Table 5.5 Identifying 'missing links' in domestic ecosystems and/or corporate value chains

	Good policy practice case
Title of practice	**Identifying 'missing links' in domestic ecosystems (such as clusters) or corporate value chains**
General description	The presence of local value chains and clusters is becoming an important location determinant for FDI projects in selected sectors (see for example Figure 5.2). This good practice attracts FDI while simultaneously stimulating local companies from two different angles: • IPAs invest in understanding a corporate value chain to identify 'value gaps', i.e. an obstacle to become more profitable that could be answered by the region. Targeting and value propositions are then based on offering a potential investor the opportunity to fill a well-researched market or business opportunity gap identified for this particular company. • Cluster managers or IPAs identify current or future 'missing links' in their regional clusters based on conversations with local companies that take place as a part of regular aftercare activities. Agencies ask about current and future business problems facing these companies and where they are seeking the resources to solve those problems. Targeting is then focused on identifying companies that might have the technology and/or skills to fill the identified missing link and for which an attractive business proposition can be developed.
Why is the practice identified as 'good practice'?	Selected regional and city agencies have become important local partners in setting the local economic development agenda and helping to develop clusters. Key argumentation behind such involvement varies from stimulating the development of regional innovation systems to leveraging of public infrastructure investments in e.g. R&D centres of excellence. Meanwhile there is a growing recognition of the appeal of a 'networked' environment to foreign investors and of the role foreign companies can play to fill gaps identified that hamper the growth of this very network. ***What works:*** IPAs such as Bayern and Lyon have been successfully aligning interests of private and public stakeholders into a shared vision of the direction the local economy should take. Invest in Bavaria has a large network of industry players, research institutions and public administration departments in the top 19 sectors and serves as a liaison between the key networks and investors. Lyon leverages its R&D centres, strong university, and its network of CEO Ambassadors. These measures have put both IPAs in a position that allows them to better understanding the local offering and to pick up earlier on the latest developments in innovation, technology, and rising starts across the sectors these clusters operate in. See also Section 4.3.2, www.invest-in-bavaria.de and www.onlylyon.org, and the agencies' description in Annex B for more information. ***What does not work:*** The government's role is not to directly subsidise those industries that it would like to develop, but rather to create an environment in which existing companies can blossom into a more coherent network.
Effectiveness of the good practice	Eight investment promotion agencies, of which five at regional or city level, have embarked on linking FDI promotion with cluster building. Lyon has achieved record-high FDI inflows, attracting 31 projects in 2012, up from 15 in 2005. Bavaria has been successful in attracting companies into the life sciences cluster based on the close cooperation between the cluster manager and the IPA.
Policy conclusions	• FDI promotion at this sophisticated level of targeting requires local companies, academia, cluster organisations, R&D agencies, and other stakeholders open to

	Good policy practice case
	collaboration and sharing of information. The government could have an important role to facilitate collaboration and sharing information. • This practice has so far mainly been observed at city and regional level but could relatively easily be adopted by small countries as well.
Recommendations for IPAs	• To replicate this good practice in other regions an IPA has to be aware of the resource implications. Identifying 'value gaps' in corporate value chains requires staff with specific research skills and the ability to translate these gaps into a business proposition that makes sense to the investor. • IPAs should refrain from implementing this practice if the principal body to which an IPA reports is unaware of the longer term commitment and resources required to be successful. The IPAs referred to here have become part of a larger team of public and private organisations that have agreed on and share the same vision for the economic development of the region. It took 4-5 years for Lyon to achieve record numbers in FDI projects. Building an understanding of clusters and understanding missing links requires time and effort.

A recent example of an IPA that has stepped up on its targeting, in close consultation with the private sector in the region, is Flanders Investment and Trade (FIT, the regional IPA of Flanders, Belgium. As from early 2012, FIT has explicitly moved away from using independent opinions and objective indices on macroeconomic indicators as arguments to convince companies to invest as it realised it needs to understand what companies think and how they make location decisions. As former Chief of Cabinet of the Ministry of Economics, FIT's new Head of Investment started to look into a New Industrial Policy for Flanders, and subsequently shared this policy to develop an action plan with the private sector. Some of the key action points of the NIP are:

- Flanders as lead market: to become test lab of leading plants of the future to subsequently near source it to another location;
- Smart specialisation and clusters: Flanders encourages spin-offs by providing budgets to universities based on the spin-offs they have launched per year. In Leuven they created more than 100 start-ups in 5 years' time. These budgets have now been matched with seed capital and Flanders pushed 120 business angels to work together and opened up this capital for foreign investors to start incubators;
- Competency Development: a cluster is only smart if it combines knowledge of the triple helix. FIT will invest far more in training programmes and education to create the seed to grow; and
- Supporting Infrastructure: substantial upgrades in infrastructure are required to deliver on NIP.

FIT has now laid out a new strategy that links FDI target sectors and activities to the FIT. This has affected FIT in the following ways:

- It set-up four divisions working on four types of activities across six sectors: R&D, Service and Maintenance (S&M)+HQ, advanced logistics, and advanced manufacturing (new composites, renewables);
- FIT focuses on 10 location drivers that are either key investor expectations or current weak points in the Flanders investment climate.
- More personalisation. It reconfigured brochures into activity guides that proof its skills to take the investor by the hand.
- FIT increased its lead generation by almost 50 percent and is expecting to reach higher conversation rates in the coming months/years due to the stronger focus of its activities.
- FIT appointed staff that are sales driven, knowledgeable of private sector, resilient, self-confident, avail of a certain endurance and understand that the IPA is contributing to our society. It also introduced the Balanced Scorecard for performance evaluation.

To become test lab of leading plants of the future was exemplified by the way FIT currently looks into the role the local economy could play in building the electric vehicle of the future. This links to the next good practice we discuss here, i.e. ‘Upstream targeting’.

Source: ECORYS "Exchange of Good Practice in Foreign Direct Investment Promotion, 2013