
Strengthening the competitive edge of SMEs through new regional and local measures

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Productivity and competitiveness are the commanding processes of the informational/global economy.
Productivity essentially stems from innovation, competitiveness from flexibility.
Manuel Castells

Our global and local world

Globalization continues to advance favouring the globally dominant players in every field, in nations, international trade, culture, and even science. The big players set the rules of the game. Even if the peripheral areas might get jobs and employment from tourism or some other industries major development benefits go to the dominant players operating from global centres. Polarization is deepening globally in all aspects of economy and society. There appears to be no end to this development. Gloomy thoughts like these can be found in recent discussion about globalization. Bourdieu states in one of his last speeches (Bourdieu 2001, p.2): “And this politics, like its level that which led to the birth of national markets, has the effect (and perhaps also the goal, at least among the most lucid and cynical of neo-liberalism’s defenders) of creating the conditions of domination and brutally confronting the agents and the enterprises previously enclosed in national limits to the competition of the most efficient and powerful productive forces and means of production. Thus, in emerging economies, the disappearance of protections dooms national enterprises to ruin and, for countries like South Korea, Thailand, Indonesia or Brazil, the suppression of all obstacles to foreign investments involves the breaking up of local enterprises, then purchased often at ludicrous prices, by multinationals.”

Casells (2000b, p.373) states: “[T]he new system is characterized by a tendency to increased social inequality and polarization, namely the simultaneous growth of both the top and the bottom of the social scale. This results from three features:

- a) A fundamental differentiation between self-programmable, highly productive labor.
- b) The individualization of labor, which undermines its collective organization, thus abandoning the weakest sections of the workforce to their fate, and
- c) under the impact of individualization of labor, globalization of economy, and delegitimation of the state, the gradual demise of the welfare state, so removing the safety net for people who cannot be individually well off.”

A few pages later he sums up the process by adding (Castells, 2000b, p.385): “The global economy... will penetrate all countries, all territories, all cultures, all communication flows, and all financial networks, relentlessly scanning the planet for new opportunities for profit making. But it will do so selectively, linking valuable segments and discarding used up, or irrelevant, locales and people.”

These are not rare or isolated views. Similar opinions are frequently expressed. The main point is that competition has increased. The global market tests every firm everywhere, each day, for its competitive strength. So what can be done at local and regional levels to sharpen the competitive edge of SME? Are there any other options left other than try to join national or global networks and supply chains as the last small supplier, subcontractor or local service provider? What would be the competitive advantage for the peripheral regions in Europe or in the periphery of a country such as Finland? What would be the chances to succeed as an independent local entrepreneur? Those are some of the questions which have been raised in Central Finland. In this paper I will describe and discuss some of the measures which have been taken, or could be taken, at a regional level to strengthen the competitive edge of SMEs.

Opportunities on the local level

The answer to the problem of the competitive strength of firms and regions lies in productivity, which stems from innovation and competitiveness which in turn stems from flexibility as argued by Castells. Other researchers express basically the same idea by talking about continuous change, about learning organizations or even learning towns and regions. (Easterby-Smith, Burgoyne, Araujo 1999). Parallel to globalization there are also other forces working. These are, in terms of Drucker (1993, p.128–141) and others, regionalism and tribalism. Nation states continue their existence but are losing part of their mandate to both transnational organizations and regional and local actors (Amin, Thrift 1994). The world might well be global and local at the same time. Even Castells (2000a, p.123) has an optimistic view to offer when he states: „What is fundamental in this web-like industrial structure is that it is territorially spread throughout the world, and its geometry keeps changing, as a whole and for each individual unit. In such a structure, the most important element for a successful managerial strategy is to position a firm (or a given industrial project) in the web in such a way as to gain competitive advantage for its relative position.” Amin and Thrift (1994, p.14–15) use the term ‘institutional thickness’ to describe the social and cultural factors, which are at the hearth of economic success. These factors are according to them:

- a) Institutions locally present, firms, training agencies, local authorities, development agencies, innovation centres, etc.
- b) High level of interaction of these institutions
- c) Awareness that all are involved in a common enterprise.

Malecki (1994, p.125–126) argues that what is important for regional development is

- a) Good industrial structure and mix
- b) Local technological capability, and
- c) Entrepreneurial climate.

The importance of entrepreneurial and innovative culture is also the main point in the paper of Camani (1995) when he examines the concept of innovative milieu in weak economic contexts. He can both theoretically and empirically confirm the relevance of the ‘innovative milieu’ for economic development even in adverse locations.

