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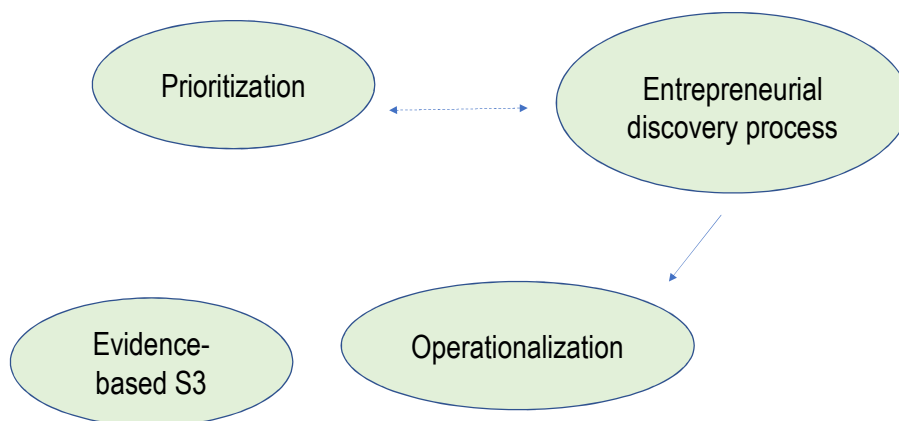
- **S3 practices – lessons learned from ENF**
- S3 entering a new era – lessons learned from ENF
- NUTS 2 level collaboration – opportunities, obstacles, solutions

Final Report for the ENF (Fi): *Support to enhance S3 governance and coordination at the NUTS 2 level*

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S3 COP – 12-12-2024

S3 Script – a simple set of essential rules



Prioritization - rationale

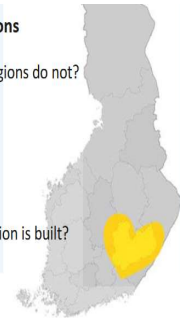
- A key ingredient of any new generation of “industrial policy”
- Prioritization enables resource concentration
 - The distribution of innovative activity is concentrated. Agglomeration economies and physical proximity matter
 - However, in small/medium economies, given limited resources, concentration can’t happen in all fields
 - Prioritization aims to generate density of actors and activities in certain fields
- Prioritization enables a focalisation of policy attention
 - Innovation support and policies needs to be very specific (medtech vs agrofood vs videogame)
 - But a Government can’t address all specific issues in all sectors
- *Governments are essentially “doomed to choose” – to select which activities are more deserving public goods. When the choice is made consciously, the result is a robust policy (Rodrik, 2024)*

Prioritization – lessons learned from ENF

- Well-known principles
 - **Identify priorities on the basis of regional specific strengths, potentials and opportunities** rather than just doing what the others do
 - **The priority should not be on sectors or industries as such but on the transformation of these sectors or systems:** S3 as picking changers

Smart specialisation answers the following questions

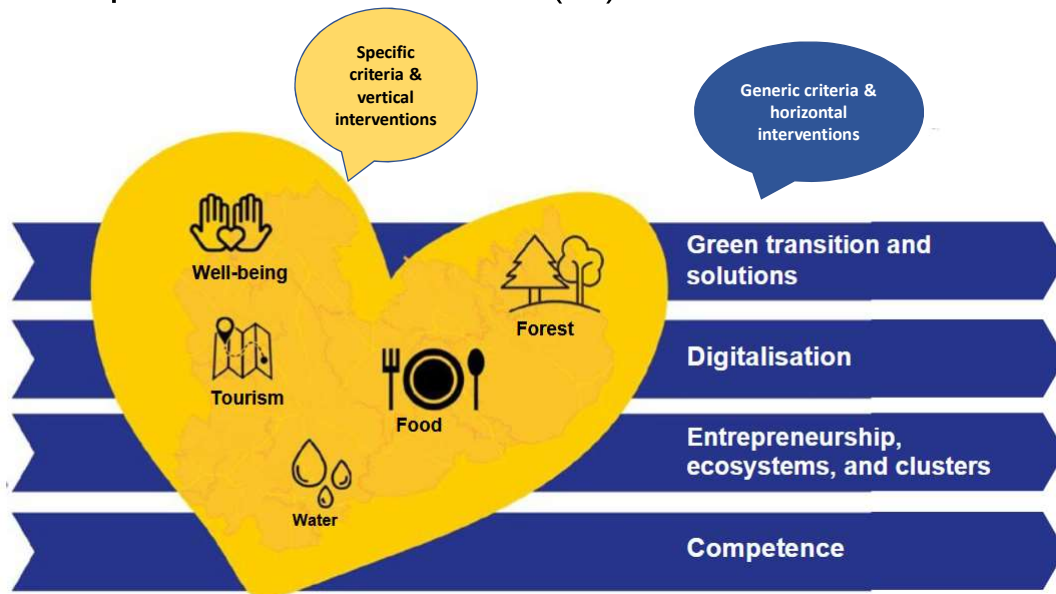
- » What is something unique that we have, and other regions do not?
- » What are we excellent at?
- » What kind of special expertise can we offer others?
- » What are we successful at?
- » What do we want to develop further?
- » What are the strengths on which the future of the region is built?



