

Edited by Grzegorz Micek

UNDERSTANDING INNOVATION IN EMERGING ECONOMIC SPACES

Global and Local Actors,
Networks and Embeddedness

The Dynamics of Economic Space

ROUTLEDGE



UNDERSTANDING INNOVATION
IN EMERGING ECONOMIC SPACES

The Dynamics of Economic Space

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Understanding Innovation in Emerging Economic Spaces

Global and Local Actors, Networks and Embeddedness

Edited by

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List of Abbreviations

CAP	Common Agricultural Policy
CEE	Central and Eastern Europe
CIT	Corporate Income Tax
CMA	Cracow Metropolitan Area
DBFs	Dedicated Biotechnology Firms
EU	European Union
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
GPN	Global Production Networks
GVA	Gross Value Added
HCLQ	Horizontal Clustering Location Quotient
HEI	Higher Education Institutions
HR	Human Resources
IPRs	Intellectual Property Rights
KM	Knowledge Management
KNM	Knowledge Network Management
LQ	Location Quotient
NIZ	Niepołomice Investment Zone
nMRAs	Non–Metropolitan Rural Areas
PIT	Personal Income Tax
PMR	Poznań Metropolitan Area
R&D	Research and Development
RIS	Regional Innovation Systems
SMEs	Small and Medium Enterprises
SOEs	State-Owned Enterprises
TIS	Territorial Innovation Systems
TNCs	Transnational Corporations

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Introduction

Innovation in Emerging Economic Spaces in the Context of the Local–Global Dichotomy

Grzegorz Micek

Dense networks of local inter-connected firms facilitate the creation of an innovative milieu. Some academics argue that formal and informal linkages resulting in knowledge flows between companies and other stakeholders lead to enhanced local innovation performance. Similar processes may be observed at transnational corporations, which gradually become embedded in relationships with local partners (Domański 2004). This is especially true of manufacturing companies, and in particular the automotive industry (Domański and Gwosdz, 2009, Jürgens and Krzywdzinski 2009). In general, new economic spaces of innovation and creativity emerge and consequently lead to geographical, institutional and social changes.

Innovation is widely understood in the book as every product, process, idea or behaviour that is new to a company. This is in line with the definition of innovation by Kotler and Armstrong (2010) who emphasize that innovation is a complex process that may occur in different forms. Innovation perceived in such a way is massively uneven in terms of spatial representation. A limited number of countries, regions, cities, and localities are powerful gatekeepers and generate the bulk of creative and innovative ideas, while the majority is largely left out. The book looks at neglected, but emerging innovation centres analysed from various spatial and organizational perspectives – ranging from entire countries and regions to individual firms and small neighbourhoods. A variety of economic sectors are examined including biotechnology, agrotourism, and the food retail industry. The book employs various, often contradictory, concepts, ranging from local buzz to the global pipeline, through an analysis of collective learning processes to geographical embeddedness. Both qualitative and quantitative approaches are used.

The presented research originates mainly from emerging economies, mostly from Central and Eastern Europe (CEE): Poland and Estonia. CEE has been undergoing economic, social, and political transformation for 25 years. The transition from state-controlled to free market economies has resulted in FDI inflow (Weresa 2004) and rapid growth of local entrepreneurship (Piasecki and Rogut 1993). Some companies have become rising stars of innovation in the region, which was until recently perceived as a peripheral one. In the course of this transition, new industries have emerged; for instance, advanced business services

(Hardy, Micek and Capik 2011, Micek, Działek and Górecki 2011) and the IT industry, in particular (Guzik and Micek 2008). Siłka (2012) provides evidence that the innovation potential of the largest Polish cities has accelerated after EU enlargement.

The aims of the book are twofold. The authors describe changes occurring in the regions and cities under transformation and attempt to find common and unique mechanisms behind these changes. Consequently, scholars shed a light on the scale and scope of the innovativeness of selected economic and social processes.

The book consists of 12 chapters. Part I includes three chapters that examine innovation from slightly different spatial and methodological perspectives. In Chapter 1, Sascha Brinkhoff, Lech Suwala, and Elmar Kulke (Humboldt-Universität zu Berlin) look at innovation on the micro scale (Berlin-Adlershof and Seville-Cartuja science parks) and aim to contribute to the discussion of the interdependence of innovative businesses with scientific institutions in neo-Marshallian industrial districts or 'localities of learning'. The scholars investigate how different dimensions of proximity (including social approaches such as social proximity, embeddedness, and trust) and personal commitment to specific spaces ('ba') contribute to enhanced collective learning processes. Second, Brinkhoff et al. integrate the concept of knowledge management with the scale of territorial innovation networks. Ultimately, the analysis adds new findings to the recipe as to how specific 'knowledge cluster management' instruments and institutions support the building of distinct natures of proximity and further key elements that promote localized learning and innovation.

