

THE IMPORTANCE OF INTANGIBLE FACTORS IN REGIONAL DEVELOPMENT

1. WHEN COPYING A REGIONAL STRATEGY, CAN YOU MIRROR ITS BENEFITS TOO ?

In the field of economic development, is it possible to copy a model developed by another region irrespective of its degree of success? This paper concludes that the answer to this question has to be no, in the sense that it is increasingly evident that the difference between success and failure in any regional strategy is a function of intangible factors rather than infrastructure, administrative pronouncements or policy-makers' wishes.

These days, the main intangible factors that combine to deliver the regional competitive edge relate to elements including:

- ✓ an entrepreneurial, venture-prone culture;
- ✓ the anticipation of new needs;
- ✓ governance;
- ✓ leadership;
- ✓ social capital;
- ✓ a critical mass of finance and talent;
- ✓ serial entrepreneurs;

i.e. factors that cannot be moved from one place to another.

In this context, basic infrastructure is only a prop—i.e. important but not decisive. And the same is true of administrative and intermediary bodies, especially as for historical reasons they often duplicate or even compete for, public subsidies that ensure their survival—but not necessary their legitimacy—and actually thwart any attempt to promote change.

Let us imagine for a minute an “economic development expert or team” from region A embarking on a fact-finding mission and landing in San José (Silicon Valley), Durham (Research Triangle) or Boston (the starting point of Route 128). What will he/she/they see?

- ✓ an airport;
- ✓ roads and rail tracks;
- ✓ at least one university or other academic institution;
- ✓ business parks and shopping malls;
- ✓ one or more (pre)incubators;
- ✓ private, public and university research centre laboratories;
- ✓ a technology centre;
- ✓ teachers, students and researchers;
- ✓ businesspersons and SMEs;
- ✓ a university/business interface;
- ✓ venture-capital fund managers;
- ✓ an intellectual property development unit;
- ✓ a nondescript structure meeting any of the definitions of clusters or competitiveness or excellence centres;
- ✓ one or more development strategies geared toward promising tech industries;
- ✓ (semi)public intermediary bodies;
- ✓ a cultural centre, a golf links, and possibly a marina;
- ✓ elected representatives and a local or regional administration;

i.e. a whole range of concepts with which he/she/they are familiar if he/she/they come from any average European region, city or town. Except that contrary to his/her/their hometown, those few areas have become famous development models!

This confirms that what makes the difference between any two regions lies either in better regional branding and marketing as well as in the reputation management or in other, more subtle ingredients, i.e. more difficult to identify and consequently to replicate, especially since—as shown below—they relate to human factors, namely trust and confidence, culture (hierarchy vs. open decision-making process) and guarantee of stability. In other words, or so the saying goes: “people make the difference”!

Added to this realisation are also other parameters including a critical mass of finance and talent as well as investment willingness and readiness, which are comparatively less evident in Europe.

Actually, the main differences our visitor(s) would notice are:

- ✓ a higher number of foreign entrepreneurs and talents;
- ✓ an active business angels community;
- ✓ a well-funded seed and venture capital industry;
- ✓ networks of pragmatic-visionary decision-makers trusting a clearly identified leader;
- ✓ punishment meted out by the market rather than an institutional problem-solving approach;
- ✓ faster risk-taking and—consequently—decision-making.

The aim of the argument below is to establish that up-to-date public policy cannot be satisfied with infrastructure but needs to pay greater attention to concepts including:

- ✓ investment willingness and readiness among both public and private operators;
- ✓ networking key stakeholders.

2. THE IMPORTANCE OF INTANGIBLE FACTORS

2.1 Infrastructure

There is little doubt that the quality of infrastructure is a determinant of economic development. However, investment in infrastructure is neither an absolute precondition of economic growth nor a guarantee of successful regional development. For instance, how many industrial parks, technology centres and incubators look more like “cathedrals in the desert” than competence centres? The causes of failure are undoubtedly to be found in the following mistakes:

- ✓ public authorities seduced by fleeting fashions;
- ✓ bad choice of locations;
- ✓ absence of a critical mass of entrepreneurs;
- ✓ lack of adequate resources to support potential users in order to maximize the benefits from infrastructures;
- ✓ public interventionism dictated by supply rather than an analysis of demand;
- ✓ faulty interpretation of a concept imported from another region;
- ✓ lack of available, earmarked financial resources;
- ✓ failure to anticipate changes in scheme lifecycles;
- ✓ lack of operator credibility or notoriety;
- ✓ inadequacy of the public/private—or even possibly public/public—partner;
- ✓ inadequate management or lack of adequate and appropriate local competences;
- ✓ irrelevant regional supply chain;
- inadequacy to framework conditions.

