised by the working group on innovation jointly set up in 2005 by the DG REGIO and the DIACT in order to help regions better approach this theme.

In order not to delay the OP's adoption during negotiations, the *European Commission* proposed to add to the programmes a measure intended to formalise a consolidated *Regional Innovation Strategy (RIS)* in two years' time which could be validated by the programmes' *Monitoring Committees* by the end of 2009. This proposal was accepted by the French regions at the end of the negotiation.

This RIS approach is above all a process. It starts from a diagnosis aiming to situate the region in terms of economic and innovation dynamics based on indicators and by deepening the analysis of the regional innovation systems, their components and interactions between each one of them. It then aims at finding a shared view of the issues which will enable a deepening of the strategy, fixing of the priorities, and finally the modalities, ensuring the implementation of an effective action plan.

2. Objectives of the study

A study of the RIS' development process, not an evaluation

This study's objective was to analyse the evolution of the diagnoses and Regional Innovation Strategies, and more particularly to account for :

- the organisation and course of the RIS' development or adaptation process set up in the region, as well as selected modes of governance;
- main evolutions or inflections with respect to the 2007 initial situation and the manner in which the process and its characteristics could have contributed to it;
- and the main lessons drawn from this RIS exercise.

It is on these aspects that the study was carried out, without however evaluating the relevance of the strategic choices retained by the 22 metropolitan regions and the 4 overseas departments (DOM) studied.

3. The initial situation at the time of the Operational Programmes' adoption in 2007

In order to analyse the contributions of the RIS approach carried out in the 26 French regions, the study initially tried to understand the regions' situations at the time of the ERDF OP's adoption in 2007.

A favorable movement, but a complicated context

The RIS approach fell under a favorable movement since during the three or four years prior to the OP' adoption, the reflections on the policies, support schemes or organisation of innovation support systems had been started or had already intensified in the majority of regions. Several factors or frames of reference had taken part in it: the approach of “*Regional Plans for Economic Development*” (SRDE), the emergence of competitive clusters, the setting up of “*research and higher education clusters*” (PRES), the organisation of “*Etats généraux de l'industrie*”, the creation of new tools such as regional innovation agencies or the partial reorganisation of player networks in regions. This created a favourable situation synonymous with strong mobilisation and engagement on this work.

Nevertheless, the RIS exercise also fell under a difficult context, marked by various uncertainties related to the reforms in progress - *in the fields related to innovation or at the level of the local communities* -, the calendar of regional elections, and of course with the economic and financial crisis. The crisis has nevertheless confirmed the relevance of reinforcing innovation support policies, and the importance of completing the RIS approach to maintain the competitiveness of regions confronted with a globalised and rapidly changing economy.

Different structuring levels of policies and regional innovation systems at the start of the RIS exercise

The 26 French regions did not all depart from the same starting point in 2007. Some had already been committed politically to innovation for several years, having good experience and well developed networks of players. Others, on the other hand, had none and the objective was first to educate and mobilise the players around a coherent strategic framework.

Initial regional situations being different, the level and nature of the results which could be expected from the RIS approach are thus also different from one region to another. The approach's results should thus not be appreciated in absolute terms, but rather in terms of progress made with respect to the initial situation.

Lessons from the examination of the diagnoses and strategies of OPs adopted in 2007

A systematic analysis of the OP adopted by the *European Commission* in 2007 was carried out based on a list of common criteria, with regard to the diagnosis as well as the formulation of the strategies.

This examination of the initial OP shows that the analysis of innovation systems was in general very partial, because it mainly centered on the supply. This finding is essential because it highlights on the one hand that, in 2007, the vast majority of regions did not have any elements permitting the characterisation of the needs of companies, and singularly of SMEs, in terms of innovation. On the other hand, without the possibility of confronting it to the real needs of the local economic fabric, the initial diagnosis did not necessarily enable the measuring of the answer capability and the regional innovation system's effectiveness.

