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# **Review of Invest NI: Successful local economic development ecosystems**



**Supplementary report**



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## **Review of Invest NI: Successful local economic development ecosystems**

### **Supplementary report**

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# Table of Contents

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1	Introduction	1
1.1	This study	1
1.2	This report	1
2	Context	3
3	Functions of development agencies in their local systems	3
4	The importance of individualised approaches to policy	6
5	Defining the success of development agencies	7
6	Defining the success of local development policies	10
7	Conclusions	13

## Figures

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Figure 1	Functions and outcomes of selected development agencies	5
Figure 2	The position of Creative Sheffield in the system of economic development and investment promotion in Sheffield	9

# 1 Introduction

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## 1.1 This study

This study was commissioned by the panel of the Independent Review of Invest Northern Ireland. The work feeds into broader consultation and analysis undertaken for the review.

The remit for this work is to provide an independent assessment of Invest NI's efficiency and effectiveness, and its capacity to strategically align with and operationally deliver the 10X Economic Vision. This study is a two-part piece of work, featuring two separate but related research scopes:

- To inform an understanding of the efficiency and effectiveness with which Invest NI carries out its role
- To examine ways to compare Invest NI across a range of metrics to similar types of agencies and bodies in other parts of the UK, Ireland, and elsewhere internationally. This will contextualise Invest NI's work and performance, and also provide a sense of what represents 'best practice' in terms of government interventions to support business development and economic growth in regions

A third standalone piece identifies and discusses features and learning from studies of effective ecosystems.

## 1.2 This report

This draft supplementary report represents the third part of the work as set out above.<sup>1</sup> The report examines one main overarching research question:

*“What does a successful local economic development ecosystem look like in terms of supporting business development and economic growth?”*

In doing so, the work has taken a broad view of available literature across economic development, public policy multi-level governance, regional innovation systems, and the development of socio-technical systems. The report has been written iteratively, taking cues on how to develop the research question by feeding emerging findings of literature back into a continuous literature search. Throughout the document we highlight key learning points related to both ecosystem aspects and policy design and delivery. Where possible we draw on and include examples of empirical practice to illustrate the learning points from the literature.

The remainder of this report is structured as follows:

- **Chapter 2** presents a brief overarching context to the study
- **Chapter 3** presents a summary of the role(s) and function(s) of economic development agencies in their local ecosystems
- **Chapter 4** briefly discusses the importance of differentiated policy and approaches
- **Chapter 5** sets out lessons from the literature on how to define the success of economic development agencies in their local ecosystems

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<sup>1</sup> The first and second parts of the work are presented in separate reports.



- **Chapter 6** presents lessons from the literature on the characteristics of successful local development policies
- **Chapter 7** presents high-level conclusions

## 2 Context

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Development agencies are important stakeholders in economic development and can be found in nearly every developed country. However, while they largely operate at an arm's length from regional and national governments, and therefore have particular powers and responsibilities, they are just one piece of a larger network of institutions and stakeholders that support business development and economic growth.

The interplay between different institutions is complex, and in an effort to understand their effects on local economic growth, 'systems approaches' to regional development have evolved as important frameworks among practitioners and academics.

Local development delivery systems and their governance are rarely studied however, and development agencies are often overlooked. The most important – if not the only – publication that examines local development ecosystems and their interplay with local development agencies comes from the OECD (2010).<sup>2</sup> The OECD paper scrutinizes sixteen development agencies in thirteen local economies around the world, identifying their role in the local ecosystem, differences, and commonalities, and what makes certain ecosystems thrive.

More commonly mentioned in literature than local development systems are regional innovation and entrepreneurial systems, which are relevant to this discussion because they often also reflect business perspectives. 'Regional Innovation Systems (RIS)' were established by Cooke et al. (1997), highlighting the role of 'financial, learning and productive cultures' as a crucial element to RIS capacity.<sup>3</sup> Entrepreneurial ecosystems are made up of components including 'actors (i.e. individuals), organisations and factors that coordinate 'in such a way that they enable productive entrepreneurship within a particular [region]'.<sup>4</sup>

The following report looks to combine the different pieces of literature that are available to help identify the characteristics of a successful economic development ecosystem that supports business development and economic growth.

