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Supporting Microenterprises Growth and Innovation by Regional Partnership Model

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Abstract: Microenterprises are mostly unable to give enough thought for their future business development and innovation. Development Companies' task is to foster growth and development of individual enterprises. At the same time, students and teachers from the Universities of Applied Sciences (UAS) are so engaged in disciplinary content that more advanced skills for entrepreneurship may suffer. We have brought these parties together in order to study how to build a joint holistic co-creation framework. Pedagogical approach Learning by Developing (LbD) action model links learning to applied research, development projects and regional developing. Emphasis is in social interaction, knowledge and competence sharing, researching and problem solving. LbD enhances sharing knowledge, creativity and the contact network of the university with working life. In this study, three Regional Development Companies recruited 43 companies to participate training programme built by Laurea UAS. Simultaneously business field students integrating entrepreneurial competence into their programmes were engaged in the development work. All together 13 thesis and 16 development projects were carried out with enterprises. Student engagement gave microenterprises new perspective for customer and business surface evaluation in addition to entrepreneurial capabilities. The results reveal three different kind of approaches to partnership creation as well as their future development. Critical elements of the model are 1) Equality in partnerships, no sub-contractor roles; 2) Enabling synergy effects for the entrepreneurs to enable joint learning and value creation; 3) Realistic expectations from the students as stakeholding learners and; 4) Ability to meet the demands of rapidly changing environment. Our aim is to create a permanent engagement platform for matching microenterprises' needs with regional development companies' and university's resources and know how. Anticipating future needs and ability to change accordingly has to be built in this model.

Keywords: co-creation, entrepreneurial capabilities, innovation, microenterprises, partnership

1. Background

Regional development is dependent on attracting new enterprises and helping the existing enterprises to develop their businesses. Kurtz (2012) emphasizes the role of entrepreneur in creating innovation and growth. The focus of development and innovation funding has shifted towards small and medium sized enterprises (SMEs). However, in order to create growth there is a lack in number of SMEs in Finland. Thus, growth potential of micro and small enterprises (MSEs) is essential in order to enhance future growth.

Microenterprises are defined (European Commission 2017) as companies with annual headcount less than ten persons and annual turnover less than two million euros. Corresponding figures for small enterprises are 50 employees and ten million euros. In 2018, MSEs represented 93 percentage the companies' establishments in Finland and their share of the personnel was 63.9 % and 52.6 % of total turnover (Official Statistics of Finland 2020).

From the perspective of MSEs as drivers for regional development and welfare, we are building a model to enhance both the individual enterprises' as well as regional possibilities for innovation and growth. In order to do so, cooperation between the UAS and three regional development companies in the Uusimaa region was established. Development companies have wide access to the entrepreneurs in the region. They recruited 35 micro and seven small enterprises to take part in the development project, RADAR, financed by European Regional Development Fund. The initial idea of the model is in picture 1.

Innovation is important for the future survival and growth. At the same time, there exists huge potential for opportunities and growth in microenterprises. However, the lack of capabilities and other resources often inhibit the outburst of this potential. Is it possible, by cooperation of the regional agents and entrepreneurs to build a joint model to enhance innovation and growth? Moreover, what are the critical elements in this?