Secondly, the analysis also underlines certain weaknesses of the OP in the logical articulation between each stage of a development process (*logical links between diagnosis - summarised vision SWOT/issues - priorities - actions*) or lack of clarification.

Thirdly, OPs are the reflection of a segmented approach to innovation between various support schemes supported by each partner. The OP's planned interventions also appear very open, allowing funding of many types of actions without precise targeting or clear ranking of those actions.

Lastly, the aspects relating to governance were only very partially developed, many themes were missing and approaches remained traditional.

This first analysis shows the possible progress and the interest in conducting an RIS type approach which thus met a real need in regions, although this approach was not necessarily initially perceived as such.

4. The conduct of the RIS process

In order to help the regions in their RIS deepening and formalisation process, a methodological guide entitled "*Diagnosis method of the innovation system in French regions*"² was developed and placed at the disposal of the regions. This methodological guide, and its presentation in the regions as from 2008, has in many regions constituted an instigating element, or at least acceleration, of the RIS exercise process.

² "*Diagnosis method of the innovation system in French regions*", study carried out by the Agency for the Diffusion of Technological Information (ADIT) for the Direction Générale des entreprises of the Ministry of Economy, Industry and Employment.

Local appropriation of the approach in spite of the rather institutional nature of the exercise

At the beginning the exercise remained as a whole rather institutional, mainly mobilising the services of the State and the Regional Councils. The players involved in the RIS approach gradually took ownership of the proposed approach and method. This appropriation increased as the work progressed and interest in the RIS exercise grew. In several regions, a dynamic developed and the approach gradually extended to a larger number of players.

The development of a regional strategy is necessarily an institutional exercise. It is relatively logical that the exercise's appropriation by the players be gradual and in part dependent on the effective implementation of its planned actions.

However, it can be argued that directly involving these actors (including business leaders) in the elaboration of the RIS could have positively influenced the visibility of the process, as well as the long-lasting implication for local actors. It would have enabled a broader consensus to be reached, thereby providing the final RIS with an increased legitimacy. This in turn would have eased its approval (and its subsequent enforcement).

But it is also necessary to recognise certain difficulties encountered in the setting up of a truly participative approach and the definition of shared objectives.

Local actors' participation often remained limited to consultations or collective validations, rather than involvement in the decision-making or active participation in the proposals. The regions also hesitated or encountered difficulties in mobilising certain types of players: *companies, elected officials, the rectorat, ESF (DRTEFP), FEADER (DRAF), local levels, territorial communities, as well as the organisations operating under their supervision at the local level, etc.* In some regions, the absence of certain categories of players may have limited the reach of the approach and the possibilities of coherence of the interventions.

Involvement of the private sector: a key factor of success, but difficult to implement

Almost all regions consulted or involved representatives of the private sector, or even companies or their leaders directly (*in 21 of the 26 regions*), which constituted a real change compared to the OP's development. The private sector was however only more rarely actively associated with the governance of the whole exercise or to decisional authorities.

The direct mobilisation of business leaders brought additional added value, in particular when they were involved in an active manner. The consultation or the involvement of the private sector was identified by many interlocutors as a key success factor by bringing a new and critical view on existing support schemes, the system's organisation and effectiveness. This also made it possible to show the gap which could exist between the institutional organisation of the support to innovation and the concrete needs of companies, in particular of the regional SMEs/VSEs active in traditional sectors. In certain

cases it forced a greater pragmatism and collective and significant questioning of the priorities and organisation of the systems in place, to better address companies' concerns.

Although several original experiments were initiated, associating business leaders and citizen entrepreneurs to the governance of the exercise (*Alsace, Bourgogne, Bretagne, Midi-Pyrénées, Languedoc-Roussillon, etc.*), the study also observes that many regions hesitated or had difficulties in setting up a truly participative approach involving business leaders directly, in particular in the strategic part.