The global market tests every firm and every region every day. The prior theoretical and empirical research, of which only a few examples have been mentioned here, has proved that the critical survival and development factors for local and regional development are to be found in technology, innovation, knowledge and learning but that at least as important is the local entrepreneurial culture and local, living networks. From this point of view I will evaluate the situation in Central Finland and examine the measures taken there.

What has been done in Central Finland?

In Finland municipalities have great autonomy but at the same time responsibility to provide all the basic welfare services from education through to health. On the regional level the organization representing regional interests is the Regional Council. It is an organization of all the municipalities in the region. The regional council is the authority responsible for regional development and land-use planning. It is however a weak organization. It has very limited resources and a limited authority.

Central Finland has a population of 260 000 half of which live in the neighbourhood of Jyväskylä, and an area of 19400 km². The Regional Council of Central Finland comprises all the 30 municipalities of the region. The average size of a municipality is less than 9000 inhabitants and outside Jyväskylä about 6000 inhabitants. The smallest municipalities have less than 1000 inhabitants. In Central Finland only the area of Jyväskylä thrives. It is one of the five rapidly developing centres of Finland. It is also considered to be one of the best cities to live in Finland. Some of the neighbouring municipalities also develop in the wake of Jyväskylä, but more than 20 municipalities have difficulties in their development. Many of the them are losing population, and have high unemployment and too few new enterprises and entrepreneurs. All this creates also problems in financing and organizing the welfare services for the remaining population.

The Regional Council of Central Finland has stated as its vision: *Central Finland is a region of opportunities and quality of life which builds its future on knowledge and skills.*

The vision indicated even in this short formulation is that knowledge i.e. education, research and technology is the driving force of development. The problem of an organization like the Regional Council is that it has very few tools to make its vision true. It has no authority over the players in Central Finland whether these are firms, municipalities, other organizations or individual citizens. It may create opportunities for business and individuals through infrastructure development, and it may organize and acquire financing for development programmes, and even enhance the quality of life by various measures from housing to social services acting on behalf of the member municipalities. The most important way it can have an effect on future development is by pointing the way to the vision, and creating such an enticing strategy that other players accept the challenge as part of their own strategy. In this work more is needed than providing resources and coordinating the work of these regional players. What is needed foremost is the will and motivation to work for regional development and impact on the entrepreneurial culture in the region.

To move from this vision statement to credible strategy there is no easy or short route. Looking at the previous theoretical work and the current situation in Central Finland, I have identified as critical success factors the following.

a) Facing the cruel facts

1. Polarization of Jyväskylä vs. the rest of the region
2. High unemployment
3. Diminishing population in most of the municipalities
4. Ageing of population
5. Problems in financing the welfare services
6. Much too thin network of SMEs.

The cruel facts are well known but not actually faced other than in speeches.

b) Admission tickets for the survival game of global competition involving high quality

1. Base of existing viable companies
2. Transportation and communication network
3. Business services
4. Primary and vocational education
5. Social services
6. Living environment.

The requirements are mainly satisfied although there is still need for improvement at certain points.

c) Critical resources for success

1. Thick institutional resources, technology centres, training centres, development companies, government development agencies, university, polytechnics, specialized vocational schools etc. and cooperation between these
2. Networks of enterprises and entrepreneurs in all industries
3. Networks of regional developers and discussion forums for grassroots level strategic issues.
4. Funds and financing channel for development projects and investments.

Critical resources are not on the level, which would be needed for rapid development. The institutional resources are not as strong as could be hoped for especially outside Jyväskylä and the cooperation between institutions is not well developed.

d) Critical success factors

1. Identity and image as a region of opportunity and quality of life
2. General atmosphere of confidence and trust to the future in spite of the cruel facts of today
3. Living, discussing and spirited networks of entrepreneurs, developers and general public
4. Innovation nurturing atmosphere

Critical success factors are difficult to pin down exactly and even more difficult to transform into programmes and policies. The core of the problem lies in here, because without these success factors the development will be based on individual entrepreneurs and developers work and will be much slower than it should have been.

SMEs play an important part in the regional development strategy. One of the main points is to enhance the entrepreneurial culture and aid the development of the com-

petitive edge of SMEs. It is represented in every point of the list but especially in a6, b3, b4, c1, c2, d3, d4. It is worth noting, that strengthening any small business is not a separate or isolated programme or project. It is part of the overall development strategy of the region.