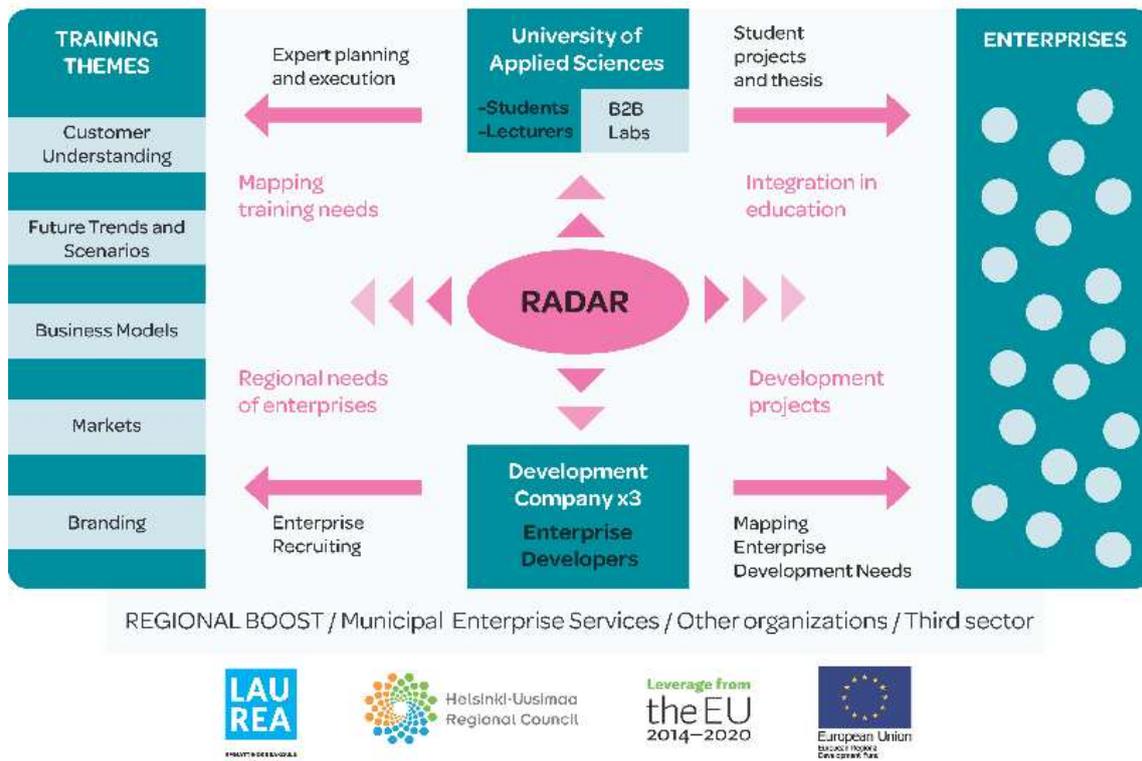


Figure 1: The initial RADAR model construction

We focus on the engagement model building by the main actors. Their interviews aim to discover the best possible future solution for MSEs as well. In addition, we include capability development and innovation as aspects of the regional effort.

2. Framework

The initial framework is based on traditional open innovation thinking where inwards and outward flow of information speeds up internal innovation process and exploration of new markets (Chesbrough Vanhaverbeke and West 2008). Open service innovation (Chesbrough 2011) and further value co-creation (Alam 2006), which has its roots in service design, recognizes service users as significant sources of innovation.

The regional innovation system consists of institutions whose interaction determines the production, diffusion and use of economically useful knowledge. In the cumulative process, innovations result from processes of learning, searching and exploring. In our study, the regional institutions are the regional development companies and the Laurea UAS and the means of knowledge diffusion is LbD action model. The training theme offering for the enterprises consists of five parts: customer understanding, future trends and scenarios, business models, markets and branding. In addition, there is coaching by the Enterprise Developers and development projects by the students.

The permanent action model, that is the final objective, consists of four processes: regional needs of the enterprises, development projects, mapping the training needs and integration in education. The whole model has to be co-created by the main actors and engagement by the stakeholding enterprises, experts and students.

2.1 Innovation and co-creation

Innovation according to Schumpeter (1934) is the main driver of competitiveness and economic dynamics. It is divided into five types: new products, methods, market, sources or industry structures. Kahn (2018) introduces three aspects of innovation: innovation as an outcome, as a process and as a mindset. It has individual and cultural aspects. Innovation includes three parts: discover, develop and deliver.