Let us stress that regions more advanced in terms of active participation of business leaders in the RIS' exercise governance, all identified this participation as one of the main success factors and decided to prolong it or reinforce it in the RIS' monitoring and implementation authorities.

The appropriation of the RIS exercise by decision makers and elected officials

Work was primarily undertaken by the technicians of the services of the State and the Region. Besides some exceptions, decision makers and elected officials were not always willing participants of the reflection process, but mainly intervened to validate the work's results at the main stages (*strategic issues or orientations*).

Although the RIS document (*or its summary*) was generally subjected to a vote by the *Regional Council* and was transmitted to the *Commission* under the joint signature of the regional Prefect and Council, the study shows that the appropriation of the approach's results by decision makers and politicians is not yet necessarily ensured in all regions. It remains an essential and permanent challenge to ensure the strategy's implementation and monitoring in the future.

A useful methodological approach with limits

In addition to its instigating effect, the method suggested by ADIT was useful because it enabled the structuring and systematising of the approach, the positioning (*"benchmarking"*) of the region and its performances compared to other reference European regions. It also made it possible to analyse the regional innovation system as a whole as well as the players and their relations, to raise the question of the system's effectiveness and efficiency. Finally, it permitted the widening of the field of reflection to important new issues or themes generally little investigated in France (*demand and needs of companies, council and private funding, culture of innovation, innovation in services, organisational innovation, intellectual property, etc.*).

5. Contributions and results of the RIS exercise

The RIS exercise which the 26 French regions carried out permitted the consolidation of a diagnosis shared by the regional players, as well as a collective awakening to innovation issues and to the central role innovation needs to play in regional development strategies. Certain points of inflection can be expected from it.

Expected inflection points in terms of understanding the issues and priorities in the regional innovation policies

1. Refocus approaches on regional SMEs and their needs

By raising the question of innovation on the regional scale, a central finding was essential in the large majority of regions: the policies and the support scheme reach only a small number of companies already educated in innovation, but do not truly allow to touch regional SMEs (*in particular in the traditional sectors, subcontracting, the service sector*), constituting however the essence of the regional productive fabric.

So the first point of inflection consists of modifying the order of priorities in order to put first the matter of SMEs/VSEs and especially the question of comprehension and taking into account their real needs. It is truly a matter of considering the companies (*including the regional SMEs/VSEs from traditional sectors*) as the RIS' centre of gravity, and to redirect the policies and support support system to better take into account their needs and to widen the circle of innovating companies.

2. Beyond sectorial and/or subsectorial support structures

Without questioning the subsector approaches, but to avoid being locked in and so as to open new development possibilities for the regional economy, the majority of the RIS proposed new complementary initiatives. They aim to move or surpass the borders of the existing structured subsectors and clusters. It is also a matter of exploiting the richness of transverse approaches, challenging habits and involving new regional SMEs in an innovation process. This covers various aspects and results in fundamentally new approaches for certain regions.

Many regions launched approaches, under the RIS prospective, aiming at identifying new fields, markets or fields in emergence. Others supplemented their support scheme by new approaches based on the market, inter-industrial links or uses. Lastly, the RIS tended to promote and intensify on the one hand multi-disciplinarity, aiming at mixing competences and on the other hand, the possibilities of meetings and inter-subsector exchanges. For this purpose, several regions worked to redefine the contours of *strategic activity fields, transverse thematic programmes* or *promising intersector convergences*.

3. Improve the effectiveness of regional innovation systems

The diagnoses especially highlighted a lack of effectiveness and efficiency, in particular through:

- a) *the comparative performance analysis with other European regions (benchmarking),*
- b) *a global vision of the regional innovation system*
- c) *the critical view of companies consulted or involved in the exercise.*

These problems of efficiency are partly ascribable to the organisation and coordination of these regional and national means at the level of the French territory and operation of the regional innovation systems.

Difficulties encountered in the regions are less related to the means available to support research and innovation, than to the difficulty of making good projects emerge.

