LARS

Learning Among Regions on Smart Specialisation

Are you interested in the fields of Smart specialisation, transnational learning and triple-helix connectivity? This newsletter reports in a nutshell on initial results and insights gained in the LARS project.

The project is now analyzing input from stakeholders and identifying good practices. What can regions learn from each other and how?

Read about strengthening value chains, biogas production as an additional activity to the agricultural sector and challenges in the Macro-Regional Multi-Level Governance System.

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DECEMBER 2018

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What is the LARS Project?

11 partners from **8** regions in **8** countries

LARS helps the public sector lead Smart specialisation processes in their regions and connects innovation networks across regions

Project duration: October 2017–September 2020

BSR STARS
Innovation in the Baltic Sea Region

The six steps of LARS

1. Mapping of strategies in order to select the final intervention areas
2. Triple-helix gap analysis with the purpose of finding deficiencies and also good cases of innovation networks functioning
3. Matching partners in functioning transfer networks based on the "good" and "bad" practices
4. Learning on the transfers, essentially an innovation context analysis
5. Piloting new activities in the regions with the purpose of improving the innovation networks
6. Communicating the findings with a view on the wider implications of the project

The LARS partners

Regional Council of Ostrobothnia, Finland
University of Vaasa, Finland
Region Västerbotten, Sweden
Regional Council of Päijät-Häme, Finland
Hamburg University of Applied Sciences, Germany
Lithuanian Institute of Agrarian Economics, Lithuania
Ministry of Environmental Protection and Regional Development, Latvia
Lithuanian Innovation Centre, Lithuania
Oppland County Authority, Norway

Associated partners

CPMR Conference of Peripheral Maritime Regions
Office of the Marshal of the Pomorskie Voivodship, Poland

For more information about LARS, please visit

www.lars-project.eu

or contact the project manager, Mr Jerker Johnson
jerker.johnson@obotnia.fi, +358 44 320 6565

Who counts and who does not count when you try building a stronger value chain? Stakeholder analysis in LARS

Seija Virkkala and Åge Mariussen, University of Vaasa

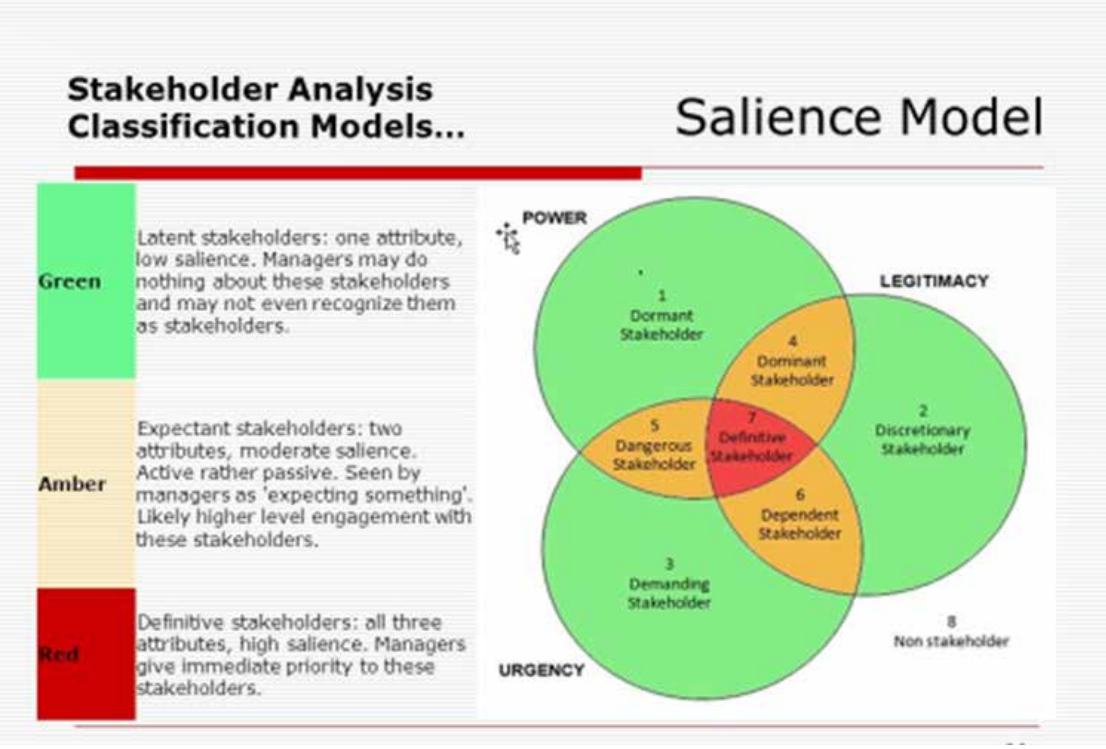
Improving value chains, like moving into more value added parts, may be a source of regional growth and development. Existing value chains might be improved. Core components may be missing and undermine competitiveness. The question is, how do you move from a situation where you are stuck in a marginal, low value added positions in a value chain to innovative value chains with higher value added positions?