Mason and Brown (2013) recommend a broad view on innovation by co-creation and opportunity recognition enhanced by market engagement. Growth is more a consequence of external environment than internal characteristics of a firm. Thus, external and relational aspects are mediating firm performance. Porter and Heppelmann (2015) predict a radical shift in company functions because of smart connected products. Customer relationships become continuous and open-ended. Intensive cooperation, new forms of cross-functional cooperation or even new functions are needed. According to Polaine Løvlie and Readon (2013), services have to change according to changing needs of people. It becomes essential to combine business models and design as well as innovation processes. In fact, over two-thirds of service innovations arise directly from user involvement (Alam 2006). Value co-creation has capacity to change individual services as well as service systems.

Ramaswamy and Ozcan (2014) regard co-creation as both means and ends in the cycle of outcomes. Interactions are the core of value creation as value is created and evolved jointly with stakeholding individuals. The process includes resources and skills of individuals and organizations. Platforms and agential actions are essential for making connecting and joint value creation possible. Transformative change entails a fundamental change in the mindset of individuals. Co-creative capability building is necessary as well.

Taking a broad approach to innovation is necessary in co-creation keeping in mind that MSEs' challenges are often concrete pieces of innovation process. Creating value and growth means that the entrepreneur aims to expand the firm to its full potential (Elert, Henrekson and Stenkula 2017).

2.1.1 Innovation in small enterprises

Chaston (2010) regards continuous innovation as one of the operational competence needed in delivering strategy. Limited resources of a small firm cause participation in a network important for innovation activities. Filippini, Güttel, and Nosella (2010) have concerned about SMEs' lack of slack resources for developing internal capabilities to observe the environment. Their studies indicate that establishment of social networks and development of trustful environment is prerequisite for absorbing knowledge from outside.

Nybakk (2009) wished to advance knowledge about the factors triggering creativity and innovation in small firms. He found out that entrepreneurial attitude influences innovativeness and performance of microenterprises. There is a positive link between networking and innovativeness as well as indirectly to growth.

Iturrioz, Aragón and Narvaiza (2015) identified drivers to foster the dynamics of shared innovation of SMEs. Safe environment required to share innovation projects is based on trust, reciprocity and long-term commitment. Operationalising the innovation strategy means creating new organisational structures to share the competencies to innovate as well. Innovation should be a common strategic aim for competitiveness in the network. There exists a need for intermediaries with greater resources and executive powers to attract agents for efficient cooperation. Improvements in social capital help to develop shared innovation strategies, reduce costs and risks and guarantee fairness.

Beckett and Chapman (2018) studied innovation in Australian manufacturing SMES. They recognized that continuous innovation depends on the business models and the individual entrepreneurial mindset of the managers and owners. These factors also influence the level and type of purposeful networking together with innovation orientation and vice versa.

There exist only few studies on innovation in microenterprises or MSEs (Tu, Hwang and Wong 2014, Faherty and Stephens 2016, Dunne et al. 2016, Gomes, Mendes and Constantino 2019). Recommended further studies should answer, whether current support structures, networks and clusters can be effectively tailored to the needs of microenterprises. Lahiri (2014) suggest value creation to be used to measure performance.

2.2 Entrepreneurship and entrepreneurial capabilities

Entrepreneurship is defined by Wiklund (1998) as "taking advantage of opportunities by novel combinations of resources in ways which have impact on the market". According to Elert, Henrekson and Stenkula (2017) entrepreneurship is the ability and willingness of individuals to discover and create new economic opportunities, introduce ideas into the market, and create value. Bessant and Tidd (2011) describe the entrepreneurial goal setting and its phases as recognizing the opportunity, finding resources, developing a venture and creating value.

There exists several approaches to capabilities needed in entrepreneurial activities. Miller (1983) developed a scale for measuring the dimensions of entrepreneurship called Entrepreneurial Orientation (EO). The three dimensions are innovation, risk-taking, and proactiveness. It has been the main tool for assessing SMEs' prerequisite for performance. Bradley and Marino (2011) claim that conceptual variation of EO hinders the accumulation of knowledge in the field. They suggest a family of constructs instead. Aminu (2009) considers entrepreneurial orientation to be an antecedent of dynamic capabilities (DCs). DCs facilitate the reconfiguration processes of the firms' existing resources to determine superior performance in unpredicted environments (Helfat et al. 2007). The dimensions of DC are sensing, seizing and managing threats and transforming. Both EO and DC derive from resource-based view.