Prioritization – lessons learned from ENF

- **Should priorities being “generic” (implying “horizontal interventions”) or “specific” (“vertical interventions”)?**
- Regional advantages do not depend only on **generic** criteria that many regions satisfy (highly educated workforce, infrastructure). Not a guarantee for region specific advantages
- Additional criteria: those **specific** activities capabilities that in combination create a uniquely favorable region for some sets of industries or sectors
- Combining **generic** criteria with **specific** capabilities is key: combine the promotion of a *generic* ecosystem and the focus on region-specific priorities

Example – South Savo (Fi)



Prioritization – lessons learned

- **The vertical interventions can refer to different “vertical” structures (not necessarily an industry)**
 - **Sector** : mining & extracting, renewable energy, fashion, forest industry
 - “While industry clusters may be attractive, there is as much to be gained by **creating a unique activity system** for a cluster involving multiple areas (including non tech areas)” (Feldman and Martin, 2005)
 - **A unique system of activities** to respond to a societal challenge : well-being
 - **A unique system of activities** to transform a sector which includes multiple industries : food, sport, tourism
 - **A unique system of activities** organized to respond to a critical situation related to a given natural resources: water

Cases of vertical interventions in ENF

The locus of the priority	Examples in ENF	Transformational goal
Industry, value chain	Mining/extracting Forestry industry	Sustainability & competitiveness Circular economy
System of activities to transform a sector including many industries	Tourism Sport	Diversification of services, sustainability & competitiveness
System of activities to address a societal challenge	Well being	Creation of a coherent system of activities involving high tech, social innovations, and the development of the pure nature
	Ageing society	Creation of a coherent system of activities
System of activities to address a natural resource challenge	Water	Optimal use, intelligent system, circularity

Prioritization – lessons learned - summary

- S3 priorities combine generic criteria (horizontal interventions) and specific criteria (vertical interventions)
 - This principle allows to determine clear focus while no innovative project or actor is left behind
- The vertical interventions are not necessarily targeting an industry but can address the development of a unique system of activities to respond to societal or ecological challenges or to transform a sector involving multiple industries
 - This principle allows for vertical interventions which are not necessarily limited to “industries”

