Internationalisation in the Knowledge Economy – Kainuu

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First of all thank you for your invitation. Secondly, I would like to contribute to this discussion from the point of view of a ‘non-ideal’ region.

Christian has presented a holistic picture of the ideal attractiveness attributes for the knowledge economy to “work” in regions and the potential role of RDAs in this context.

However, in reality, rarely regions meet all ideal conditions and, in addition, development funds are limited. Most of regions are ‘non ideal’. They have to re-invent their way.

What do I mean by a ‘non-ideal’ region? …a region that, for example, neither meets all of the attractiveness attributes discussed previously nor ranks high in all key conditions of the knowledge based economy. Basically, ‘non-ideal’ regions have to slalom and define their path through the knowledge economy conditions & behaviours, the attributes of the knowledge-based economy, and the specifics of regional development priorities.

- Knowledge economy “conditions”: agglomeration, urbanisation, centrality, “death by distance”
- Knowledge-“behaviours”: learning organisation spiral→ region as organisation: Internalisation - >combination-&gt;externalisation-&gt;socialisation (Nonaka, 1998)→ KNOWLEDGE INTERACTION CRUCIAL
- Knowledge-bases of the economy: analytic, synthetic, symbolic (e.g. (2001); Bjørn Asheim, Ron Boschma & Philip Cooke (2001))
- Regional development priorities
The role of the RDA: attract (*internationalisation*), network (inter- and intra-nationalisation), localise (*learning region*); coordinate → cumulative effect
The region of Kainuu is one of the most sparsely populated areas of the EU with its 85,033 (2011) inhabitants.

- The area of Kainuu is 24,452 km\(^2\) compared with Belgium 30,500 km\(^2\).
- Population density of 3.5 inh./km\(^2\) in Belgium 326 inh./km\(^2\).
- 260 km common border with Russia.

Kainuu as ‘non-ideal’ region: population density & distance

- The development situation caused by low population density and long distances is possible to operationalise also by a concept of peripherality (*).
- Development value: “Problems connected with remoteness are best experienced and understood at the local level…” (**)

(* and ** source: The Case of Kainuu, Development situation of a remote and sparsely populated region; 20.2.2003, Director Pentti Malinen, Research and Development Centre of Kajaani).

The low population density phenomenon in Finland is so that it is lowest in the Northern and Eastern parts of the country.
Kainuu development

- Self-Government Experiment in Kainuu Region 2005 – 2012: service provision in sparsely populated areas (pilot for Finland)
- Renewing Kainuu – Kainuu Regional Programme 2009-2014: Objective: the growth of well-being; key business areas in Kainuu: ICT and Electronics, Tourism, Natural Resources.

Key Business Areas

- 1) **ICT and Electronics**: Measurepolis Programme; Development programme for vehicle information systems; Snowpolis Programme; Game and simulation development; LivingLab
- 2) **Tourism**: The development of tourist centres/centre or tourist area-specific Master Plans; Joint activities in international marketing, development of know-how and the improvement of accessibility.
- 3) **Natural Resources**: Utilisation of forest resources and reprocessing; The increasing use of renewable sources of energy; The growth of the mining industry; Increasing the use of locally grown produce.

NOTE: Kainuu has a very important music centre & Kajaani has an excellent music school, but GVA-based cultural tourism is not among the development priorities of the region. Maybe interesting to research the case further.
Kainuun Etu briefly

- Established November 2000
- Public equivalent
- Purpose: (a) to implement regional policy; (b) to advise regional policy makers
- Turnover: ± 4 000 000 €
- Employment: ± 45, out of which 6 are permanent, the rest project-based
- Budget: ± 450.000 € / year
- Income: 30% from Kainuu municipalities; 70% from national & EU funds.
<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advice to the design and implementation of regional strategy</td>
<td>15%</td>
</tr>
<tr>
<td>Support to local entrepreneurial infrastructures (incubators, industrial parks, technopoles, technological centres, ...)</td>
<td>15%</td>
</tr>
<tr>
<td>Non-financial support to SMEs (advice, audits, ...)</td>
<td>8%</td>
</tr>
<tr>
<td>Financial support to SMEs (grants, loans, equity, guarantees, ...)</td>
<td>20%</td>
</tr>
<tr>
<td>Foreign direct investment attraction</td>
<td>15%</td>
</tr>
<tr>
<td>Support to internationalisation</td>
<td>20%</td>
</tr>
<tr>
<td>Management of regional networks (clusters, enterprise-university platform, ...)</td>
<td>7%</td>
</tr>
</tbody>
</table>

