



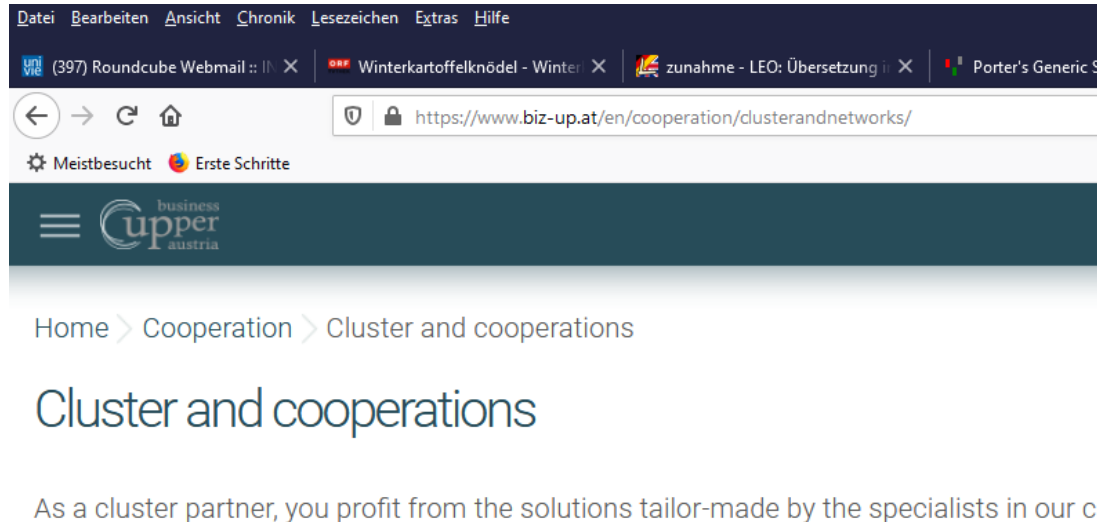
The cooperation bias in regional policy: Is interfirm competition neglected?

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The cooperation bias



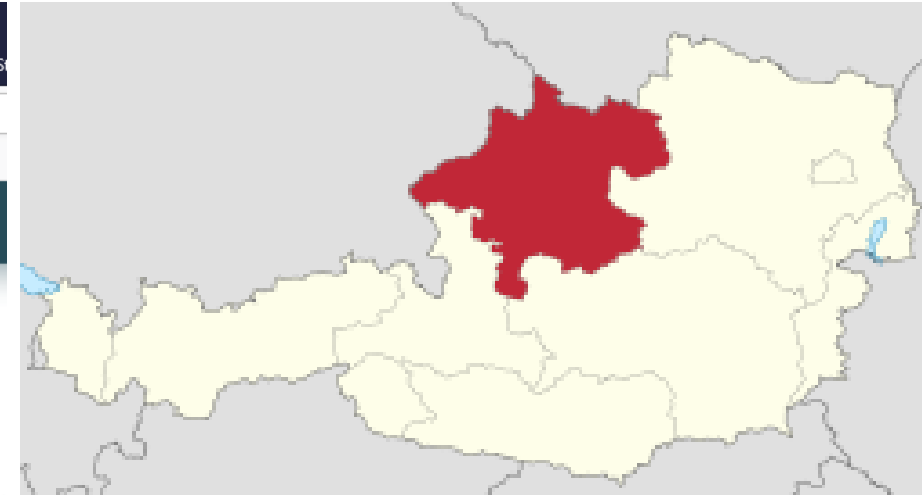
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Motivation

- Industrial policy is back on the agenda around the globe
 - Growing monopoly and monopsony power in the US and EU
 - Regional interfirm competition figures prominently in the industrial organisation and new industrial policy literature
 - Regional development theories and regional economic policies tend to emphasise the importance cooperation (cooperation bias)
 - Anecdotal evidence suggests that regional policymakers tend to follow the logic whereby the performance of regional firms is best supported by fostering their cooperation, while competition between them will weaken their ability to compete on national or international markets
- *Analysis focuses on the role of intraregional interfirm competition in regional industrial policy in the EU*