Entrepreneurial discovery - rationale

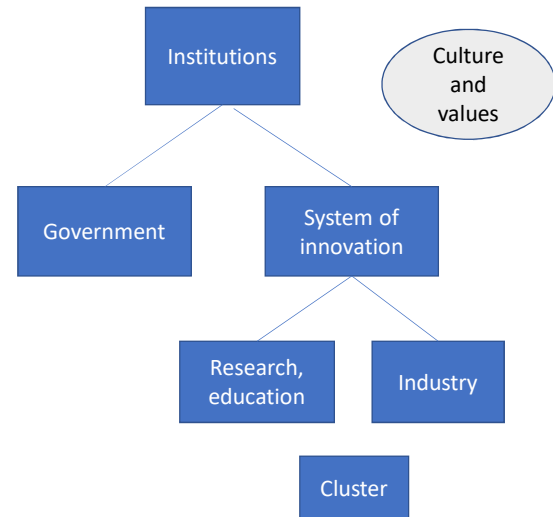
- Once priorities have been established – the big question: what shall we do?
- Limited capacities of the government to answer this question – not a problem of quality of institutions but an analytical point
- Who knows? Obviously, the people of the industry or activities know. That's the main reason for EDP
- EDP – bottom up process involving stakeholders to elicit information about the specific gaps, needs and opportunities within a given priority area and identify the policy actions in response –
- The outcome of an EDP is a transformational roadmap – the set of activities and policy interventions which are necessary to achieve the priority
- We qualify it as "discovery" because the roadmap cannot be predicted *ex ante* or elaborated from the top
- The roadmap is guiding the operationalisation of the priority

Entrepreneurial discovery – lessons learned from ENF

- All relevant partners are involved in the process
- The EDP process is backed in most cases by a robust "anchor tenant" - a cluster, a high education institution or an innovation ecosystem - which are considered assets of great value by regional policymakers
- Leaders and coordinators emerge continuously and make the EDP quite effective in terms of building transformation roadmaps
- Critical role of Universities, Universities of Applied Sciences, Vocational Colleges, Research Institutions, Cluster Management

S3 as a collective action and the role of institutions

- Designing and implementing an S3 is almost all about collective actions
- Collective action problems inherent in selecting priorities, undertaking EDP and defining interventions
- S3 is about empowering stakeholders and giving them tools to solve these collective action problems
- The role of institutions
 - Government
 - System of innovation
 - Culture and values

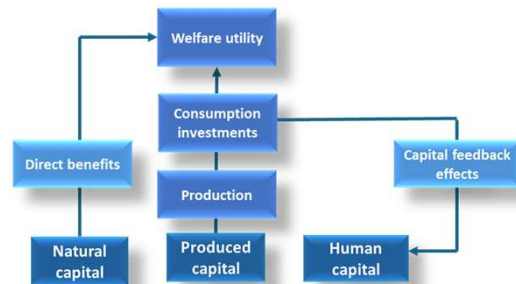


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- S3 practices – lessons learned from ENF
- S3 is entering a new era – lessons learned from ENF
- NUTS2 level collaboration – opportunities, obstacles, solutions

Sustainability – lessons learned

- At this new stage of S3 – the full determinants of social well-being are considered
- In most cases, S3 viewed Nature as **external** to the human economy and so not treated it as a capital asset (similar to produced and human capital).
- In the new era: Nature is viewed as a capital asset and, as such, requires management as the other types of capital assets.
- The S3 approach should **internalise** Nature in the priorities – see next slides
- **In the new phase, S3 priorities involve investing in technologies, people AND nature.**



Sustainability – lessons learned

- The example of tourism
- First phase – the focus was technologies – Nature external
- Second phase – the focus was about coupling technologies and human capital – Nature external
- Third phase – priorities reflect an integral vision of the productive base of a region: technologies - human and natural capital – Nature is internal

Tourism as an S3 priority

Generation of new digital products and services **given** the fact that we have a wonderful landscape

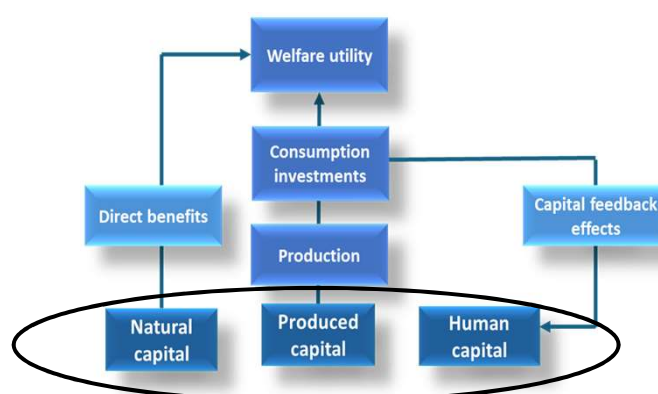
Generation of new products/services and development of the complementary skills and competences **given** our wonderful landscape

