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RDAs: FIRE BRIGADE AND / OR NOSTRADAMUS ?

PREPARATORY DOCUMENT

Introduction

Local and regional development is exposed to constant weakening or strengthening due to strategic decisions of different types taken by companies or national or international public authorities.

Companies strengthen or weaken territories with—or because of—their decisions to invest, relocate, innovate or market the results of their research.

Supraregional public authorities influence the regional sphere both with their regional development and spatial planning policies and also due to the absence of consideration of the regional dimension of political decisions or macroeconomic programmes. The Lisbon strategy appears to be a textbook example of the latter.

In such a context, RDAs are forever caught between their roles as firefighters, adjusting to short-term circumstances, and as fortune-tellers (Nostradamus) aiming for long-term excellence. Mid-term requirements are therefore frequently forgotten, and with them the ability to anticipate crises or leverage new opportunities before their competitors do.

1. Fire Brigade

It must be said that the human and financial resources earmarked by—national—public authorities to keep ailing businesses afloat hardly compares with those invested in entrepreneurship and a long-term vision of local/regional development.

The tools and financial resources required to face the aftermath of major bankruptcies or business relocations are used far more proficiently than those available to design future regional development.

A few figures illustrate this statement:

In 1999, The German government released €130 million to save the Philip Holzmann group, to no avail. In 2002, the French government gave Bull €450 million in grants, which DG Competition later declared illegal. In 2003, the French government is planning to contribute up to €900 million to save Alstom.

The bill for saving those three companies represents more than 1.5% of the annual EU budget!

Saving Alstom alone will cost the equivalent of 61% of French State aids in favour of SMEs, as emerges from the 2001 figures included by DG Competition in its State Aids Dashboard published in document COM(2003)225-final.

Firefighters sometimes tend to follow fashions. This is how “physical distribution centres” and “call centres” are presently considered miracle solutions. As emerges from sections 3 and 7 below, it seems that decision-makers still fail to reckon with mid-term requirements or to leverage regional intelligence.

Indeed, how can the Nord-Pas de Calais (F) regional authorities possibly reconcile their deep satisfaction upon announcing on 06 October 2003 that Danone[1] was going to convert a "Biscuits Lu" production unit into a 3,900 sqm call centre that will employ 500 over time with the announcement by British bank HBSC[2]—on 17 October 2003, i.e. a scant ten days later—of their intention to lay off 4,000 employees following the relocation of their customer support department. Studies indicate that lost British jobs—delocalised to India and (Hyderabad and Bangalore) and Malaysia —in this industry may total 200,000 by 2008...

2. Nostradamus

Many regions are of the opinion that their future will be conditioned by excellence in industries such as biotechnologies, nanotechnologies and NICT and that consequently, they have to take an interest or display ambitions in these. However, it seems almost inevitable that very few regions will come to rival Silicon Valley or Sophia Antipolis in terms of industry performance or standing.

Still, individual regions should all develop a strategy to promote the emergence and consolidation of a critical mass of businesses belonging to one or more industries in which they can claim (near) excellence in terms of know-how. In the case of many regions, the only avenue may be in specialised technology or other niche markets identified from opportunities to combine or synergise several types of technology or know-how.

Contrary to firefighter tools, Nostradamus tools are few are underused and are not endowed with significant financial resources. Indeed, how many regions can claim to make more or less efficient use of tools including economic and regional intelligence, the marketing cycle of research outcomes, entrepreneurship and the innovation cycle or to have deployed financial instruments for specific tech industries?

It is noteworthy that out of State aids paid in support of horizontal objectives in the EU—i.e. not paid to specific sectors—amounting to €33.5 billion in 2001 (out of €86.1 billion in total), support for SMEs and RTD only accounted for €5.4 billion and €4.6 billion respectively (or 16% and 13% of this total)[3]. These amounts hardly seem to match national and regional ambitions of excellence.

3. Between Fire Brigade and Nostradamus

Between firefighting and fortune-telling, there is a period of time—the mid term—that is often neglected when it could actually prove very useful if approached correctly. Indeed, more resources should be invested in the identification of new development opportunities.

How many regions regularly audit—or more modestly even, analyse—their position (strengths, weaknesses, threats and opportunities) in the following fields?