Diagnoses often highlighted the lack of global coordination and exchange between the players. Innovation support systems are complex, fragmented between a large number of small structures and not very readable for the companies. They are the product of an orientation focused on direct support to structures of services and knowledge supply, and not on the needs of companies. There is no true specialisation of the players, each one tending to assume a generalist service rather than being based on the expertise of more specialised players.

4. *Human resources: a key factor of innovation*

Diagnoses highlighted or confirmed that human competences and resources constitute one of the determining factors of innovation, and this on all levels (*companies, players of the regional innovation system, higher education, research, etc*). The analysis of the needs of companies revealed in several regions that, more than financial means, human capital constituted the main factor limiting innovation in companies, in particular in traditional SMEs.

Human capital thus took a central place in the majority of the RIS, even constituting a key transverse priority in several regions. The regions developed actions aiming to develop grey matter, reinforce the human capital and competences, attract and retain talent as well as improving the qualifications in the jobs of innovation support. But it has also appeared that the current instruments of innovation support at the national or community level (*and in particular the ERDF*) - *and their implementation modalities* - are not necessarily adapted to the support of non-material investments or targeting human capital. The ESF in France remains focused on inclusion policies and remains difficult to mobilise under innovation policies (*e.g. eligibility to training of Bac +5 to Bac +8 qualified personnel*).

5. *“Non-technological” innovation and innovation in services*

At the beginning of the exercise, the representation of innovation that the majority of players and companies had was generally rather restrictive, because it was centred on innovation with strong technological contents mainly in the industry sector. The RIS approach clarified this vision and opened the innovation concept to other fields still unknown or little invested by the policies carried out in regions, such as so-called “*non-technological*” innovation (*organisational or marketing*), innovation in the service sector or so-called “*societal*” innovation³, in coherence with the guidelines of the new *Europe 2020* strategy. The majority of the regions integrated these new concepts into their reflections and strategies and expressed a strong will to invest more in it. But it must be noted however that the regions are still scarcely equipped in these various fields, struggle to propose concrete actions or clash against the funding modalities of current support schemes.

³ So-called societal innovation in particular aims at identifying real or potential needs related to the great issues to which society must or will have to face (the *environment, ageing of the population, etc*) and to mobilise the companies and particularly traditional regional SME to ask them to develop innovative products or services to meet these needs.

6. Surpass regional borders and go international

Finally, putting the RIS in perspective beyond the regional scale is an obvious fact, which does not always seem sufficiently clear, except in the case of frontier regions and regions with a true international culture. The progress margins are significant regarding the opening up of the policy, support systems and players of the RIS internationally, in particular thanks to the European co-operation programmes, but also generally.

An innovation-specific governance in the long term

One of the major inflection points relates to the awakening to the need of a governance specific and dedicated to innovation and/or the RIS in regions. Its principle is today accepted in almost all regions, marking a turning point compared to the initial situation.

Falling under the RIS exercise's continuity, which allowed certain modes of participation in the regions to be tried out, governance still remains as a whole rather institutional, with a relatively limited participation of the socio-professional players and companies in the decision-making authorities. There does not exist a priori a single model of ideal governance, but the report takes on a purely illustrative basis some models of governance organisation suggested by the regions, involving the private sector in particular.

The players however, and especially those in charge of the RIS, lacked time to tackle this matter of governance in a sufficiently precise way. By the end of the study, the various principles of governance were generally outlined and entered into the RIS, but the precise methods were often still to be refined. This essential aspect will thus have to be deepened.

6. Conclusions

The RIS approach met a need

Before the RIS exercise, the French regions did not have a genuine single, formalised strategic framework, specific to innovation and shared by all partners at the regional level, as understood in the RIS. The approach to innovation appeared segmented between various support schemes supported by each partner.