Entrepreneurial capability (EC) is a distinct set of individual and organizational capabilities, skills and actions to exploit new business opportunities (Alijani 2013). Abdelgawad et al. (2013) highlight the role of EC in achieving and sustaining firm's competitive advantage. EC is anticipating and realizing forthcoming change. However, unlike other dynamic capabilities, the primary contribution of EC is to induce change into the environment to gain an advantage. EC is used to create opportunities, thus it expands the influence and actions of an enterprise beyond its own resources. The four dimensions of EC are sensing, selecting, shaping and synchronizing.

Individual opportunity-recognition processes are crucial for entrepreneurial activities (Shane 2003, Philips and Tracey 2007). They can also enhance learning, adaptation, renewal, and strategy formulation processes of any organizations (Zott and Amit 2007). Resources can be found through cooperation, partnerships and new business models. Moreover, capabilities can be enhanced by joint efforts and learning. In order to be able to induce change MSEs would need to join their forces.

Even though microenterprises form a huge potential for growth and innovation, there is a lack of research in this field. Existing research is mostly connected to different capabilities. Rasmussen and Nybakk (2016) have studied growth drivers in Norwegian micro firewood firms. They found out, that microenterprises differ in how they can configure and exploit their strategic resources. Customer orientation, innovativeness and tenacity were detected to have significant effect on growth. Asad et al. (2018) detected that the size of enterprises moderate the relationship between risk taking and performance, pro-activeness and performance as well as innovation and performance. They also identified both EO and innovation to be very important for improvement in performance of SMEs as well as microenterprises. Entrepreneurial orientation and innovation have been found to be higher in small enterprises than in microenterprises.

2.3 Partnerships

Partnerships are defined as an arrangement between two or more organizations for reaching a shared, where the benefits and risks can be shared (Bendell 2011). Strategic partnership aims to combine knowledge capital in order to gain significant strategic advantage (Stähle and Laento 2000). Eddy and Amey (2015) describe strategic partnerships to be a conscious choice to achieve strategic objectives, specify priorities as well as support change in the partner organizations. Successful partnerships enable value creation, protect the partners' interests and facilitate change (De Mann 2013). The main requirement for selecting partners is to understand the needs of the customers.

Andersen (2008) describes partnerships as ideal modes of collaboration. The concept is defined by structural and binding collaboration, which includes equal influence, common development activities, dialogue-based collectivity and community as well as equality, trust and respect. Creating a partnership model has six basic questions (Ala-Mutka 2008): aim, competitive position, offering, revenue model, value network and capabilities. The answers help to create understanding of value creation. Partnerships between companies and public organizations aim at collaborative advantage (Huxman and Vangen 2004). Common basis for collaborative advantage are access to resources, shared risk, efficiency, coordination, learning and moral imperative. Strategic alliances are cooperative inter-firm agreements, which aim at creating competitive advantages for all parties involved (Das and Teng 2000). Alliances are formal relationship, which give enterprises access to the resources they need for innovation and growth.

In interaction with partners, entrepreneurs can access new information and knowledge or learn about new opportunities. Strategic alliances are a gateway to important external knowledge for SMEs (Shepherd and Patzelt 2018). They provide the access to new ideas and innovation (Dyer and Singh 1998) and knowledge about markets

(Anand, Glick and Manz 2002). According to Iturrioz, Aragón and Narvaiza (2015) SMEs need to open up for cooperation to develop sustainable cooperative advantage. Shared innovation is only achievable in specific social context. Intermediaries, such as education institutions are necessary for extracting value from the social resources as well as to enhance shared innovation among the companies.

