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Insight

Should governments subsidize the activities of innovation intermediaries?

By Dr Margaret Dalziel

In these days of calls for fiscal restraint, should governments continue to pour billions of dollars into the dozens of IRAP offices, research institutes, Networks of Centres of Excellence, technology transfer offices, and business incubators that populate our cities and towns from Victoria to St. John's?

FOR THE NO SIDE

Some might think the time has come to let the best of these organizations leverage past investments to pursue a future based on private sector funding. After all, despite decades of investment in a wide variety of innovation intermediaries, the Canadian economy continues to lag most other advanced economies in terms of productivity growth, business investment in R&D, and many other measures of innovativeness. Others might view the increasingly commercial orientation of universities as an opportunity to rationalize the intermediary space by focusing investments on institutions with scientific credentials. Is there anybody who doesn't wonder just what, exactly, the seemingly endless array of helping organizations is achieving?

FOR THE YES SIDE

Fundamentally, innovation intermediaries engage in three kinds of activities. They convene networks that give network members greater access to knowledge, technology, customers, business partners, or financing than they would otherwise have. They conduct innovation gap technology development activities such as prototype development, scale-up of laboratory processes, or testing — activities that are insufficiently novel to attract the attention of university researchers, and insufficiently commercial to attract the attention of business people. And they provide complementary business services such as mentoring, training, and facilities.

Were public sector funding for these activities to be reduced, intermediaries would adapt their activities to either reduce their costs or make them more attractive to other funders. Innovation intermediaries that convene networks would provide less customized assistance and would likely rely more heavily on the internet. At the extreme, they might come to resemble internet intermediaries such as Innocentive, TopCoder, and Alibaba that facilitate market-based transactions, abandoning their more resource intensive knowledge generation and dissemination activities.

Organizations that previously conducted innovation technology development activities would offer fee-for-service technical consulting characterized by lower uncertainty and less engagement with universities, or they would pursue activities with greater scientific merit, compete with university researchers for funding, and engage less with firms. Both adaptations involve vacating the dangerous valley of death where neither economic nor scientific incentives operate.

And organizations that provide complementary business services would focus on serving established companies rather than new ventures —as do private sector consulting firms — and would be less likely to operate in economically challenged regions. Overall, the result of a reduction in funding for innovation intermediaries would be a shift in intermediary objectives and outcomes, not fewer — and certainly not better — intermediaries.

Innovation intermediaries are uniquely qualified to conduct interorganizational networking activities and innovation gap technology development activities because their autonomy allows them to focus on objectives that benefit the innovation systems of which they are members. They are social enterprises that do what companies and universities cannot, or will not do. As a consequence, many are held in high regard by the business people who have come to rely on them.

FOR THE FOLKS IN THE MIDDLE

In the end, the question of whether or not governments should subsidize innovation intermediaries depends on what the intermediary is achieving in terms of its impact on companies and other organizations. Do the intermediary's objectives correspond to achieving outcomes that would otherwise not be achieved, or do they correspond merely to organizational survival? Does the intermediary have the resources and capabilities to meet its objectives? And can it demonstrate that its activities result in near term improvements in the resources and capabilities of client and member companies, and subsequent changes in their performance in the marketplace?

Diversity amongst innovation intermediaries is necessary as the needs of companies vary according to their stage of development, their industry, the regions in which they operate, and the activities for which they are seeking assistance. Intermediaries will be similarly varied in terms of their capabilities, activities, and client bases, but should be uniformly committed to achieving critical innovation objectives that enhance the capacities of companies, and thereby the regions and industries in which they operate.

Government support should go to those intermediaries that are able to demonstrate the impact of their activities on the companies and other organizations they serve.

1. In the short term, intermediary activities should result in measurable impacts on resources and capabilities of target companies, organizations, or individuals. For example, companies should have measurably greater access to technology, financing, or customers as a consequence of participating in collaborative research projects, networking events, or trade missions than they would otherwise have.

2. In the medium term, target companies (organizations, individuals) should achieve measurably greater outcomes in the marketplace (or on health care, the environment, in the scientific community) than they would otherwise have achieved. For example, companies should have measurably greater revenues, more innovative products and services, or faster time to market, where the difference is attributable to intermediary activities.

Note: "Should governments subsidize the activities of innovation intermediaries?" is the leading question of the Telfer Innovation Policy Seminar Series discussion at the University of Ottawa on November 2. FMI: Contact Sandra Clark (clarks@telfer. uottawa.ca).

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[Top]