## 3 Functions of development agencies in their local systems

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### **Key learning point 1: In the local development system, development agencies can have many tasks and functions – but there is no blueprint for success**

While literature generally highlights the importance of organisations and institutions in (innovation) systems, 'as the character of different regions results in large part from the institutions helping the creation of networks and connecting organizations within the system',<sup>5</sup>

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<sup>2</sup> Clark G, Huxley J & Mountford D (2010), [Organising Local Economic Development: The Role of Development Agencies and Companies](#), OECD.

<sup>3</sup> Cooke P et al. (1997), Regional Innovation Systems: Institutional and Organisational Dimensions, Research Policy 26(4-5): 475-491. Available at: [https://www.researchgate.net/publication/222788248\\_Regional\\_Innovation\\_Systems\\_Institutional\\_and\\_Organisational\\_Dimensions](https://www.researchgate.net/publication/222788248_Regional_Innovation_Systems_Institutional_and_Organisational_Dimensions)

<sup>4</sup> Sternberg R et al. (2019), A new framework to measure entrepreneurial systems at the regional level, Zeitschrift für Wirtschaftsgeographie. Available at: <https://www.degruyter.com/document/doi/10.1515/zfw-2018-0014/html?lang=de>

<sup>5</sup> Pino R & Ortega AM (2018), Regional innovation systems: Systematic literature review and recommendations for future research, Cogent Business & Management.

there is not much clarity on which roles or functions exist, and how they should be distributed. Often, firms, government, research institutions and universities are central stakeholders, but in reality there are many more institutions that have an influence. The most useful framework in that sense comes from Cooke P et al. (1997).

Cooke's framework examines the components of a RIS from a functional perspective and highlights that financial, learning and productive cultures are crucial for system capacity.<sup>6</sup> Cooke's framework is therefore less about the role each stakeholder plays but more about how they are able to commonly deliver in respect to capacity.<sup>7</sup> This ability to delivery capacity is often also linked to productive policy outcomes, and notably the ability to design and deliver effective policy for the local system (Cooke and Morgan, 1998; Provan and Kenis, 2008).<sup>8</sup>

Where development agencies 'should' sit in this framework has not been defined, but they are likely at the intersection of all three components – financial, learning, productive cultures – with a strong focus on 'learning' and 'financing'. The OECD study (2010)<sup>9</sup> shows that development agencies can have many different roles and functions in the local development system, which also leads to a high level of diversity in terms of objectives, activities, structures, tools, roles and strategies.

As Figure 1 shows, while there are a few agencies that cover many functions, most of them focus their core work on around two to three areas only. This does not mean that they are not involved in other areas, but their roles and focus are often much more muted, leaving the lead to specialist institutions.

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<sup>6</sup> With 'financial culture', Cooke means that 'regional policies that encourage innovation financing should focus on minimizing uncertainties to allow better relations between parties' (Pino R & Ortega AM, 2018). 'Learning culture' refers to the ability of a RIS to rapidly learn and manage knowledge. The 'productive culture' of a regional innovation system refers to the institutional setting of a RIS such as the roles that firms play and their capacities as well as the social setting they are operating in (Cooke P et al, 1997).

<sup>7</sup> Ibid.

<sup>8</sup> Cooke P & Morgan K (1998), *The associational economy: firms, regions, and innovation*. Oxford: Oxford University Press; Provan KG & Kenis P (2008), *Modes of network governance: Structure, management, and effectiveness*. *Journal of Public Administration Research and Theory*, 18(2), pp. 229–252.

<sup>9</sup> Clark G, Huxley J, & Mountford D (2010), *Organising Local Economic Development: The Role of Development Agencies and Companies*.