Chapter 2, by Tomasz Rachwał and Krzysztof Wiedermann (Pedagogical University of Kraków), contains the results of macro-scale quantitative research that focuses on the relationship between the development of industry and the R&D community in the EU. The analysis of EU regional industrial change is based on research on changes in employment, gross value added, productivity, and labour costs, while the consequences of the transformation of industrial structures are measured by the value of investment in fixed assets, R&D growth, and employment rates in the high-tech industry. Rachwał and Wiedermann conclude by stating that many Central and Eastern European regions experience the stage of transition to an innovative economy based upon the development of manufacturing activities, which does not necessarily translate into growth in the R&D sector. Despite the major role that manufacturing plays in innovation and R&D, no clear relationship was observed between industrial spending on innovation, R&D indicators, and economic growth, as measured via GDP. Five distinct paths of R&D growth have been identified in relation to GDP growth in the European Union.

In the last chapter of this section, Grzegorz Micek (Jagiellonian University) explores different terms used to discuss knowledge interactions. By looking at recent academic papers, he states that knowledge spillovers and diffusion are the most appropriate words to describe the majority of cases. It is argued that mixed methods (preferably based on in-depth social network analysis) should be used to find a balance between biased results obtained from empirical modelling and

case studies. A critique of a variety of indicators of knowledge interactions is also presented.

Innovation in emerging economies is often implemented by foreign and/or large companies, thus the role of these enterprises is scrutinized in Part II. The significant positive impact of FDI on overall regional innovation capacity or spillover effects (Cheung, Lin 2003, Fu 2008) is widely studied in Asian countries. Weresa (2004) argues that FDI impacts innovation processes in different branches of Poland's industrial sector, except for low-technology industries, and thus helps Poland catch up with the rest of the European Union. However, a considerable body of literature has shown that externally owned corporations fail to generate both local and regional economic success (Braidford et al. 2003, Pavlinek 2004, van Egarat and Jacobson 2005). The majority of contributions in the second section examine relationships between FDI, large companies, local and regional development, and innovative capacity of regions. This remains in line with studies on the local impact of companies from different industries, not only in the context of growth (Strykiewicz 2004, Domański and Gwosdz 2005, Glasson 2005, Rachwał and Wiedermann, 2008, Jarczewski and Huculak 2011, Micek 2011), but also in the context of factory closures (Chapain and Murrie 2008).

Aksel Ersoy (University of Birmingham) investigates, in Chapter 4, how large corporations in Turkey contribute to the formation of national and global economies. He examines the geography of the largest corporations in the Turkish urban system, giving consideration to their location, performance, and concentration. Ersoy argues that not only the spatial organization of enterprises remains important in urban systems, but also how they are linked to the dynamics of local and regional economies in developing countries. He states that local embeddedness of the largest corporations leads to an institutional thickness that is thought to be one crucial success factor for regions in a globalizing economy.

In Chapter 5, Egert Juuse (Tallinn University of Technology), Sylvii Birgit Endresen (University of Oslo), and Rainer Kattel (Tallinn University of Technology) examine local embeddedness and networking at foreign companies operating in food retailing and related industries in Estonia. The analysis is based on interviews with key stakeholders as well on secondary sources of information. The authors argue that FDI in Estonian retail has led to increased concentration of capital, sector imbalances, significant market concentration, and thus created vulnerabilities to systemic risks. With a shrinking population and volatile purchasing power, aggressive expansion of foreign retail chains in Estonia has saturated local markets, in terms of excess supply, and incurred sectoral imbalances as well as systemic risks in an unfettered market economy, that is, unmanaged FDI policy in Estonia's transition to a full-fledged market economy.

In Chapter 6, the same three authors analyse the restructuring of food retailing in Estonia and observe a clear trend of instituting positive feedback mechanisms in the Estonian food industry, which brings forth the dual nature of the economy – niche products from small enterprises marketed either in open markets or small independent eco-stores with a trivial 1–2 per cent market share, and industrial style

dominating the retail chains. Juuse, Endresen, and Kattel argue that the emergence of small producers and shops has been enabled by agglomeration economies and facilitated by modern retail formats, which have opened up possibilities for the rejuvenation of small shops selling niche farm products in shopping centres or supermarkets. The development path of the Estonian food retailing industry has been affected by institutional and economic adjustments such as radical change in the nation's government and national ideology in the early 1990s, transformation of the structure of the national economy, as well as related developments such as increased urbanization, acquisition of the country's banking sector by Scandinavian banks, and the completion of Estonia's business privatization process. In addition, the legacy of the Soviet period, small market size and the country's non-corporate, neoliberal, nationalistic socioeconomic environment have had a significant impact on the food retailing industry.