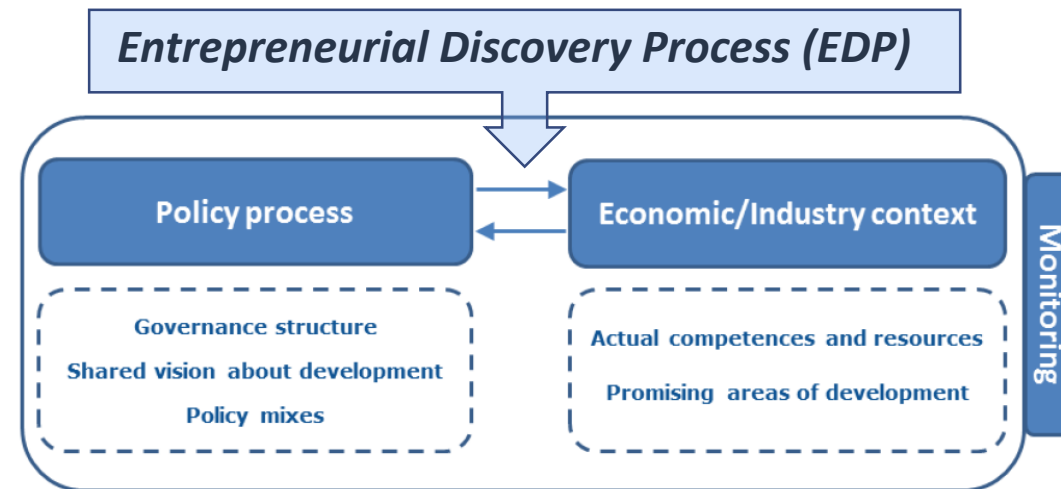
Research questions and hypotheses

- **RQ1:** How important is competition (relative to cooperation) in Research and Innovation Strategies for Smart Specialization (RIS3)?
 - **H1:** Applied regional policy exhibits a cooperation bias that selectively focuses on interfirm cooperation while neglecting interfirm competition.
- **RQ2:** What types of pro-competition interventions are proposed in RIS3?
- **RQ3:** How do RIS3 differ in the role accorded to competition and which factors account for these differences?
 - **H2:** Regions in countries with low competition levels have a higher probability to adopt competition-enhancing regional policies



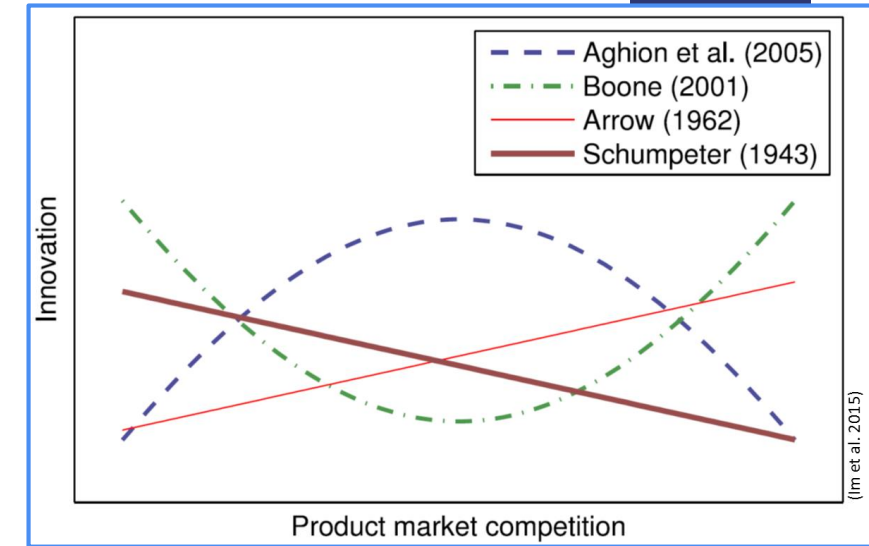
Research and Innovation Strategies for Smart Specialization (RIS3)

- Smart Specialization is a place-based innovation-oriented (new) industrial policy
- Main strategy for cohesion and innovation policy in the EU
- Smart Specialization is designed to support regions in the identification of the most promising and desirable areas of specialization
- RIS3 are regional strategies based on the principles of smart specialization
 - *RIS3 convey the strategic narrative pursued by policy makers*



Theoretical perspectives

- Our focus includes competition in product and factor markets, the contestability of markets, and the localized competition between regional firms for knowledge
 - Competition increases firm productivity via (1) within effect, (2) between effect and (3) the nonlinear innovation effect (Aghion et al. 2005)
 - Jacobs (1969), Markusen (1985), Porter (1990) and Glaeser et al. (1992) argue that local rivalry between firms fosters productivity growth
 - New industrial policy literature: Higher competition intensity makes policy interventions more effective (Aghion et al. 2015)
 - Spatial proximity is likely to raise incentives for collusion and other forms of non-competitive behaviour (Books et al. 2016)
- *Interfirm competition should play an important role in RIS3*



Empirical research design

- A (1) typology of competition/cooperation related concepts and a (2) framework of 20 mechanisms driving interfirm competition in 6 areas of competition at the regional level are proposed