Figure 1 Functions and outcomes of selected development agencies

Branding and international promotion	Investment attraction and retention	Business start-ups and growth	Human capital development
<p>2 4 8 10 11 12 13 14 16</p>	<p>2 8 10 13 16</p>	<p>3 7 14 16</p>	<p>1 2 3 12</p>
Real estate, urban realm and infrastructure development	Social or Green development initiatives	Partnership facilitation, planning and visioning	Urban service provision or management
<p>1 2 5 6 8 9 11 15 16</p>	<p>1 7 9</p>	<p>3 4 7 12 14</p>	<p>1 7</p>

① Abyssinian Development Corporation	⑨ HafenCity Hamburg GmbH
② AucklandPlus	⑩ Invest Toronto
③ Barcelona Activa	⑪ Johannesburg Development Agency
④ Bilbao Metropoli-30	⑫ Liverpool Vision
⑤ BILBAO Ría 2000	⑬ Madrid Global
⑥ Build Toronto	⑭ Milano Metropoli
⑦ Cape Town Partnership	⑮ New York City Economic Development Corporation
⑧ Creative Sheffield	⑯ Prospect Leicestershire

Source: OECD (2010)

This 'pattern' is reflected in the six comparison agencies analysed by Technopolis in the second report for this piece of work. Those comparator agencies demonstrate links and roles as facilitators in many areas, whilst their core work is focused mostly on general advisory, brokerage and a few other areas. Inward investment promotion, for example, is often performed by an external agency (such as the IDA in Ireland) and also in terms of human capital and skills, there is in most cases at least one other stakeholder with a considerably large(r) remit.

Throughout the OECD piece (2010), the authors stress the role of development agencies in the local development system as 'flexible bodies, that are capable of performing a range of tasks depending on requirements' that should therefore be designed as 'highly adaptive organisations with mechanisms and structures that allow for continuous adaptation.' The importance of flexibility for ecosystem success is also highlighted by Cooke et al. (1997) who found a strong link between institutional change and economic growth and the development of the local (innovation) system.

Rather than following a fixed set of tasks, development agencies have to define their rationale and value-added in relation to the requirements of the local development system, which can mean different things in different places. Sometimes development agencies provide services and tasks that previously did not exist; in other occasions the opposite is true, and they were established to simplify existing arrangements in places that have too many organisations (OECD, *ibid*). The latter case was the main rationale for establishing 'Growth Hubs' across England, with the aim of ensuring that 'business support is simpler, more joined up and easier to access'.<sup>10</sup> Growth Hubs were established as private sector-led bodies to simplify the existing

<sup>10</sup> See: <https://www.gov.uk/government/news/full-network-of-39-growth-hubs-boost-business-support-across-the-country>



arrangements in place, following the winding down of the nine regional development agencies. Examples of other rationales of development agencies are aiming to improve business relations or to fulfil national policies.

However, despite the often complementary role of development agencies with other capacities and capabilities in the system, the OECD notes that even if the development agency is highly effective, it will not be able to easily compensate for potential weaknesses in the rest of the local development system 'unless they become very comprehensive managers of all local development activities, which is usually undesirable.'

The diversity of development agencies is apparent when looking at the even more diverse and individual local development ecosystems they are operating in, and while there are some ecosystems that perform better than others, it is impossible to determine which criteria make one superior to another. Consequently, the transferability of institutions or policies is fairly limited. Based on studies of knowledge dynamics in 22 regions in 13 countries, Halkier et al. (2010), explicitly states that it is important to avoid 'copy-past[ing] from regions perceived as being successful' – because ecosystems are so different that a thing that works in one region may likely not work in another.<sup>11</sup>

## 4 The importance of individualised approaches to policy

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### **Key learning point 2: A successful policy mix should follow an individualised approach and address the particular challenges of a local ecosystem**

Given that ecosystems, development pathways, and their challenges are so diverse, experts stress that policymakers have 'to develop an individualised approach that works sympathetically with a region's existing entrepreneurial assets'<sup>12</sup> and to design and combine the instruments 'into mixes in ways that address the problems of the innovation system.' This links back to the discussion above that suggested the calibration of institutions around the gaps, strengths and weaknesses of the local ecosystem should also extend to the instruments offered within it.

A good example of a problem-responding policy approach is the High Potential Start Up programme that was launched by the North East Growth Hub as a response to its ecosystem-specific needs. Usually, the main remit of the North East Growth Hub is to act as a broker that matches its clients with local/national/international programmes and activities that already exist. However, for the problem identified as one of the most pressing in the region – low start up activity – policymakers in the North East could not find an appropriate programme, which led the Growth Hub to develop a custom programme that filled this gap.