In spite of a sometimes complicated context (*regional elections, reforms in progress and economic crisis*), the RIS exercise approach enabled almost all French regions (*23 out of 26 regions*) to have a diagnosis and a document of strategic priorities specific to innovation, presenting a global and shared vision by the regional partners. Although these RIS are of variable quality, they all rest on important thorough partnership work which mobilised an increasing number of players over a long period. This in itself constitutes a success and shows that the RIS approach met a need, even a necessity, of the majority of regions.

The *European Commission* played an important role in this result. Having proposed the RIS exercise to the French regions at the time of the ERDF OP negotiation, it initiated the approach. It also contributed to its success by setting the exercise in the halfway revisions

perspective and monitoring it either under ERDF OP *Monitoring Committees* or under specific technical meetings.

But the RIS today significantly exceed this original ERDF framework to be positioned in a global perspective (*putting in coherence all the support schemes, sources of funding and players on the regional territory*), which emphasises that the players took ownership of the approach and perceived its utility.

A process with medium or long-term perspective in which the effects should be durable

The RIS exercise consolidated the inter-institutional dialogue and started the debate at the political level on the issues related to innovation, although the appropriation of the RIS approach's results by the elected officials is not necessarily ensured. The exercise contributed to re-placing innovation at the heart of regional development policies and no longer as an isolated sectoral policy.

Although this thorough work does retain some limitations, it constitutes a long term asset, capital which should contribute to facilitating the RIS' implementation.

But the exercise permitted more to consolidating this shared vision of the issues and priorities than it did focus on the definition of actions and operational implementation modalities.

The exercise is thus still to be continued in order to define or refine the modalities of operationalisation and implementation, an integral part of the strategy.

These elements lead us to believe that the conduct of the process and the RIS will have lasting effects. The result of this exercise testifies indeed to a significant change in the manner in which the French regions approach innovation, and of the central role which they intend to give to innovation in their regional development strategies from now on.

The positive assessment should not mask fragilities and issues in particular on the following points:

- A difficulty in passing from the diagnosis to a summary of the issues and from the issues to a clear, precise strategy enabling choices to be made, determining priorities and mobilising the necessary means to implement them.
- The weakness of a political appropriation and involvement of decision makers in the approach.
- The specific complexity of the French institutional organisation and the articulation of the State initiatives with those of the regions, which can limit the coherence of the public intervention in this field.

- The difficulty of maintaining a balance between the various dimensions of the innovation system and in particular between, on the one hand, the research component which remains essential to increasing the capabilities of innovation and economic development and, on the other hand, the company-industry component.
- The funding instruments generally currently solicited which remain difficult to mobilise for the funding of human resources and non-material investments.
- The assistance support schemes, primarily carried by institutions directed towards industry and technology which remain little adapted and/or do not permit the supporting of projects of non-technological innovation or in the service sector.
- Hesitations or difficulties encountered in the regions in defining effective modalities to associate companies with governance, although it is a determining success factor. Difficulties also of establishing links between public players and private players.

An approach to be continued and inflections to operationalise

All of these elements show that it is necessary to maintain the effort and support it.

In the short run, the exercise is still to be continued in order to rank the action priorities and to define or refine the operational modalities, as well as set up and make the governance structures function.

Exchanges between the French regions as well as a work of identification of good practices in European regions could usefully support the regions in these fields, because many regions face similar issues and have expressed their interest in sharing information and experience in the field of innovation and support to innovation.

The RIS exercise fits perfectly into the perspective of the *Europe 2020* community strategy adopted on June 17, 2010 by Heads of States and governments, which will constitute a key framing element of the future regional policy after 2013. The *Europe 2020* strategy gives itself as first priority *an intelligent growth - to develop an economy based on knowledge and innovation* and the cohesion policy was identified as an essential instrument to deploy this strategy.

Regions which will have a solid *Regional Innovation Strategy* and will have been able to maintain the dynamics of the exercise under a shared governance will be the best placed in the future to define their intervention priorities in this field and enter coherently into this community strategic framework and national policies.