<i>Entry of new firms through new business formation</i>	<ol style="list-style-type: none">1) Business planning competitions2) Training and coaching, incubation space and services3) Acceleration programmes4) Stipends for entrepreneurs5) Awareness raising for entrepreneurship
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- A multistep stratified random sampling procedure was applied to select 18 RIS3 from 8 countries (1,241 pages)
- Countries were classified according to their overall degree of market competition by a cluster analytic algorithm
- RIS3 were studied and their content was analysed based on the framework through qualitative and quantitative text analysis as well as through multivariate statistical analysis



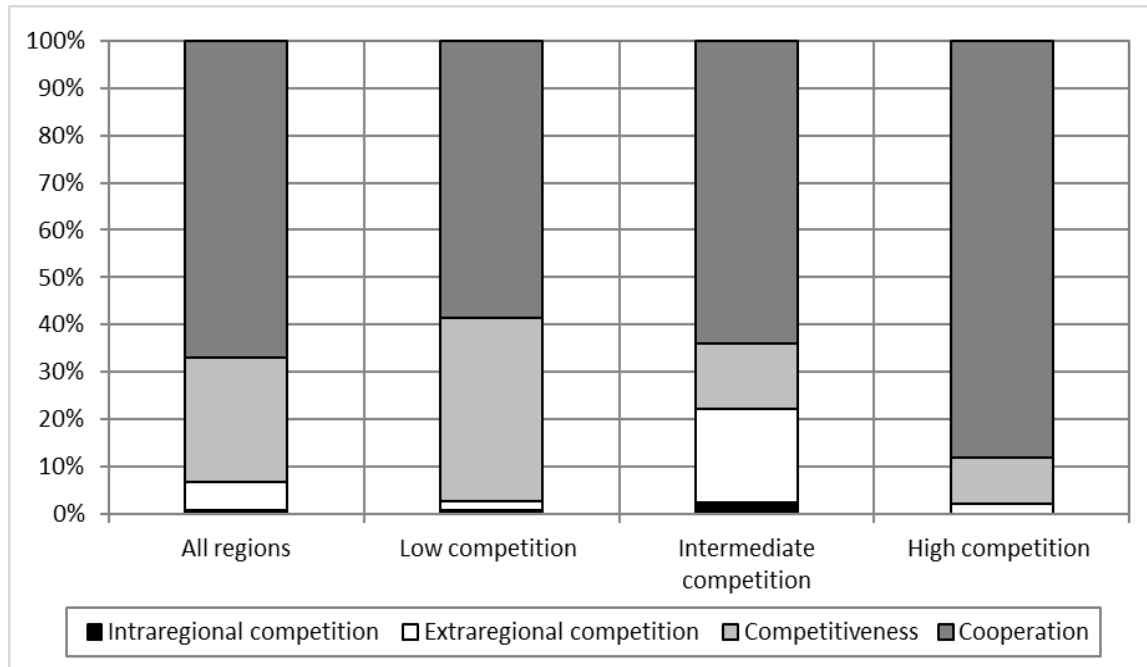
Stratified sampling of countries and regions

Countries with low competition intensity	Countries with intermediate competition intensity	Countries with high competition intensity
<ul style="list-style-type: none"> • Czech Republic • Greece • <u>France</u> (17) <ul style="list-style-type: none"> ○ Corsica (CO) ○ Picardie (PI) • <u>Italy</u> (20) <ul style="list-style-type: none"> ○ Marche (MA) ○ Valle d'Aosta (AO) • <u>Spain</u> (16) <ul style="list-style-type: none"> ○ Rioja (RI) ○ Valencia (VA) 	<ul style="list-style-type: none"> • <u>Austria</u> (5) <ul style="list-style-type: none"> ○ Lower Austria (LA) ○ Styria (ST) ○ Vienna (VI) • <u>Germany</u> (8) <ul style="list-style-type: none"> ○ Lower Saxony (LS) ○ Saxony (SX) ○ Saxony-Anhalt (SA) 	<ul style="list-style-type: none"> • Belgium • United Kingdom • <u>Denmark</u> (3) <ul style="list-style-type: none"> ○ Central Denmark (CD) ○ Southern Denmark (SD) • <u>Netherlands</u> (3) <ul style="list-style-type: none"> ○ East Netherlands (EN) ○ West Netherlands (WN) • <u>Sweden</u> (7) <ul style="list-style-type: none"> ○ Dalarna (DA) ○ Västra Götaland (VG)