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<sup>11</sup> Halkier H et al (2010), Knowledge Dynamics, Regional Development and Public Policy, Eurodite. Available at: [https://www.researchgate.net/publication/242602428\\_Knowledge\\_Dynamics\\_Regional\\_Development\\_and\\_Public\\_Policy?enrichId=rgreq-3fe022efca8714e474af70696228e1de-XXX&enrichSource=Y292ZlXJQYWdlOzl0MjYwMjQyODtBUzo5OTQ0MzUyNTI5MjAzN0AxNDAwNzlwNTkyNjg2&el=1\\_x\\_3&esc=publicationCoverPdf](https://www.researchgate.net/publication/242602428_Knowledge_Dynamics_Regional_Development_and_Public_Policy?enrichId=rgreq-3fe022efca8714e474af70696228e1de-XXX&enrichSource=Y292ZlXJQYWdlOzl0MjYwMjQyODtBUzo5OTQ0MzUyNTI5MjAzN0AxNDAwNzlwNTkyNjg2&el=1_x_3&esc=publicationCoverPdf)

<sup>12</sup> Mason C & Brown R (2014), Entrepreneurial ecosystems and growth-oriented entrepreneurship, Background paper prepared for the workshop organised by the OECD LEED Programme and the Dutch Ministry of Economic Affairs on Entrepreneurial Ecosystems and Growth-Oriented Entrepreneurship The Hague, Netherlands, 7th November 2013.

Another aspect of efficient and effective policy design is the complementarity of the different policy instruments (Flanagan, Uyarra, & Laranja, 2010).<sup>13</sup> A good example of a wholesome policy mix is the offer of Enterprise Ireland, which not only structures its programmes around the stage a business is in (start-ups, SMEs and large companies) but also along thematic areas that cover aspects like marketing, R&D or management. The individual support is then delivered and customised to each stage with a mix of advisory services, finance and grants.

## 5 Defining the success of development agencies

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### Key learning point 3: The success of a local development ecosystem depends on the features of its framework conditions

The difficulty in identifying a blueprint for a successful local development system does not mean that development stakeholders and policy have no scope to influence the success of their ecosystems. The biggest impact comes less from determining specific responsibilities than from having the right framework conditions and how all different elements are working together. The OECD (2010) paper discussed in the preceding sections emphasises the importance of six features of a successful local development system they have collected from practitioners:

- 1) A clear understanding of local development requirements and the particular needs of the system
- 2) The ability to use this intelligence to identify gaps and to establish or redefine responsibilities
- 3) Clear lines of communication between key bodies and partners
- 4) An obvious leader or leadership body
- 5) The ability to keep blurring between policy and implementation to a minimum
- 6) Constructiveness and robustness of relationships

First, the base for a successful local development system is that there is a **clear understanding of local development requirements and the developmental needs of the system**. Knowledge about these factors can be obtained through stakeholder consultations, data analysis or international information exchanges. An example of such an appraisal is the analysis by Helman (2020) who analyses the local innovation and entrepreneurial system of the city of Wrocław, Poland, in terms of resources, activities, and value added.<sup>14</sup> The Lombardy region in Italy has created a kind of an ongoing appraisal mechanism in launching the Open Innovation platform, 'QuESTIO' to map the main regional scientific, technical and economic characteristics of the region that are related to its smart specialisation strategy. It has the aim of helping regional authorities to better understand their region to develop tailored programmes. With the databank, policymakers can monitor the changes of the RIS and 'define

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<sup>13</sup> Flanagan K, Uyarra E, and Laranja M. (2010). The 'policy mix' for innovation: Rethinking innovation policy in a multi-level, multi-actor context, Manchester Business School Working Paper, No. 599, The University of Manchester, Manchester Business School, Manchester.

