

Smart Specialisation and Regional Innovation Policy

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Smart Specialisation is a strategic approach to economic development through targeted support for research and innovation which is intended to encourage each region to develop new regional economic niches or specialisms. It is a concept which has been very rapidly embraced by European Union policy makers and is now the lynchpin for European Structural and Investment Fund interventions in research and innovation as part of the Europe 2020 jobs and growth agenda. That means regional policy makers across Europe are busily developing Smart Specialisation strategies. It is, however, a policy concept, that even its key proponents acknowledge is still in search of a theory (Foray et al., 2011).

Critical to Smart Specialisation is the 'entrepreneurial discovery process' that reveals what a country or region does (or will do) best in terms of research and innovation, and what makes a local knowledge base original and unusual (Foray et al., 2009). As Foray et al., (2011) put it, smart specialisation is "... largely about the policy process to select and prioritise fields or areas where a cluster of activities should be developed, and to let entrepreneurs discover the right domains of future specialisation" (p. 7). It concerns bottom-up policy that aims to promote search activities by entrepreneurs, as "entrepreneurs are in the best position to discover the domains of R&D and innovation in which a region is likely to excel given its existing capabilities and productive assets" (Foray et al., 2011, p. 7). As such, it is intended to allow innovation policies to emerge which are 'place-based', which build on a sound analysis of each region's strengths and potential for excellence, and which involve a broad range of actors and their knowledge of market potential. Early thinking on Smart Specialisation was criticised for being 'spatially blind'. Now, however, it is increasingly recognised that the entrepreneurial search process is highly geographical and that it varies according to the connectivity within and between regions, and is shaped by persistent regional entrepreneurial cultures as well as governance structures and institutional forms. A critical challenge

for Smart Specialisation approaches however is to connect with policies more especially targeted at addressing structural problems in the periphery of Europe. Smart Specialisation alone will not solve these structural problems in these places.

In understanding how to identify the capabilities of regions to develop new specialisations, the notion of 'related variety' is key. In essence, the higher the number of technologically related industries in a region, the more opportunities there are for new industries to branch out of existing ones, and for existing capabilities and resources to be exploited and recombined in new activities. This is supported by systematic empirical evidence for both countries and regions. However, importantly, Smart Specialisation is not only about developing new specialisations in regions which have growth potential through the presence of related capabilities. It is also about developing new specialisations which are complex and non-ubiquitous and which help upgrade the local economy (see Hausmann, this issue). Current research is trying to establish how we might better measure and understand the knowledge complexity of regions, and identify how common (or uncommon) their technologies are.

What is clear is that connectivity within and between regions matters enormously. The position of countries and regions in trade networks, value chains and knowledge networks is crucial not least because better connected regions enhance the economic effects of local 'related variety'. Institutional context also matters with labour relations, corporate governance relations and inter-firm collaborations all affecting the intensity and nature of linkages between related industries. Studies suggest that different varieties of capitalism are significant here. Liberal market economies have institutions that tend to favour diversification in more unrelated activities through an emphasis on generic assets that can be more easily deployed to alternative uses. In contrast, co-ordinated market economies have institutions that tend to favour diversification in more related activities

through an emphasis on specific assets and strategic interactions (see Boschma and Capone, 2014).

The development of thinking around Smart Specialisation inevitably raises considerable questions for policy-makers around how it should be implemented in practice. One set of questions surrounds how priorities should be set and what decisions should be taken about which activities to support and where to intervene. The literature to date suggests regions should seek to exploit areas characterised by high technological relatedness in order to maximise their potential to exploit the benefits of related variety. In addition, they will significantly reduce their risks if they also focus on developing areas with the potential to enhance the complexity of their knowledge base and production activities and so upgrade their local economic potential.

A second set of questions surrounds how regions and their policy-makers can effectively involve local stakeholders in the Smart Specialisation process. Smart Specialisation policy is intended to be a bottom-up process, not least so that the widest source of available knowledge is garnered and that widespread local ownership of the resulting strategy is secured. However, widespread stakeholder involvement can run the risk of the process being captured or dominated by specific interest groups, powerful lobbies and major local players, with all the attendant risks of rent-seeking behaviour and lock-in. This is a major challenge particularly for peripheral regions which may suffer from a dependence on long-standing traditional approaches to governance, with limited experience of or cultures of experimentation and risk-taking. They may also tend to have strong connections with local vested interests and barriers to the inclusion of newcomers in policy discussions. They may also be characterised by poor quality governance and lack of a tradition or culture of collaboration.

Thus, Smart Specialisation offers many challenges but also, many opportunities.

References

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