

Creating supportive framework conditions for enhancing the innovative capacity of firms

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CISEG & CESIS

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Basic characteristics of economic activities

- They are
 - localised
 - tend to agglomerate - the most striking feature of the geography of economic activity is *concentration* (Paul Krugman, 1991).

The functional region – the home of economic activities

- The functional region consists of one (or sometimes more than one) central city (town) and a hinterland of surrounding localities connected through commuting

The functional region

- A common
 - labour market
 - housing market
 - market for household services
 - market for business services
- The market for the majority of all firms, i.e. the customer networks of most firms are limited to the functional region where they are located.

Innovation

- The introduction of
 - a new product (good or service)
 - a new production process
 - a new market
 - a new organisation
 - a new input
- Innovations need not be new to the world but must be new to the actual market

Innovative activities

- are located,
- tend to be concentrated to those functional regions, which offer the best conditions
- are highest in dense, urban environments

Regional conditions conducive to innovation

- Demand – a large number of qualified customers with a high demand for new products and a high willingness to pay for new products
- Supply – a large and dense supply of
 - highly educated labour
 - qualified business services
 - imported new ideas, knowledge, and products
- Interaction opportunities

The significance of regional demand for innovation

- The role of customers in the innovation process is well documented in the innovation literature
- Only a small share of the firms in a functional region export products, and
- the typical export firm only exports one type of product to one external market
- Conclusion: the majority of all firms are dependent upon customers in the own region to get customer inputs in their innovation process

How to increase regional demand?

- Increase the geographical reach of functional regions by investments in better transport infrastructure
- Increase the density of the functional region by stimulating the in-migration of firms and households
- Transform the industrial structure of the functional region to increase the share of high-wage activities

The significance of regional supply for innovation

- The larger, the more varied and the denser the supply of
 - highly educated labour,
 - knowledge intensive business services (KIBS), and
 - new import products, ideas, knowledge, etc.
- the better opportunities for firms to pursue innovative activities

How to increase the supply of highly educated labour in functional regions?

- Increase the geographical reach of the region
- Increase the attractiveness of the region by improving its housing infrastructure and its amenities
- Increase the volume of higher education
- Increase research in the institutions of higher education to increase the quality of higher education

How to increase the supply of KIBS in functional regions?

- Increase the supply of well-equipped offices in central locations in the region
- Provide the offices with high-speed broadband with high enough capacity
- Secure good national and preferably international air connections for the region
- Secure the education of the critical labour categories

How to secure the supply of new import products, ideas, knowledge in functional regions?

- Secure that engineers, economists, etc. get a good training in foreign languages, intercultural communication, etc.
- Secure good national and preferably international air connections for the region
- Organise an import office to support firms in their search for new products, ideas, knowledge, etc. abroad
- Secure that university researchers have enough travel funds

How to increase density?

- Urban and regional planning must focus on developing dense activity areas for, in particular, KIBS and R&D activities in central locations, close to universities and at locations with a favourable logistical position, e.g. highway corridors
- Incubators and dense industrial (technology, science) parks might be developed as a complement

Train more entrepreneurs!

- Make courses in entrepreneurship obligatory in all university educations
- Create an entrepreneurial spirit at all levels within all institutions of higher education
- Offer professional advices and suitable facilities to all university students and faculty, who want to test their own business ideas

Why are interaction opportunities important for innovation?

- Firms and entrepreneurs must know the demand for products with different characteristics and the customers willingness to pay for different product varieties to know what innovations to pursue
- Innovation is based on the principle "novelty by combination" – the more diverse knowledge bits that can be brought together the higher the probability for radical innovations

How to increase interaction opportunities?

- Develop arenas and meeting places and organise events where
 - customers and suppliers, and
 - entrepreneurs, inventors, researchers, etc. can meet and interact
- Trade fairs, courses, seminars, conferences, workshops, "after work" meetings

What characterises good regional innovation policies?

- They
 - try to create a supportive framework that creates good innovative milieu for all firms, inventors and entrepreneurs
 - are general
 - focus the basic conditions for innovation, i.e. the material and non-material infrastructure

What to avoid?

- Avoid direct support to individual sectors, industries, firms or projects!
- Let the market pick the winners!

Thank you for your attention!