<sup>14</sup> Helman J (2020). Analysis of the Local Innovation and Entrepreneurial System Structure Towards the 'Wrocław Innovation Ecosystem' Concept Development, MDPI. Available at: <https://www.mdpi.com/2071-1050/12/23/10086>

technology roadmaps and tailor-made work programmes in support of those transformations'.<sup>15</sup>

The intelligence developed about the local development system should then be used to **establish or redefine the responsibilities of the relevant bodies** so that the identified needs are met. For each of the organisations, there should be a clear mandate that links to a specific need in the region and illustrates how it addresses gaps, weaknesses, or opportunities. In an optimal ecosystem, the connections between ecosystem partners should be 'enabled by the modular nature of their individual contributions' while their relationship should be characterised by complementarity and interdependence.<sup>16</sup> Given that the required skills and knowledge are usually existent in the local ecosystem, it is often sufficient to leverage existing strengths instead of creating new institutions/bodies because the latter can lead to unnecessary tensions and inefficiency. The city of Liverpool for instance went through such a reorganisation in 2008 after it evaluated how the local development system should be organized from an effectiveness and efficiency perspective by integrating three previously separated delivery mechanisms. In addition, from the comparator agencies for the review of Invest NI, particularly Scottish Enterprise should be mentioned as it merged the power and staff of the Scottish Development agency (SDA) and Training Agency in 1991 to deliver an integrated economic development approach.

#### Key learning point 4: How it is done is more important than who does what

Another feature of a successful local development system is that there are **clear lines of communication between key bodies and partners**. While communication channels can be formal, such as stakeholder leadership boards, informal channels have been proven equally successful, the most important thing being that they serve their objectives. In addition, for a local development system to be effective, there must be an **obvious leader or leadership body** that sets guidance for the myriad other bodies in the local development system. While decisive leadership can take many forms – from multi-stakeholder boards to influential economic development departments – there is no universally 'right' body that should take up this role. The crucial thing is that this leadership body is visible, able to provide guidance, and has the ability to accelerate processes that would otherwise stall. These are common points of importance in the multi-level governance literature (Bache & Flinders, 2004),<sup>17</sup> and recent examinations of development agencies and policy actors also stress these points as difference makers in effectiveness (Wain, 2021).<sup>18</sup> Examples of leadership and clear communication in practice include the Greater Manchester and North East Local Enterprise Partnerships (LEPs) and their linked Growth Hubs. Both worked through the transition from regional development agencies to LEPs by adopting leadership models that fostered consensus among ecosystem bodies while also providing transparent evidence bases for their policy decisions.<sup>19</sup> This may be characterised as primarily a 'thought leadership' approach though this was also backed by a clear and visible remit for the organisation agreed among local actors as part of the design of

<sup>15</sup> Eurofound (2017), Developing regional industrial policy capacity, Publications Office of the European Union, Luxembourg. Available at:

[https://www.eurofound.europa.eu/sites/default/files/ef\\_publication/field\\_ef\\_document/fomeeef1701en.pdf](https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/fomeeef1701en.pdf)

<sup>16</sup> See: <https://www.alexandria.unisg.ch/264404/1/Dis5139.pdf> p. 36

<sup>17</sup> Bache I & Flinders, M (2004) Themes and Issues in Multi-level Governance. In: Bache, I. & Flinders, M. (eds.) Multi-Level Governance. Oxford University Press, pp. 1-11 & 195-206.