The Interreg Baltic Sea Region project LARS is working on improving value chains through concrete, real life actions, pilots. We have identified and analyzed the strengths and weaknesses of different value chains in eight regions of the Baltic Sea.

But how can we engage stakeholders? Which institutions, policy-makers, companies, universities, NGOs are influential in this kind of development activities, and who can we mobilize?

Lars stakeholder analysis is based on a business strategy approach. The point of departure is which stakeholders a firm should consider as important to its strategy, or salience[1]. Salience means who counts. In Lars, we have adapted this method to value chains, and not just to a single firm.

1 *Source: Mitchell, R.K., B.R. Agle, and D.J. Wood, 1997. Toward a theory of stakeholder identification and salience: defining the principle of who and what really counts. Academy of Management Review 22(4):853-86.*



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We are looking at their potential role in developing value chains through the following main dimensions:

1. **The stakeholder's power** to influence the development of the value chain. Power is a relationship among social actors in which one social actor A can get another actor B to do something that B would not have otherwise done. Powerful stakeholders may be companies or institutions which control money, knowledge, rules, decisions, or other crucial resources.
2. **The legitimacy of the stakeholder's relationship** with the value chain. Legitimacy is "a generalized perception that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions." It is socially accepted structures or behaviors. NGOs and public authorities may be concerned with harmful pollution in a value chain, and challenge its legitimacy. Likewise, successful industries may have a high legitimacy, because they provide growth and employment.
3. **The urgency is the stakeholder's claim** on the value chain. Urgency calls for immediate attention or pressing action. (Mitchell et al. 1997). The dynamics of a value chain is caused by the need to enhance productivity through search for optimal allocation of resources. This urgency is creating a power game between powerful and less powerful, dependent actors.

Actors in different positions in the value chain are exploring new technologies or innovations that can satisfy the definitive stakeholders in better ways. They may do that together, in innovation cooperation. Through exploration, actors may acquire unique forms of knowledge and create domains that are more competitive. They may be able to grow more powerful and diversify their markets.

These three main dimensions make it possible to define 7 types of stakeholders. This typology helps us to classify stakeholders in latent, expectant and definitive.

Dependent stakeholders may rely on only one powerful buyer, and they may be easy to replace, because the knowledge they apply is easy to access. They are likely to focus on protection against potential competitors and might see innovation cooperation as a threat. Networks in value chains characterized by many dependent actors are likely to be centralized. Dependent actors compete to obtain and maintain their positions, and they may demand attention, legitimacy, and urgency.

Powerful actors, like MNCs and other large global, national or regional champions, may control value chains. They have the power and legitimacy to define what a good product looks like. They define the roles of their subcontractors, write the contracts, evaluate their subcontractors and are able to replace them, if they do not fulfill the requirements of the contract. Their support may be crucial.

Dominant stakeholders set standards, allocate resources and make decisions, providing legitimate rules (like environmental regulations and product standards).

Public authorities may be discretionary, they may or may not get involved, and they may choose to be neutral and follow general rules. Indeed, this neutral position is often seen as the ideal. Discretionary public authorities may apply rules, regulations and other policies which create problems. Since they do not care, they might not even know what they are doing.

Different stakeholders may also become dangerous. Powerful companies may just move their investments elsewhere or in-

vest in competitors. Dangerous stakeholders are also activists (competing firms, NGOs or regulators) who compete with the value chain or challenge its legitimacy.