2.2 Networks

When it comes to regional dynamism, there is abundant evidence suggesting the crucial role of informal and formal networks, whether in terms of clusters contributing to the competitiveness of regional companies, business angels to the development of innovative companies, business clubs to exchanging best practices or business/university interfaces to innovation in regional SMEs.

However, networking is not something that can be pronounced. Indeed, it must stem from a determined process initiated by businesspersons based on the perception of pre-competitive advantages shared by all network members. In this context, the role of public authorities should be limited to facilitating the process and encouraging investment that contributes to increased competitiveness among network member companies.

Networks can only be effective provided that an adequate critical mass is available to them and that they are moderated by a leader recognised by their membership.

2.3 Funding Sources

The availability of a diversity of funding sources is also a key aspect of regional development. Each funding source is essential because it serves the needs either of specific categories of businesses or of all businesses at different stages of their lifecycle. There is little doubt for instance, that micro-credits meet different needs compared to seed capital funds or guarantee schemes.

It is also emerging with increasing clarity that the availability of adequate amounts of equity can only efficiently promote business success provided that steps are taken to improve its absorption, i.e. if support is provided to entrepreneurs to stimulate demand and equity amounts are adequately ensure market flexibility.

In some regions, supply of public equity should go hand in hand with professionalized fund management and the development of partnerships with the private sector.

2.4 Talent

In an economy whose competitiveness rests on developing and leveraging knowledge, the regional human capital becomes a critical raw material. Talent must be available for invention, design, innovation and entrepreneurship alike.

Regions are often dependent upon serial entrepreneurs and investors with the ability to leverage new market opportunities and share their expertise with the social and economic fabric of the local environment.

Talent also translates into regional leadership. Indeed, the development of every single acknowledged competitiveness cluster enjoyed the support of a leader with a vision. The best known include:

- Silicon Valley : Fred Terman
- Route 128 : Vanevar Bush
- Sophia Antipolis: Senator Pierre Lafitte
- Leuven: Martin Hinoul
- Orthopedic surgery cluster in Birmingham, Alabama (USA): Dr James Andrews
- Cardiac devices cluster in Minneapolis–St Paul, Minnesota (USA): Earl Bakken

2.5 Critical Mass

The importance of a critical mass as a success factor is underscored a number of times above. Below are a few examples of critical mass making the difference between failure and success in economic development policies:

- €400 million: the budget dedicated by METI and MEXT (Japan) in 2005 to their policy in support of the 37 clusters of national interest, as opposed to €280 million over four years for five clusters in Wallonia (B) and €1.5 billion over four years for 65 projects in France!;
- \$128 million of equity raised from seed capital funds by the three Californian start-ups developing nanotech-based photovoltaic energy technology. For the record, according to EVCA figures, seed capital investment in Europe totalled €148 million invested in 355 enterprises in 2004!;
- \$185 million invested by venture capital firm OVP Venture Partner in the software cluster leveraging Linux operating system around the University of Portland, Oregon (USA). By comparison, the Leuven Region (B) had €200 million of venture capital available in 2002 through 9 companies.

NB : A counterexample: €18 million were invested in a public incubator in Belgium which was closed only two years after its opening due to a lack of tenants, whereas the "Open Source LINUX" incubator of Portland (USA) only cost \$1.2 million to the public authorities, i.e. the State of Oregon and the City of Beaverton.

3. CONCLUSIONS

The level of performance of infrastructure investment is closely connected to:

- available financial resources, with a view to promoting optimised use of said infrastructure;
- effective involvement of the private sector in defining and implementing projects, including possibly their funding;
- the quality of human resources managing newly-developed infrastructure;
- the networking of key stakeholders involved with both the supply and demand sides of infrastructure usage;
- the relevance of support measures aiming to promote appropriate use of newly developed infrastructure.

Thus, public authorities need to pay ever-closer attention to a range of aspects such as:

- harnessing the regional social capital with a view to improved leveraging of investment efforts;
- changes in the regional supply chain resulting from investment and the need to take follow-on measures to maximise the latter's beneficial impact, namely in terms of SME take-up of schemes and the resulting generation of value added;
- training intermediary bodies to detect new, as yet unexploited opportunities for existing SMEs or potential investors;
- performance levels of regional infrastructure compared to other territories;
- new opportunities for transnational cooperation arising from investment operations.