In Chapter 7, empirically sound research by Magdalena Dej (Jagiellonian University) focuses on the impact of large companies on rural communities. The research is based on 12 case studies, statistical analysis of the level of development of all Polish non-metropolitan rural areas, and survey studies conducted on a total of approximately 2,500 inhabitants of rural areas found in the vicinity of large companies. Dej's study confirms the significance of the origin of capital in the degree of impact of large companies on local communities in non-metropolitan rural areas. Companies strongly connected to their geographic location or the place of residence of their owners or the managing personnel satisfy all their personnel needs locally. This includes top-level employees. On the other hand, companies that are external with respect to their geographic location, including companies with foreign capital, rely on higher level employees coming from outside their immediate geographic vicinity. The examined foreign companies, as opposed to Polish companies, are characterized by very weak collaboration with local suppliers and service companies, and tend to limit their local sourcing to transportation companies.

In Chapter 8, Wojciech Jarczewski, Maciej Huculak (Institute of Urban Development), Magdalena Dej, and Łukasz Sykała (Jagiellonian University) conduct research on the economic and spatial advantages and disadvantages of the operation of the industrial park in Niepołomice found in the Kraków Metropolitan Area. The impact of company relocations from Kraków to neighbouring Niepołomice on tax revenues and employment has been studied. Although the research has not denied the economic success observed in Niepołomice, it allowed for an analysis of the scale of its local character. In fact, the success of Niepołomice is a success for the entire Kraków metropolitan region. The findings in the chapter make the success story of Niepołomice slightly more realistic.

The behaviour and strategies of innovative small companies are described in Part III, which starts with a contribution by Matthew Novak (Central Washington University), who examines independent cafés in Washington State in the United States. He looks at the creativity of the coffee shop enterprise itself. The data used to examine the business practices of coffee shops, both corporate and independent,

include field observations and a comprehensive GIS database of retail outlets across Washington State. Novak employs field observations to get an indication of the size and scope of the business, as well as the type of customers, and novel advertising and branding techniques employed in attracting patrons to their caffeine-laden offerings. He argues that small coffee shops are prime examples of spatial and functional creativity and innovativeness in contrast to the increasing dominance of several global players. Small independent shops show remarkable resilience in facing their corporate rivals. Their small size, limited capital investment, and flexible organizational structure allow them to succeed in a competitive market.

In Chapter 10, Michał Męczyński (Adam Mickiewicz University) attempts to determine the role played by creativity and innovativeness of creative sector managers in the socioeconomic development of the Poznań metropolitan region. He identifies the problems that restrict the creativity of managers and their companies (e.g. brain drain) and links them with various policies pursued by the city's government. Męczyński argues that Poznań should adopt many solutions already introduced in other cities. An example of this would be the implementation of a policy that would regulate rents on premises that belong to the city and are not leased by creative sector entities. A larger concentration of artists resulting from higher building density in the city centre would be conducive to the flow of ideas and the implementation of collaborative projects.

Piotr Dawidko (Jagiellonian University) analyses in Chapter 11 the global-local dichotomy in the Polish biotechnology industry based on a series of semi-structured interviews. He contrasts the Polish biotechnology industry with its Western European counterparts. Certain aspects of the biotechnology industry (e.g. high embeddedness in local knowledge networks) and the present economic situation (generally low innovativeness of Poland's economy) hamper foreign investment in Poland. Dawidko argues that the concepts of local buzz and global pipeline appear to apply only to a limited number of expansion-oriented, highly innovative companies in Poland. At the same time, their usefulness in explaining innovation and the development of small biotechnology companies is limited. Global knowledge flows and labour mobility affect the specialized aspects of business activity, but local factors such as lack of entrepreneurial culture or financial support negatively impact business performance and act as a constraint to business development.

Finally, in Chapter 12, Sławomir Dorocki, Anna Irena Szymańska, and Małgorzata Zdon-Korzeniowska (Pedagogical University of Kraków) examine entrepreneurial behaviour at family businesses in Poland's agricultural tourism sector. The research is based on in-depth interviews with innovative business owners. The authors claim that family history shapes the evolution of the entrepreneurial spirit. Farms are potential areas of development for family entrepreneurship and innovativeness.

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