Partnerships are important in this study for two reasons: First, the regional model and platforms are built together with several organisations. Second, the aim of the new model is to give microenterprises access to knowledge of other stakeholders as well. Studies on regional partnerships, which focus on shared value creation or regional business development and innovation, are rare.

3. Methodology

The research uses qualitative approach. Qualitative research is an iterative process between research ideas, theoretical concepts, research design, data collection, analysis and findings (Eriksson and Kovalainen 2011). The research question is defined how to build a regional cooperation model for enhancing microenterprises' growth. The main aim is to understand how the main actors define the regional framework for enhancing business development of microenterprises now and in the future.

3.1 Data collection

Theme interviews were used as the data collection method. According to Patton (2002) thematic interviews are an appropriate method for holistic information acquisition in qualitative research. It favours human beings as the means of information gathering. The themes list those topics, which are to be shed light on during the interview. The themes were gathered around the model and actors' roles anticipated benefits for different stakeholders. The interviewees were persons working in close connection to the participating enterprises. Interviews were recorded and transcribed.

3.2 Data analysis

Thematic interview content is easily dividable into themes (Tuomi and Sarajärvi 2009). The content is divided into categories using inductive reasoning. In practice, small phrases describing the phenomenon are gathered and classified. We looked for sentences describing the cooperation or different actors. Analysis of the interview content forms the basis for understanding, describing and modelling the phenomenon at hand.

The researchers categorized the original transcribed interviews independently. In the second phase, the main categories were agreed together. After that, the second level subcategories were jointly agreed. Main characteristics for the subcategory were selected from the sentences describing it. Limited scope unable showing examples of these sentences.

4. Findings

The findings are divided in two different interpretations. First, the classification of the interview data into different categories and subcategories is presented. Second, the different partnership approaches with example sentences will follow.

4.1 Categories for modelling

Main categories found by the analysis of the interview data are the following: shared identity, model building, enterprises, students and fields of knowledge. They are further divided into subcategories together with their short descriptions. The whole classification is shown in table 1.

Table 1: Categories, subcategories and their description

Main category	Subcategory	Description
Shared identity	Region	Cultural and geographical closeness, acquaintance and easiness
	Municipalities	Business promotion, developmental actions, financing, strategic choices
	Development companies UAS	Customer understanding, development projects, problem areas, co-creation, territory
Model building	Understanding each other	Consciousness, informal frequent cooperation, knowing each other, trust

Main category	Subcategory	Description
	Relevant development projects	Authenticity, practical applied science approach, learning possibilities
	Platforms and decisions needed	Contact persons, fees, experts, finding students
	Enablers	Management and municipalities commitment, contracts and plans, resources, partnership, network, processes, wider ecosystem, productization
Enterprises	Motivation	commitment, enthusiasm, networking
	Learning	Multidisciplinarity, difference, new areas of expertise, ideas and conversations, readiness for competence development, learning from others, wider thinking, further development of thinking and doing
	Capabilities development	Anticipating changes, ideation, mutual sparring, new solutions, business development, equal discussions
	Systematic approach	Individuality, emerging developmental needs, development path, resources, networking, mini ecosystems, other actors
Students	As a resource	Competence, tutoring, access, products
	Motivation	Benefit, being of use and help, own subject field
	Entrepreneurial understanding	Learning, transferable skills for entrepreneurship, orientation, mindset
Fields of Knowledge	Selling	Branding
	Customer understanding	Service design, mapping customer needs
	Marketing	Digital marketing, social media

4.2 Partnership approaches

Three main approaches for cooperation between the UAS and development companies were detected. They are subcontracting, developing joint offering and strategic partnership.

Subcontracting was identifiable by the partners: Development companies consider the student work as an independent part, which is useful anyway. UAS gains access to the development projects to use them for their own educational purposes.

"All of these training themes are new for most of the companies. At least they gain readiness for developing their capabilities."

"In a way we would have a channel for both direction. The enterprises need those development projects by the students, and the student need the jobs."

"Development companies give leads to us, that is, in away suitable projects and cases are directed to Laurea."