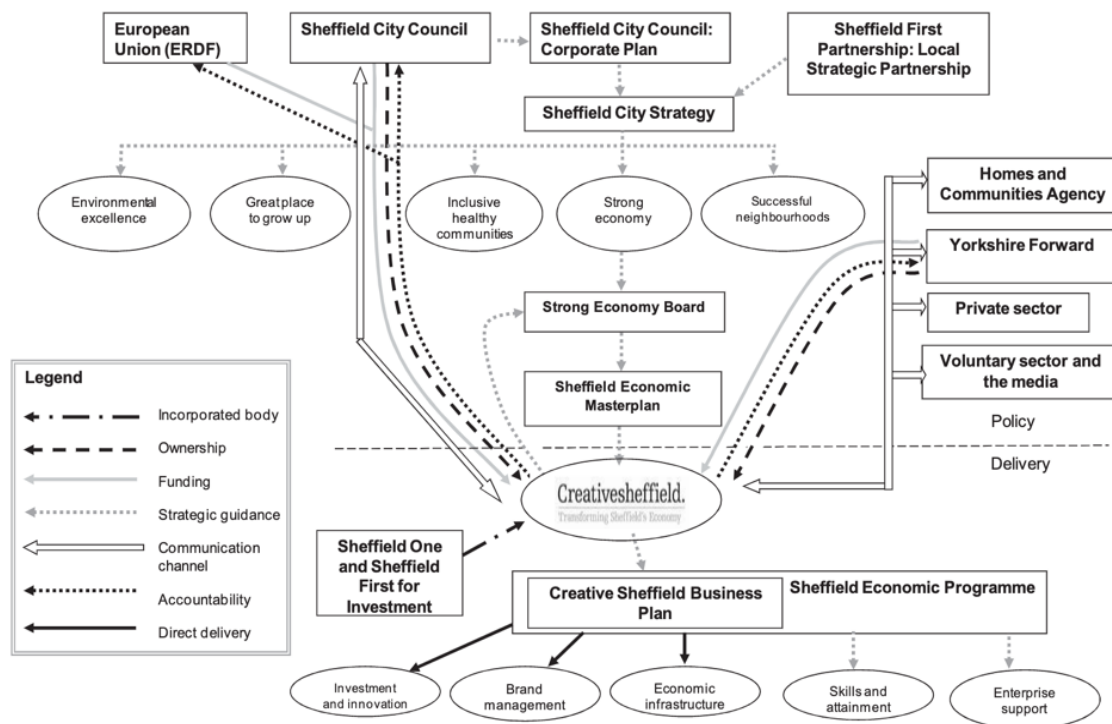
<sup>18</sup> Wain M (2021), The English Experiment: Local Enterprise Partnerships and their effects on innovation policy design and implementation.

<sup>19</sup> Ibid.

the LEP in 2010/11. In addition to this, it was also important that both organisations had analytical and dissemination capacity to ensure the required legitimacy and buy-in from partners and government in designing relevant policy approaches. The process of delivery is then undertaken in partnership with external providers, with some direct delivery where this is deemed sensible.<sup>20</sup>

A further feature of a successful local development system is that the **blurring between policy and implementation** is kept to a minimum. According to the OECD (2010), it is crucial to give delivery bodies the autonomy to 'get on with their work without constant redirection from strategy makers' to avoid unhelpful conflicts of interest and allow an efficient delivery process. In the case study agencies focused on for the review of Invest NI, this posed a particular challenge for Business Wales, given that it is part of the government and therefore strongly nestled in the political apparatus. Sheffield's local development system from 2009, in contrast, was highlighted as a positive example because of its clear two-tier structure in which Creative Sheffield operated as the delivery agency. See Figure 2, below.<sup>21</sup>

Figure 2 The position of Creative Sheffield in the system of economic development and investment promotion in Sheffield



Source: OECD (2010)

By the same token, there should be **interrelatedness** between policy and delivery mechanisms, facilitated via **clear remits, clear communication, and mutual trust** (Kezar, 2004; Osborne,

<sup>20</sup> Ibid.

<sup>21</sup> The current set-up of Sheffield's local development agency is different from the time of the OECD study. Creative Sheffield has become Marketing Sheffield and is currently together with Business Sheffield, Invest Sheffield and Conference Sheffield part of the council.

2006).<sup>22</sup> This 'culture' aspect of local development ecosystems is often overlooked. However, this culture is crucial for effectiveness. This culture underpins the **constructiveness and robustness of relationships** and the ability to navigate difficulty and uncertainty. Cooke et al. (1997) stress that it is particularly '[in the] cooperative dimension that systemic regional innovation is institutionalised, creating an advantage for firms able to engage in the 'competitive surplus' that arises from external economies of scope and scale'.<sup>23</sup>

Finally, the OECD (2010) report states that 'to function as effectively as possible, local development [eco]systems should be reviewed and recalibrated relatively often' which may be one of the reasons why most of the 16 case study agencies analysed in the report no longer exist in their initial form, now more than 10 years after the report was published.