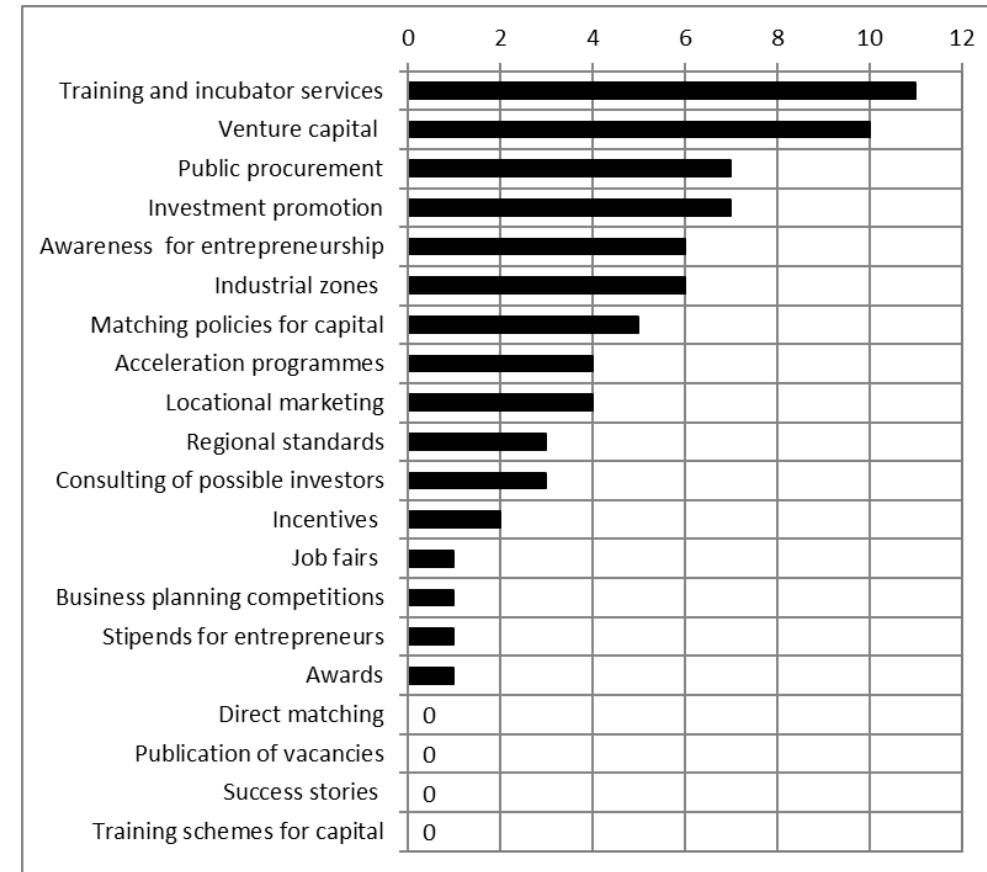


Empirical findings I

Relative prevalence of grouped terms according to competition intensity



Absolute prevalence of competition-stimulating policy interventions



Empirical findings II

Regression estimation results (OLS)

Dependent variable: number of pro-competition interventions per RIS3,
(1): main data set, (2): robustness check using an alternative data set

	(1)	(2)
grouplow comp	4.230 (0.086)	3.450 (0.135)
groupmiddle comp	2.763 (0.073)	2.395 (0.108)
pages	0.008 (0.680)	0.010 (0.608)
gdppc2017	0.000 (0.585)	0.000 (0.850)
Constant	-0.858 (0.835)	0.693 (0.869)
R ²	0.478	0.428
F Statistic	2.977 (0.060)	2.436 (0.099)
Observations	18	18

p-values in parantheses

Reference category:
Regions in high
competition countries



Conclusions

- 1) Hypothesis H1: The empirical examination of RIS3 demonstrates the existence of a cooperation bias
 - a) Collective nature of the entrepreneurial discovery process (EDP) may encourage the perception that smart specialization is primarily about cooperation
 - b) Political economy of regional development may support the use of cooperation-related instruments to the detriment of competition-oriented measures
- 2) Insofar as competition-promoting interventions are foreseen, entrepreneurship support dominates, followed by incentives for the market entry of extraregional firms; fostering competition between regional incumbent firms is only of minor relevance
- 3) Findings corroborate hypothesis H2: RIS3 of regions located in countries with a higher initial level of competition exhibit a lower number of pro-competition interventions



Policy implications

- Transformation of theory into policies is biased and as a result, there are unseized opportunities for regional policy
 - Out of 20 possible interventions, the 95% confidence interval of the median lies between 2 and 5 interventions out of 20
- Stakeholders should use the (collective) EDP to carefully analyse the state of competition in priority sectors and to identify adequate and targeted interventions accordingly
- In procedural terms, it is critical to keep this process open and inclusive for outsiders such as new entrepreneurs to prevent rent-seeking



“People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.”

Adam Smith, *The Wealth of Nations* (1776)