

Non-Paper: A new market-driven Innovation Action

EU's research and innovation system needs improvement

The Draghi report and the new competitiveness compass call for a new approach for the European Research, Development and Innovation (RDI) Model: Europe needs scalable results from RDI, a faster and more secure path from research to business and improved competitiveness of European businesses.

Europe's RDI system does not have enough impact on the competitiveness and growth of European industries. The system produces 1/3 of new research papers, but only 1/10 of new business. The current public private partnerships (PPP) models are inefficient and have even been moving towards lower technology readiness levels (TRL). European industries invest less in RDI than their competitors outside Europe.

Europe must build up its competitive edge — companies should take the lead in setting the research agenda and invest also themselves more. Pillar II in framework programme for RDI needs new or renewed market-driven and more flexible instruments where companies have a leading role. A common misunderstanding is that established companies make only incremental innovations. Companies conduct excellent research and produce disruptive innovations often in co-operation with research organisations, startups and scaleups. The model for RDI is no longer a chain where basic research, applied research and company innovations are successive continuum. They happen at the same time and get signals both from science and the market. Europe needs a funding instrument that can support modern RDI-model and delivers European added value.

Finland has set an ambitious goal to reach the 4% of RDI investments by 2030. One of the main principles is that 2/3 of these investments need to come from private sector. We call for the European Commission to replicate this ambition in its instruments.

For succeeding in this ambition, Business Finland, our main funding agency for technology and innovation, has together with industry developed a Lead Company RDI Model where companies set the research agenda and choose the best and most suitable partners for the RDI ecosystem. Already 29 such company-led ecosystems are underway, and the impact of them has been phenomenal. This model is applicable also at EU level and would provide a concrete solution to get more competitiveness and growth impact from EU RDI Funding to increase Europe's strategic autonomy.

Principles of the Finnish Lead Company Model

Business Finland has launched challenge competitions for large companies since 2020. Target is to resolve significant future challenges in collaboration with RDI-collaborators and increase RDI-investments in Finland. The model enables better research focus, creates committed collaborative ecosystems, enhances sharing of results, ensures faster and secured path from research to business, and delivers faster growth and better competitiveness of Finnish businesses.

The procurement procedure is competitive dialogue. The Leading Company defines research topics and endorses participating ecosystem companies and research institutions.

The initial project proposal shall be no more than 10 pages plus a pitch deck. The companies are invited to give oral pitches after the submission. Negotiations with selected companies are carried out within three months from submission, and final project proposals for funding are submitted after that. The research agenda is flexible and can be adjusted to meet the changing market needs. Key performance indicators include an increase in Lead Company's own RDI investments and RDI-staff, as well as development of the partner ecosystem in the project.

There are two categories of projects: 1) Globally leading companies (public RDI funding 20 M€ to Lead Company and 50 M€ to the ecosystem) and 2) Challenger companies aspiring to grow globally (public funding 10 M€ + 20 M€). Ecosystem project competitions are arranged after the Lead Company project is approved. Typically, there are 10 or more such projects during the programme.

Benefits of the Finnish Lead Company Model

The model combines private and public funding, with most of the funding coming from the private sector. It connects big companies and SMEs, research organizations, startups and scaleups to an ecosystem and provides them with the possibility to grow in Finland and globally.

The Lead Company RDI Model provides a platform for startups to test and scale their innovations with established industrial companies, and for SMEs to provide specialist services, increase their own excellence in RDI and grow their partner and client network.

Company-led RDI has a bigger, faster and better impact than public sector driven research. The Lead Companies grow much faster than their peer group and increase their profitability.

The model is fast and agile. The research agenda is not completely fixed in the beginning, alterations are possible during the programme and new companies and research organizations can join the ecosystem when needed.

The model increases industry's own RDI investments. Lead Companies are fully committed because they invest a lot of their own RDI money in the programme: 2/3 or more of the total project value.

The programmes aim to solve major challenges of societies, like the digital and green transition, defense and resilience. This is an additional motivator to the research professionals working in the ecosystem.

The programmes have proven to create inter-sectoral cooperation and leverage best practices between industry sectors.