We start with four main types of stakeholders: public government, companies, universities and non-governmental organizations (or the four helixes, in a quadruple helix model). We use the concept quadruple helix because it helps us to identify actors within each helix which can be compared because they share certain similarities (like firms), and make a distinction between actors who are very different (like firms and universities). Based on the distinction between latent, expectant and definitive stakeholders, we may look at it this way, across helices:

Read more on the topic:

The Entrepreneurial Discovery Process and Regional Development - New Knowledge Emergence, Conversion and Exploitation

Edited by Åge Mariussen, University of Vaasa, Finland, Seija Virkkala, University of Vaasa, Finland, Håkon Finne, SINTEF, Norway and Tone Merethe Aasen, SINTEF, Norway

Saliance by triple helix	***Latent***	***Expectant***	***Definitive (entrepreneurial support)***
Companies:	Sleeping giants Small dependent	Monitoring, awaiting possible investment opportunities	Investing in value chain upgrades Dependent
Universities:	Inside academia/tied to state indicators	Adapting/adjusting existing curriculum Potential partners	Take account of the development/need of value chain specific innovation in the education and research
Public government:	Neutral, follow general rules and procedures	Consider support according to general rules Institutional conflicts/ Potentially dangerous?	Include value chain issues as priorities in development strategies and direct the resources to the development of the value chain.
NGOs:	No interest	Defending rules and values Dangerous? Positive?	Claims to value chain, for example environmental, local, residents, consumers

19 thousand pigs and biogas production – urgency or passion for additional farming activity?

LARS project team, Lithuanian Institute of Agrarian Economics

Joint efforts of a number of Lithuanian institutions and other relevant stakeholders put bio-economy among the key priorities of Lithuania's Smart specialisation strategy. Biogas production is found as a prospective activity for Lithuania aiming to reach sustainability goals.

The projected benefits of biogas production as Smart specialisation development in Lithuania include climate change mitigation and reduction of CO2 emissions, as well as generate additional income for independent biogas producers. Hence, developed agricultural sector in Lithuania proposes sufficient amounts of biomass and agricultural residues to be used as raw materials for biogas production in farms.

General information about CESTA and reasoning for smart specialization in biogas production

One of the key players in the Lithuanian agricultural sector - the joint stock company CESTA - became a flagman in biogas production from biomass and slaughter residues. Its main activity is production of meat products from livestock and poultry, grown in Lithuania. The original farm was built and the pig complex was established in Soviet times in 1977. In 2004 the company was reorganized into a private joint stock company "Cestos Maistas" (hereinafter CESTA). Currently there are almost 800 employees in the CESTA business network. The main pig complex counts 19 thousand pigs. It is set up in a non-residential rural area almost 30 kilometers from Vilnius.

Due to the environmental restrictions for business enlargement CESTA had to start an additional activity – biogas production from biomass and slaughter residues. Old barns were renovated between 2011 and 2015. The very first biogas plant started operating in 2016. The estimated total power generation capacity of the biofuel plant is 0.8 MW, while the total heat output is 0.98 MW. Heat and electricity are generated by combustion in biogas turbines. Biogas is produced by anaerobic microorganisms (in a dense environment) by processing slurry and other raw materials in bioreactors. The generated energy is used in the farm for electricity, heating and soon also for preparing dried animal feed.

After the modernization and installation of biogas plants, the situation in the complex improved, especially from the environmental point of view. Natural resources are saved, air pollution is reduced, slurry and other vegetable and animal waste is used to generate energy, and the residual substrate after biogas production becomes a valuable fertilizer. No adverse effects on soil, underground or biodiversity are expected during the farm's economic activity.

Does cooperation matter in Smart Specialisation for biogas production? CESTA cooperation expectations and experiences regarding biogas production

Cooperation for Smart specialisation nationally and internationally plays an important role for the success of such key players in a particular sector as CESTA is in meat production in Lithuania. Research data reveals that CESTA found other companies as innovation partners relatively important both at national and international levels. Cooperation regarding production network process innovations nearly meets the company's expectations, whereas product innovation expectations are higher than the current situation. The owners expect the long-term exploration of business opportunities for cooperation with other companies to be quite good.

As good examples of cooperation with other companies might be mentioned deals with another Lithuanian JSC "Agaras", operating in the fresh meat market in Lithuania. Besides the shared success recipes of innovations in common business development practices, cooperation added value from a very practical

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point of view. Together the companies managed to generate and share sufficient amounts of raw materials for biogas production in their farms.

Among the biggest challenges regarding cooperation with companies the CESTA management stated the difficult business situation due to differences in business operation standards, namely corruption, lobbying, personal contacts and oral shadow contracts, interest conflicts and other.