The %:s are approximations since many of the activities intersect, or are even part of the same strategy.
Kainuun Etu, checklist revisited

The **FDI & Internationalisation** activities are part of a common strategy which obviously includes SMEs & clusters. Purpose is to intensify the Kainuu economy & strengthen integration of the region in global networks.

\[ Y = \text{Overall development context} \]

\[ X = \text{Kainuu supply side facts ("endowments")} \]

\[ Z = f(X,Y) \text{ specific (with focus on CRUCIAL) development actions including Internationalisation} \]

- regional & business development models, new FDI expectations, the knowledge-based economy and its “behaviour”, EU policies, national policies (at implementation stage), and more depending...
Kainuun Etu, pragmatic approach

• Christian reviewed the ideal matrix, see *Attractiveness factors*:

<table>
<thead>
<tr>
<th>Sectorial intensity</th>
<th>Knowledge base</th>
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<th>Enterprise competitiveness</th>
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<td>enterprise stocks</td>
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<td>location</td>
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<td>research centres</td>
<td>skills availability</td>
<td>culture</td>
<td>wages</td>
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<tr>
<td>export capability</td>
<td>language proficiency</td>
<td>leisure</td>
<td>clusters</td>
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<td>R&amp;D, innovation culture</td>
<td>environment</td>
<td>access to markets</td>
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<td>industrial estate</td>
<td></td>
<td></td>
<td>workforce</td>
</tr>
<tr>
<td>utilities</td>
<td></td>
<td></td>
<td>development</td>
</tr>
<tr>
<td>external connectivity</td>
<td></td>
<td></td>
<td>incentives</td>
</tr>
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• Two comments: First of all, not many regions have all of these attractiveness factors; secondly, the list is not exhaustive, especially in view of many new regional synthetic indicators coming out e.g. the Genuine Progress Indicator (GPI) and more. For example, transparency is missing; attitude to multiculturalism is missing, safety in society is missing, etc.

• Conclusion: For us, the main thing is to identify what is crucial in each case and then market it if it exists, find ways to ensure it if it is not there, and anyhow, take it into account in our development actions in general.
### Kainuun Etu, pragmatic approach

**Attractiveness factors revisited**

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What we mean is that not only rarely a region is ideal, it is also the case that many times we can have mixed signals. At the end of the day, what will make the difference is people, good leadership and building on/ ensuring the crucial parameters.
Kainuun Etu, internationalisation in practice

A simple approach: focus on regional strengths, focus on development, focus on networking.

1. FOCUS ON THE REGIONAL STRENGTHS, base for the FDI strategy: First of all we constantly assess & interprete the attractiveness, the strengths of the region in terms of global growth trends as per sector. New sectors have new needs. We then benefit from this information to target our FDI strategy.

- In 2008 a short pilot project was formed to formulate a coordinated approach to FDI attraction, within the overall regional development plan. The initial target sector was in relation to the tourism sector.
- The commencement of a database of Target opportunities and matched potential investors was developed, utilising an initial database of UK based companies with investment, merger and acquisition track records in and around Europe during a period of ten years.
- The pilot was integrated into the strategy and overall regional development objectives and internationalisation of the region.
- The pilot highlighted significant interest in the opportunities for investment within the region. It also highlighted the limited state of readiness of projects to be investable.

- RESULTS: (a) attraction of FDI in the tourism sector, mostly green field investments, including: a substantial equity based investment into an existing Finnish tourism based company; purchase and redevelopment of one small and one medium sized Hotel; real estate developments including 100 holiday apartments and ski resort infrastructure investment; the formation of two new companies, to make real estate based investments in the tourism sector. (b) Diversification of existing industrial infrastructure, attraction of cloud business, result of dynamic PPP.