Ecosystem projects own the IPR of their innovations (not only the Lead Company), and the participating ecosystem companies can scale up their businesses to the market according to the covenants of each ecosystem.

European Lead Company Model

Many of the components needed to launch the European Lead Company model are already available. The model is based on a competitive dialogue procedure, so it can be applied directly using some of the existing funds and instruments, e.g. framework programme, European partnerships, innovation fund or competitiveness fund. Designing a common strategic research agenda together with the industry is nothing new in the EU programmes.

European Lead Company instrument would be a welcome alternative for financing EU-level market-driven innovation activities, and it would also attract new companies to effectively innovate in subject areas that are important for strategic European competitiveness.

The instrument would enable the collection of best European knowledge (from academia and companies) under the same umbrella. It would also spread excellence throughout the whole of Europe, building up the competitive edge of European innovative industries. It would create new European business networks to accelerate the renewal and competitiveness of European industries through excellence - instead of operational subsidies.

The size of each project could be like the Finnish model, e.g. 20 M€ to the Lead Company and 50 M€ to the ecosystem. The percentage of public funding could be maximum 40-50% to lead companies and 50-70 % to the ecosystem projects with SMEs and researchers on board. This instrument would be smaller than current partnerships and innovation action projects, and most importantly - market driven.

The major difference between current co-programmes and Joint undertakings would be that in the goals are set by the leading company and agreed by commission. It would enable the larger innovative companies in each member country to participate, and at the same time would require true commitment to invest in RDI from the companies themselves.

Concrete parameters

1. Leverage existing EU Funding Instruments. Launch a pilot phase under the framework of the current Horizon Europe (and European Innovation Council, EIC) programmes, allowing for immediate application and testing of the model with leading European companies.
2. Establish a specialized task force to oversee the selection, negotiation, and monitoring of the company-driven innovation ecosystems. This task force will streamline the governance and ensure alignment with EU priorities while maintaining flexibility for industry partners.
3. Use pilots to establish clear parameters for participation, focusing on leveraging private sector RDI investments. The projects would be bottom-up, but the strategic sectors for Europe's autonomy would be decided beforehand.
4. Set the size of the public funding for a Lead Company's own project to 20 M€ and additional 50 M€ for the ecosystem (for 4 years), which would create roughly a 200 M€ research project in total, including private financing.
5. Define transparent criteria and agile procedures
 - There should be 1-2 European Lead Companies and a European ecosystem in a project with participation of SMEs, startups, scaleups and research. This would ensure better expected impact and enhanced excellence in the ecosystem.
 - Outline specific criteria for participation, including the strategic relevance of the mission in question, integration with the lead company's strategic research agenda, and the European excellence of the ecosystem partners.
 - Ensure the agility and flexibility of the innovation agenda to allow the process to remain responsive to the changes in the markets. Hence, not all targets should be fixed at the beginning of the process. Avoid complex and prescriptive rules.

6. Promote the “Cross-Pollination” of Ecosystems

- Encourage joint ventures and collaboration between large corporations and scaleups by facilitating cross-sector and cross-border partnerships.
- Provide clear communication channels and transparency in objectives to foster productive exchanges and collaborations across the value networks.

7. Develop an IPR Framework

- Define an IPR framework where innovators retain ownership of intellectual property but ensure that all parties involved in the ecosystems can share and learn from data to encourage dissemination of best practices.
- Build flexibility into the IPR agreements to enable broad participation and avoid potential legal barriers.

8. Establish KPIs and Monitoring Framework

- Develop key performance indicators (KPIs) to track progress and ensure accountability. These should include metrics on RDI investment levels, the size and European coverage of the ecosystem, number of startups and scaleups in the ecosystem and the impact on growth.
- Ensure monitoring is straightforward and based on clear commitments, with oversight handled by the dedicated task force.

9. Facilitate European-scale Networks

- Use the existing networks of industrial clusters, ETPs, and technology alliances across Europe to connect scaleups with established companies. The objective is to drive Europe’s competitiveness and foster innovation ecosystems on a continent-wide scale.

10. Launch Pilot during H2-2025.

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