- The regional ability to retain subsidiaries of multinational companies and the dependence of regional jobs upon foreign decision centres;
- The competitiveness and consolidation of industrial activity and the innovation rate of major

1 *Les Echos*, 06 October 2003.
2 *Financial Times*, 17 October 2003.
3 COM(2003)225-final.

regional production units (renewal of production tools and date of installation or latest sizeable investment);

- The evolution of competitiveness factors in prominent regional industries: strategic location (e.g. continental chemical or steel plants threatened by coastal operations), new relations between principal contractors, subcontractors and contracting partners (car and textile industries, aeronautics, etc.), emerging trends in administrative services as a result of teleworking (airline ticketing and billing procedures, individual bank accounts, insurance policies, etc.);
- The evolution of new technologies with applications for the local/regional SME structure;
- The contribution of regional universities and research centres to the development of local businesses;
- Predicting regional business failures;
- Anticipating skills requirements;
- Support for the international activities of subcontracting SMEs whose principal contractors are multinational companies enhancing their presence in emerging markets (Peugeot and Volkswagen in Slovakia, for instance);
- Quality management and the never-ending quest for quality gains.

How can RDAs take regional action in the field of quality management in the light of statements of the sort made by the CEO of Toyota North America[4]: "We have some concerns about sustaining high quality, in large measure because North American parts suppliers average 500 defects per million parts vs. 15 per million in Japan".

4. Lack of symmetry in Information and judgment between the public and private sectors

For a variety of reasons, there seems to be a high degree of asymmetry between the economic information available to private and public operators and hence between their respective judgments. The latter all too often seem to "make do"—or maybe they just have no choice—with the principle of liberal economics according to which "the private sector privatises profits while the public sector collectivises losses" (see for instance the cases of Holzmann and Alstom referred to under section 1 above, to which can be added other corporate names such as France Telecom, Bull, etc.).

Equally, public operators do not necessarily invest the dividends of economic growth in support of existing or budding activities or save them to act countercyclically in times of crisis or recession.

And this even though the information and attitudes on the basis of which businesses make their decisions may have been known or available for a long time.

More than a decade ago, EURADA set up a working group of regions that were heavily dependent on the chemical industry. It concluded that the closure of continental production units was ultimately inevitable. Should it come as a major surprise then, that similar decisions are being taken in the steel industry ten years down the road?

In his analysis, Marc Halévy emphasises that "(...) lower industrial employment will further accelerate the growth of knowledge-based professions, trades that call upon creativeness, expertise, management skills, etc. (...) We are coming out of the industrial age. The share of industrial employment will grow smaller until it probably represents only 10% to 15% of the working population, essentially in complex, high added-value productive sectors."

Making the best use of this information at regional level proves to be increasingly important—and possibly crucial—for regions and the definition of their strategies.

4 *USA Today*, 16 October 2003.

The basics of industrial evolution have been known for decades.

This is how innovation henceforth stems from the international division of labour within the services sector rather than from the manufacturing industry. Economists[5] are convinced that "the challenge for rich countries consists in staying a step ahead not only in a number of industrial and technological sectors but also in the range of sophisticated services they provide (…)". With this in mind, these countries should not be so worried by relocations of ordinary or barely profitable productions as by the possible relocation of RTD activities.

Regional scenarios and forward studies can be important decision-making aids. The development of an "intelligence" concept (see section 7 below) will prove to be of strategic importance in the long run.

5. 21st Century businesses

Twenty-first century businesses will probably belong to one of three different categories:

- Global businesses;
- Niche-market businesses;
- Local businesses.

Each of them will represent a challenge for regional development stakeholders and in terms of regional socioeconomic stability. Indeed, global businesses are highly mobile and generally take decisions outside regions; niche-market businesses are SMEs that are forever exposed to being taken over by a global business or need to innovate constantly to remain competitive; local businesses are governed by high birth and mortality rates and therefore require enduring regional efforts to ensure that new businesses will at least compensate losses.