Joint offering is an approach where the productization of the development package is developed together:

"It is very difficult for small companies to engage time for thinking. I fancy this cooperation where we jointly operate at the enterprise interface to support them."

"It really could be this kind of a package, a joint product."

The strategic partnership approach was brought out when thinking the customer needs in the future. Joint process development would primarily optimize the content for customers:

"Even so that we would all see the whole picture and would be able to have impact on the contribution of other parties as well. This would be good to do. And kind of us to know, what this regional design is."

5. In conclusion

Several public sector enterprises are together responsible for the regional model building. Primary focus was in their views on the process. Their experts and students participate in the value creation process. Entrepreneurs are stakeholding co-creators in their own as well as joint value creation.

Obviously, there is still huge variation in mindset from subcontracting to more strategic approach. Partnership closes to co-creation and joint value creation when focusing on enterprises' needs. Evolving technical, social, and organizational architectures together with several organizations is challenging. It requires joint mindset and capability ecosystem. Therefore, the first step should be to agree on the partnership approach.

Interviewees brought clearly out informal cooperation, which would hardly give an accessible and transparent solution. Therefore, we conclude that model building requires

- 1) Equality in partnerships, no sub-contractor roles;
- 2) Enabling synergy effects for the entrepreneurs to enable joint learning and value creation;
- 3) Realistic expectations from the students as stakeholding learner and not a consultant;
- 4) Ability to meet the demands of rapidly changing environment and capability ecosystem.

Value creation requires strategic partnership by the enabling organizations (De Man 2013), access to resources, shared risk, efficiency, coordination, learning and even moral imperative (Huxman and Vangen 2004). Structural binding collaboration includes equal influence, common development activities, dialogue-based community as well as equality, trust and respect (Andersen 2008). These cannot be attained by subcontracting model.

Anticipating changes, finding new solutions and business development were capabilities found further developed. Enterprises also found mutual sparring, learning from others and networking valuable for their learning and development. This is in line with both co-creation and EC approaches anticipating and realizing forthcoming change (Alijani 2013, Abdelgawad et al. 2013). Both are essential for innovation and growth of microenterprises and regions as well. Important fields of knowledge found were customer understanding, sales and marketing. This is in accordance with the findings of Mason and Brown (2013).

6. Theoretical and managerial implications

Co-creation framework is clearly adaptable for this action research type of work. The permanent engagement platform should able productive and meaningful interaction for collaborative innovation. Co-creation and joint innovation process appear to be the value creation system, which brings benefits for multiple stakeholders as well.

Guidelines and decisions are needed in order to bring the joint action model forward. Multi-stakeholder system is not easy to coordinate and needs clear set of roles especially when opening the network for wider group of entrepreneurs. Deepening joint customer understanding capabilities is highly important as well.

When the entrepreneurs, experts and students are stakeholders in value co-creation, unrealistic expectations are not justified. The main task in model development and management is to take care of equal and fair treatment of all parties. It must also enable flexible adaptation to the altering needs of the microenterprises in the region. It is clear that substantial changes are due in management. Orchestrating a joint co-creation effort is demanding not to speak about creating a joint mindset for all the stakeholders. Serving different industries would require administrating more specified flow of expertise.

Permanent engagement model is to change according to the altering customer needs. It should also be sustainable structure maintaining offering for MSEs in the region. This requires a lot from management systems and structures.

7. Limitations and future research

Some findings of this study may be useful for other districts, but on average different strategies apply and promote entrepreneurship and economic growth in different countries and clusters (Elert et al. 2017). The study is the first step in the regional co-creation model building and thus very limited in scope. In the future, we will study in more depth the experience and future expectations of the entrepreneurs as well as other stakeholders.

Specific needs of different fields of industry were not included because of the multi-field approach. Whether this approach is better for the innovation of the enterprises and region remains to be investigated. Different time perspectives and priorities of the participants are to be taken into account in further research as well. One could also study further the possibilities of collaborative networks in this shared innovation context.

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