Public organizations as innovation partners are less important for CESTA activity at a regional level compared to national and international levels. However, public organizations are much more expected to be innovation partners at a regional level in regional development issues (infrastructure, logistics, land-use), employment affairs and advice than they currently are.

The cooperation gap with public institutions at national level is slightly bigger than on the international level, but not very evident. As it was stated during the interview, cooperation exists, but it should be stronger and more focused. Good practices were found in relation to the Lithuanian ministry of Energy.

However, more open discussions between the government and agribusiness representatives on how to improve conditions for business in biogas production would help develop bio-economy as smart specialization much quicker in Lithuania. Weak local government competencies and skills and double standards were listed among the main obstacles.

Cooperative activities with universities and research organizations do not exist at regional level, since none of this type of CESTA stakeholders are found at regional level. Cooperation in education was found to be very important at national level due to the specifics of ongoing business activity and its relevance at national level. Cooperation in development with universities and research institutions was found equally important both at national and international levels. However, a big gap was observed regarding the expectations and experiences at international level due to the work relating to long-term exploration of opportunities.

There is a willingness to cooperate with scientists in pig breed selection as well as in technical biogas production research and development processes. However, the CESTA management stated scientists as too theoretical and it would be very prospective for Smart specialisation if science would come closer to biogas and farming practices.

NGOs as cooperation partners are found important at national level when taking into account joint representation of pig farmers' interest. Other types of NGOs currently do not play an important role in innovation creation neither at national nor international levels. It was stressed by the CESTA management that cooperation is good at national level for sharing knowledge and experiences. However, among the biggest challenges are listed weak activeness of local people, lack of interest, low qualification and the role of NGOs actors.

Summarizing the CESTA cooperation expectations and experiences, it should be stated that the non-existence of regional cooperation opportunities and stakeholders is not particularly important for key players, such as CESTA is, in a particular field of smart specialization (in this case biogas production in Lithuania). Greater cooperation in aligning interests and expectations of all spatial players in the field would foster biogas as Smart specialisation at national level. Despite the still existing corruption and protectionism of particular interest groups at national level, international cooperation in innovation in biogas works pretty well.

However, Smart specialization in biogas production in Lithuania is right now much more supported by personal ambitions and personal international relations than by national state promotion programs of innovation in biogas, despite the international advisory legislation. This opens up a broad field of discussion about how to develop the biogas production in Lithuania with the help of a smart specialization strategy, by sharing national practices and good international experiences.

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Partner Meeting

The LARS partners met i Lahti, Southern Finland on the 15th and 16th of October 2018. All partners presented their stakeholder analyses and the interview data collected so far. The partners had the possibility to discuss their different experiences from both collecting and analyzing the data. Through the interviews, the partners have already succeeded in identifying good practices in their innovation systems which could be fruitfully transferred to other partners. The partner meeting was hosted by the region of Päijät-Häme.

The LARS Work Packages

1. **Project Managment and Communication** ✓
2. **Mapping of Areas of Interventions and Stakeholders** ✓
3. **Innovation System Gap-Analysis** ✓
4. **Transnational Learning**
5. **Policy Transfer**
6. **Pilot Implementation**

Challenges in the Macro-Regional Multi-Level Governance System

Marko Mälly, Regional Council of Päijät-Häme

In a new study on international cooperation organizations of regional governments (ICORG), Marko Mälly recognized challenges in the macro-regional multi-level governance system (MLG) in relation to the supranational (EU), national, "macro-regional," and subnational (local and regional) levels.

These challenges are comparable of those actors who face them in the framework of quadruple helix co-operation on the local and regional levels. The study results implied a strong need to open up a discussion on the role of the subnational level in governing and implementing the European Union Strategy for the Baltic Sea Region (EUSBSR). Several challenges in the macro-regional MLG system were revealed.

Marko Mälly.
Photo: Valokuvastudio JenniMaria

Good and balanced communication, interaction, and division of labour are vital elements of a functioning MLG system, but at the same time communication and coherence also seem to be the greatest challenges for the subnational level. Weak linkages between MLG levels have led to communication problems, insufficiently organized division of labour, and inefficiency with double work. In the macro-regional context, the communication appears to be too limited.