- CRUCIAL FACTORS: In “a”: unexplored destinations of unspoiled nature, safety, winter tourism & ICT-strong connectedness; in “b”: b1: regional endowment/cold&water are passports to energy efficiency for energy-intensive consumers such as data centres, b2: the Finnish knowledge & innovation base and prioritisation of energy efficiency and ICT; b3: leadership in Kainuun Etu.
2. **FOCUS ON DEVELOPMENT:** Kainuun Etu is active since the very beginning in international development projects. There have been some thirty (30)-or slightly more ‘EU projects’ as they are often called. Most of our projects have been under the Interreg programme, cross border cooperation, strand A (some 20%), transnational cooperation, strand B (some 40%) and interregional cooperation, strand C (some 40%). Evidently, all international development projects are embedded into the Kainuu economy, the regional policies and priorities of Kainuu and of course benefit from the excellent infrastructure and resources of the Finland-based knowledge economy.

- **RESULTS:** (a) to export good practices from Kainuu to the rest of Europe, and thus also help directly the more performing of the companies in their exports: for example, through our on going Interreg IV C projects we are promoting the bio energy sector, wooden construction, and e-government solutions; (b) import ‘good practices’, i.e. Solutions that are relevant and work; (c ) impact policies in the direction of smart specialisation.

- **CRUCIAL FACTORS:** The diversification of the Kainuu economy towards increased GVA as a whole and per sector; Having access to “forefront” ideas / concepts of regional economic development; the national development priorities and the regional push, backed by EU tools & support for competitiveness, sustainability & internationalisation; the Finnish “tradition” of multi-stakeholder involvement schemes that are especially improtant for knowledge-based networking; the prospect of knowledge-intensive FDIs as growth drivers for important localised clusters.

- **NEXT STEPS:** (i) **Smart specialisation** (excellence in something specific; accumulation of critical mass; not necessarily focus on a single sector, but cross-sectoral approach): e.g. culture, sustainable development (exportable solutions, Lead Market Initiative), and ICT)→ **niche exploitation**, Kainuu is not cheap

- (ii) increase interregional networking → participation in **permanent interregional platforms** as a way to better access forefront players including knowledge & increase localisation through connectedness and real time exchanges, including permanent exchange of (new) people to anchor internationalsiation into brain and heart!
THE KNOWLEDGE CHALLENGE reminder for non-central regions

- New economic geography for production economy

- Old economic geography for knowledge based economy
  - Creation of new knowledge → analytic knowledge: universities, laboratories, basic & non basic research, educated & passionate people talking to each other & thinking together (Knowledge-based region, technology leaders, start-ups, gazelles, licensing) → But critical mass is important (*Florida*) (*)
  - Application of knowledge/synthetic knowledge: → easiest to do, e.g. old type FDI, new investments, etc, not a problem so far as vertical investments are concerned. Problem is, vertical investments do not spread and do not localise in a permanent sense.
  - Reproduction of knowledge → knowledge spillovers (access to knowledge, absorption of knowledge, diffusion of knowledge)

→ Non-central regions chances are probably in localised application & reproduction and networked access to knowledge cores. But this leaves many issues open.
• Relevance of RDTI
• Outsourcing
• Offshoring
• Delocation

• Partnership
• Knowledge transfer
• Talent attraction
• Knowledge take-up by enterprises

• Licensing
• Innovative products/services
• Start-ups
• Clusters

• People
• Traditions, know-how
• Patents

• Research
• Experimentation
• Living labs
• Imitation
• Adaptation

• Foresight
• Market intelligence
• Stakeholder interaction

Source: EURADA
Closing remarks, evolution

- Definition of the operational context: from ‘a region in Finland’ → ‘a Finnish region in Europe & the world’
- Regional development model: from sector → cluster → related variety (the latter is at the very beginning)
- Development context: from number of jobs → jobs competitiveness; from GDP → GPI & GVA
- From peripherality → reinterpretation → re-localisation
- Role of the RDA: from facilitation → anchoring & internationalisation
Open questions

- Localisation models per se (what projects should we undertake?)
- Opening up towards further interregional cooperation and consolidating the localisation base at the same time (what we seek and what we offer...)
- Improved “mix” between analytic and synthetic knowledge bases
- Policy tools ensuring the above (e.g. Luckewalde Innovation starategy that differentiates between analytical and synthetic-knowledge based development, and optimising between the two.
- Attracting DI with increasing prospects of analytic knowledge base
- Integrating symbolic knowledge potential (music) into the development of the region
- Increasing the knowledge inputs in the synthetic-knowledge base industries
- .......
Thank you for giving me the opportunity to contribute to this meeting and thank you for your time and attention.

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