Between 1995–2001 the regional development strategy of Central Finland has relied on two basic pillars. The first one was strengthening the formation of SME networks in selected industries and the second is raising the level of technology and education. Local funds from companies and municipalities plus a considerably amount of EU and national funds have been the resources for financing the projects of the strategy. The most important industries, where there already is a viable base of firms in Central Finland are machinery industry, wood based industries, printing industry and electronics industry. On each of these industries one or a few core firms could be identified. These and in addition craft industry and tourism were selected as the industries where special development programme was organized. For each of these industries a full time developer was appointed. His/her main task was to further the development of regional production networks and clusters within the region and to organize relevant training for the firms. All this was done in a firm driven way so that their needs and requirements were decisive in the programme. The core companies were big firms like the Metso paper machinery plant in Jyväskylä, number 1 in big paper machines in the world, the Valtra tractor plant in Suolahti, Valtra being number 5 in the world market etc. The programme of production network construction was a success. Especially in the machinery industry a strong regional production network was created, even a cluster of the smaller companies located next to the Metso paper machinery plant, the so called Teräs-Sampo cluster. The machinery industry is now the fastest growing industry in Central Finland. Training was partly organized as company-specific but in most cases locally or regionally for several smaller companies at the same time. Training programmes were long ones and they also brought companies and their representatives together and aided in creating company networks within industries.

Technology, knowledge, and skills development was done by financing research and new degree programmes at the University and Polytechnic of Jyväskylä. Programmes in entrepreneurship, marketing, information technology and applied science (paper technology, nano technology etc.) received new resources in particular.

What was done in 1995–2001 can be summarised in two ways.

- a) Organizing and financing knowledge and skills development at the university and polytechnic
- b) Organizing and financing the development of production networks in selected industries.

These belong in the list above as c1 and c2. Both were successful and each promoted the development of SMEs in Central Finland.

In the new strategy for the future from 2002 to 2010 there is one new industry in the list of target industries, namely business based on welfare and health. This has been added due to the fact of the increased importance of that sector in a nation of increasingly aging population. Additional importance for this business gives the fact the University of Jyväskylä is the only university in Finland, which has research and education

on that field in the Faculty of Sports and Health Sciences. In addition there are already in Central Finland a number of institutions providing services in this field. This new industry will be also very interesting for SMEs. They will be able to build networks and clusters with bigger companies in the field.

Another new way of thinking development for the next planning period is specialization of municipalities. Locally municipalities have selected their own specialization strategy according their strengths. This specialization field directs their business development policy and also their application for EU funds if eligible. In the northern part of Central Finland the choices has been based on utilization of natural resources, wood, peat, stone, tourism etc. Closer to Jyväskylä there has been a wide variety of strategies. One community has decided to advance business in the field of health and recreation. They have already an excellent and thriving golf course and a rehabilitation centre. The municipality has as its strategy to build on this and to create a cluster of services linked with this already existing core. Another has a vocational school in the arts and crafts field and this municipality, which is very small, has a strategy to of advancing entrepreneurship among students in order to help them in establish their own firms.

There is also one new line of knowledge and skills development. This is the transformation of vocational education. This involves taking an entirely new look at vocational education. Education will be seen as an continuing activity, which takes place in most cases at the work and in the firms. There will be new type of learning facilitators working at firms. Of course there will be vocational schools, which give the basic skills, but even these will see more cooperation between firms and vocational schools.

My opinion is that so far this is all fine, but by adding two missing parts into the total picture we would have five new lines of action.

- a) Transformation of vocational education
- b) Organization and financing of programmes to develop business based on health and welfare promotion
- c) Specialized and targeted municipal business promotion strategy
- d) Creation of an atmosphere of optimism and trust in the future of Central Finland
- e) Vitalization all existing networks, creating discussion forums and a special network of developers.

Have the measures had any effect?

The first part of the strategic programme from 1995 to 2001 succeeded best in two respects. Network construction in the machinery industry, and promotion of research and teaching in entrepreneurship, marketing, information technology and applied science, were the most successful strategies. The help the small firms had in creating production networks and raising their competence to join the global networks created new firms and helped many grow fast. The funds the University and Polytechnic received were crucial in adding new research units and degree programmes to these institutions thus increasing the knowledge base available for firms. As a result of these programmes a number of new small technology, software and service companies have emerged.

The next phase will add new measures to these already tested methods. The most promising will be the transformation of vocational education which will increase the quality of the working population and especially entrepreneurship as the example of the Team Academy already has proved, and the municipal specialization which will create clusters of small firms around the existing core strength of each respective municipality has.

What I personally would like to be added into the regional strategy is more networking among all entrepreneurs, SME promoters and developers, more discussion and more discussion forums. The problems of entrepreneurship are to great degree problems of culture, problems of climate and problems of interaction.

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