The limited horizontal communication within the regional level itself might also imply the danger that larger processes, like EUSBSR or MLG, remain rather distant and knowledge of them remains superficial. Improved communication would facilitate the coordination of division of labour between different levels, especially as actors seem to work mostly through informal information exchange.

The EUSBSR offers a concrete framework for cooperation and for building mutual trust, which can result in a more efficient division of labour, improved coherence, and a reduced amount of overlapping work. It could also mean more efficient cooperation in selected thematic fields between different MLG levels, more efficient use of scarce financial and human resources, and shared commitment to a better working MLG system. With time, this could also make overlapping structures unnecessary.

The horizontal action "Capacity," using MLG as an overall guiding principle, offers capacity-building support for the implementing stakeholders. It is definitely needed, as the awareness of the EUSBSR and MLG is rather limited on the local and regional levels. The awareness seems to be restricted mostly to stakeholders working with EU project management or implementation. Capacity building would help stakeholders to adapt better to the changing operational context, increase their awareness about the EU policy processes, and become better integrated into the MLG system.

That the MLG capacity building reaches mostly project stakeholders and is split among a great number of separate projects may pose a risk that stakeholders and regions not receiving EU funding or not participating in projects with a MLG approach will not be considered in for MLG capacity-building measures, either. On the other hand if MLG capacity building in the Baltic Sea macro-region stays project-based, one may seriously question whether the capacity building truly will have an impact on the governance system of the Baltic Sea macro-region.

The macro-regional strategies of the EU make it evident that intergovernmental cooperation and the national level will possess a strong role in the future as well, if a MLG system has appeared alongside it. The EUSBSR has dominated the MLG discussion in the Baltic Sea macro-region since its establishment in 2009.

Without legal and institutional arrangements, the subnational level will remain on the implementation side of the MLG system without having a relevant influence on decision-making. In the long run, this might lead to even more diminishing interest of the local and regional levels to follow and fulfil the common strategic goals of the macro-regional strategies and the policies of the EU. Solutions to these challenges should urgently be found in the soon starting revision process of the EUSBSR.

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Clear Goals and Small Steps – Preparing to Implement Project Results

Marie Sjölind, Regional Council of Ostrobothnia

At Hamburg University of Applied Sciences, Ivonne Stresius and Jennifer Pohlmann are partners of the LARS project as well as working on several other large-scale projects touching similar themes. While still in the data-collecting phase and starting the analysis, the LARS project discusses ways of implementing its results and using them for affecting policy-making.

– In the Hamburg area, our topic in LARS is to establish a circular economy for electronic and electrical household devices, says Ivonne Stresius.
– We want to create a real circle out of the value chain, which means that we improve the cooperation between all the participants in the value chain towards a more circular economy, she continues.

Could you share some experiences from the interviews you have made so far?
– The interviews are about cooperation and about expectations. In most ways, the expectations are higher than the experienced reality, so I think that is something we should focus on and analyze, Ivonne Stresius says, while Jennifer Pohlmann adds that all the interviews point out that there are differences between the regional and international levels of cooperation.

How about the possibilities for LARS to affect the future development in the Hamburg region? Ivonne Stresius emphasizes sparking and improving cooperation between different institutions – research, public institutions and companies.

Jennifer Pohlmann mentions bringing out the positive effects of cooperation.
– Making all stakeholders see clear benefits in cooperating, increasing transparency and interacting with each other. At the moment, there are still very individualistic views and the collaboration between stakeholders is not yet clear, says Jennifer Pohlmann.

There are also hopes that transnational learning in the LARS project could bring a wider understanding of Smart specialisation to the region.
– We are currently seeing difficulties in getting the importance of LARS and Smart specialisation higher up on the political agenda. That is something we would like to learn from other regions, Jennifer Pohlmann says.

When discussing the chances for a project to be successful and reach its goals, the Hamburg partners underline both an ambitious vision and a down-to-earth path to reach it.

– It is important to always have a clear goal and a clear vision, and to monitor the progress, says Jennifer Pohlmann.
– It should also be clear that you will not reach your far-away goal in four weeks or so. You also need to define small, practical steps in the direction of your vision, says Ivonne Stresius.

With the first stakeholder workshop in the region successfully held, the stakeholders in the Hamburg area are generally interested in cooperating.
– We hope that we can make the benefits of real cooperation clearer over the project period and provide our partners with good examples and best practices from our partners in the project, says Jennifer Pohlmann.

Jennifer Pohlmann and Ivonne Stresius