According to a survey conducted by Goldman Sachs early in 2003, global 21st century businesses will share the following distinguishing features:

- ✓ to focus on globalization as critical to company's future
- ✓ to have a global brand
- ✓ to be seen as a local company, not the subsidiary of a foreign one
- ✓ to demonstrate flexibility
- ✓ to use technology to advance the business
- ✓ to have employee-friendly workplace practices
- ✓ to have a strategy for China and other major developing countries
- ✓ to have meaningful social engagement at local level.

It would be interesting to know how many companies operating in the territory of each RDA meet at least five or six of the above criteria and also if the criteria taken into consideration by Goldman Sachs can be adapted to the identification of both "RDAs of the future" and "21 century global regions".

6. Nokialand and Silicon Valley

With the short-, mid- and long-term elements in hand, it is arguably legitimate to consider ways of striving toward excellence in the field of regional economic development.

Many analyses have been conducted on Silicon Valley as a phenomenon, from which the following inferences namely stand out:

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[5] Feature article by Frédérique Sachwald (IFRI), in *Les Echos*, 17 October 2003.

MAJOR FINDINGS

- ✓ New firms are important for Silicon Valley
- ✓ Start-ups in Silicon Valley have quick access to venture capital
- ✓ Established firms in Silicon Valley spin off more start-ups
- ✓ Firm relocalisation is not a serious problem
- ✓ Successful firms in the Valley are branching out
- ✓ The high-tech sector experiences rapid structural changes

POLICY IMPLICATIONS

- ✓ Promote technological information
- ✓ Encourage firm founding
- ✓ Look beyond Silicon Valley
- ✓ Maintain a dynamic labour pool

Or :

- ✓ Silicon Valley is not about silicon, it's about innovation
- ✓ Many of the small tech companies in the region have roots in university labs
- ✓ If you want to have indigenous entrepreneurship and risk taking, you have to have local VCs
- ✓ But VC presence alone is not enough
- ✓ Silicon Valley is not a place for research, it's a place where people communicate ideas
- ✓ For a region to be a serious player as a small tech leader, it must have venture capitalists present. Besides money, they provide guidance, entrepreneurial zeal and the daring needed to make a new enterprise successful.

In the same way as with the criteria developed by Goldman Sachs to identify 21st century businesses, there is reason to wonder how many regions would qualify under the parameters that arguably underpin the success of Silicon Valley.

Worth noting is that both Silicon Valley (US) and Sophia Antipolis (F)—which are the most frequently quoted examples of what so-called regions of "technological excellence" are about—denote "brands" rather than geographical areas or municipalities!

The next Silicon Valley is likely to be a region whose public policies place the emphasis on:

- the ability to innovate;
- the creation of a centre of excellence to manage R&D and market its results;
- labour mobility and entrepreneurship training;
- creating an environment that fosters the emergence of a dynamic formal and informal venture capital industry.

7. Can Regions Usefully Transfer Private Sector Practices?

In recent years, large industrial groups have developed or worked on concepts including (i) economic value added (EVA), as a measuring instrument that encourages managers to reduce equity investment—which is an efficient tool, especially when endogenous resources are scarce or expensive—; (ii) design to market; (iii) benchmarking; (iv) economic intelligence.

To the best of our knowledge, little research has gone into these concepts for the purpose of applying them to regional development. While the issues to address are admittedly not always similar, the challenges are identical. This is how economic value added can prove to be useful in the context of reduced public funding and design to market may help steer clear of many public sector failures when developing administrative procedures to govern the implementation of certain public SME support initiatives.

Equally, while the concept of benchmarking is used more and more widely by the public sector, it is obviously not sufficiently rooted in qualitative statistics yet, and therefore often amounts to little more than non comparable catalogues of good practices.

Finally, it appears that regional public authorities lack the ability to make useful inferences from the large amount of information that is available from the economic, social and innovation spheres these days. Or at least they apparently cannot do so as efficiently as companies, which increasingly resort to economic intelligence. Therefore, discussions could usefully be initiated within EURADA on the concept of territorial intelligence and its enhancement. Such a tool should make it possible to address the public sector's failure—identified in the various sections above—to leverage knowledge.

As part of such an exercise, the various competitive profiles that regions could choose from would be contemplated on the basis of information relating to:

- ageing populations;
- the phasing out of nuclear power;
- the unavoidable closure of an increasing number of manufacturing production units;
- the need to import skilled labour to meet business requirements, etc.