Generation of new products/services, development of skills and competences, protection of natural ecosystems

Sustainability – lessons learned

- First S3 generations considered natural capital as **external** – a platform on which the strategy can be developed – leading to mismanagement of one fundamental asset: Nature. The new principle considers it as a true capital asset that deserves careful management, just as produced and human capital.
- Such vision is going to change the S3 theory and practices fundamentally:
- New **trade-offs** emerge: some investments, e.g. in tourism or in transportation or in some industries, will not be undertaken because the social value (or social productivity) of the threatened natural ecosystem is higher than the social value of the planned investments
- New **economic and financial instruments** are needed; first, to measure the economic value of natural ecosystems (social productivity and shadow prices) and second, to finance the – non-cheap – passive investments such as the creation of protected areas (new financial engineering instruments such as social impact bonds);
- New **strategies** are elaborated to enable local communities to reap some benefits from investing in Nature. For example, regions need to understand and identify the economic mechanisms through which local communities can capture benefits from protected areas that conserve Nature.

S3 is entering a third phase



A regional productive base – source UNEP

Each priority and roadmap reflects an integral development of the productive base – new trade offs, new metrics, new values
Wellness and experience economy services from nature (Lapland)

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About more collaboration as a policy goal

- “More collaboration” is a goal that policymakers always want to achieve. In many cases, it is a wise objective. In some cases, it is not, and even smart people get it wrong
- Sometimes, they overshoot the potential value of collaboration, underestimate the costs, misdiagnose the problem, and implement the wrong (collaboration) solution.
- All these traps lead to bad collaboration, characterised by high friction and a poor focus on results
- Institutions do not want to collaborate just for the sake of collaborating. Collaboration is a means to an end, not an end by itself.
- The framework - called *disciplined collaboration* - is about the leadership practice of properly assessing when to collaborate (and when not) and instilling in people and institutions both the willingness and the ability to collaborate when required.
- A key step is to identify opportunities for NUTS2 level collaboration. Once opportunities have been identified, the second step is to spot barriers to collaboration, and the third step is to tailor solutions to overcome the barriers.

Disciplined collaboration - 1

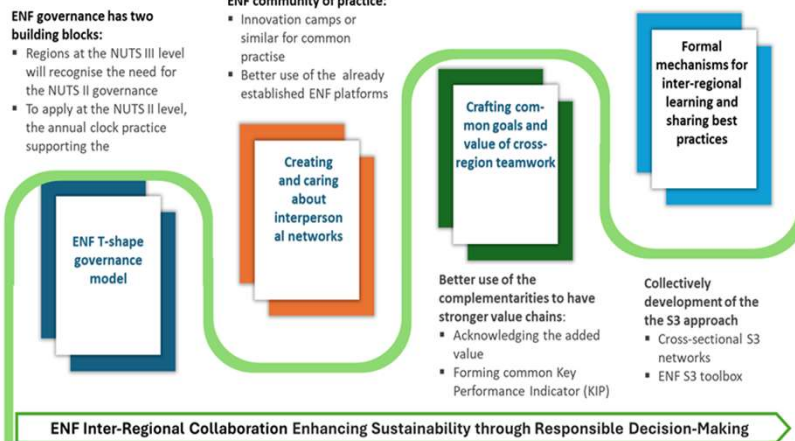
- **Evaluate opportunities**
 - Producing collective goods or activities of relevance for the whole ENF club
 - Profiting from collective learning – sharing good practices and experiences
 - Maximising strategic complementarities
 - Augmenting regional value chains
 - Exploring collectively new challenges
 - Sustainability and the S3 new era
 - Security and resilience

Disciplined collaboration - 2

- **Spot barriers**
 - People or institutions are unwilling to reach out to others
 - People or institutions are reluctant to provide help
 - People or institutions are not able to find what and who they are looking for
 - People or institutions are not able to work with people they don't know well

Disciplined collaboration – 3

■ Taylor solutions



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Merci

■ Ecole
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de Lausanne