## 6 Defining the success of local development policies

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The previous sections highlighted that coordinated governance and institutions with clear remits are the basic prerequisites of a local development system for encouraging business development and economic growth. While there is no clear evidence on which part of the local development system should deliver which policy area, there is a bit more clarity on the ingredients for effective policy design in specific policy areas.

### **Key learning point 5: R&D-support for younger and smaller firms create the highest additionality, but the success of the programmes depends on how they are implemented**

Overall, evidence reviews find that public R&D support can be linked to positive outcomes such as increased innovative activity, higher R&D expenditure, employment, or firm performance but the impact varies depending on items such as firm size or implementation.<sup>24</sup>

In their review of evaluations on direct R&D support across developed countries, Cunningham et al (2013) find clear evidence that direct R&D support creates the highest additionality for younger and smaller firms. For these types of businesses, a lack of support would have made it more likely that the project was not started at all, carried out more slowly or with a lower level of technological input. This is reflected in the policy design of many programmes in developed countries as the authors see a clear trend to focus R&D support on smaller and younger firms.<sup>25</sup>

It is however more challenging to make generalisations about the exact characteristics of effective R&D programmes as outcomes seem to strongly relate to the way programmes are implemented. This applies especially to the selection process of the participants, as the authors found that businesses that already have experience in R&D projects or have already received support are more successful in these programmes. This suggests a clear rationale for

<sup>22</sup> Kezar, A. (2004), What is more important to effective governance: Relationships, trust, and leadership, or structures and formal processes? *New Directions for Higher Education*, Fall(127), pp. 35–46; Osborne, S.P. (2006) *The New Public Governance?* *Public Management Review*, 8(3), pp. 377–388.

<sup>23</sup> Cooke P et al. (1997), *Regional Innovation Systems: Institutional and Organisational*, *Research Policy* 26(4-5): 475-491. Available at: [https://www.researchgate.net/publication/222788248\\_Regional\\_Innovation\\_Systems\\_Institutional\\_and\\_Organisational\\_Dimensions](https://www.researchgate.net/publication/222788248_Regional_Innovation_Systems_Institutional_and_Organisational_Dimensions)

<sup>24</sup> What Works Centre for Local Economic Growth (2015), *Innovation: grants, loans and subsidies*. Available at: [https://whatworksgrowth.org/public/files/Policy\\_Reviews/15-10-20-Innovation-Grants-Loans-Subsidies-Report.pdf](https://whatworksgrowth.org/public/files/Policy_Reviews/15-10-20-Innovation-Grants-Loans-Subsidies-Report.pdf)

<sup>25</sup> Cunningham P, Gök A & Laredo P (2013), *The impact of direct support to R&D and innovation in firms*, Nesta Working Paper No. 13/03. Available at: [https://media.nesta.org.uk/documents/the\\_impact\\_of\\_direct\\_support\\_to\\_rd\\_and\\_innovation\\_in\\_firms.pdf](https://media.nesta.org.uk/documents/the_impact_of_direct_support_to_rd_and_innovation_in_firms.pdf)

programme management bodies to be more active when it comes to application support and to better target the audience of the programme. In addition, R&D support should be embedded in a 'portfolio of complementary public interventions' that have the potential to enhance success and impact, such as training or support for marketing. Reducing bureaucracy, increasing the simplicity of the programmes and avoiding changing eligibility criteria or the delivery process over time were other aspects Cunningham et al. suggested to increase the success of R&D programmes.

According to the What Works Centre for Local Economic Growth, it is programmes that encourage collaboration in particular that seem to perform better than those which target just private firms.<sup>26</sup> An example is 'FH-Impuls', a programme launched by the German government to foster regional innovation partnerships between universities of applied science and other regional stakeholders. Based on the collaborative research projects, around three-quarters of the participating institutions and businesses are in the process of developing products, services or other outcomes.<sup>27</sup> The What Works Centre also finds that 'sector neutral' programmes appear to perform slightly better than programmes targeting specific sectors.

**Key learning point 6: Cluster support policies can be successful but there is no one-size-fits-all approach for policy**

By reviewing a comprehensive set of evaluations of cluster policies, Uyarra and Ramlogan (2016) found several consistent threads across programme evaluations that overall suggest that these policies can be successful.<sup>28</sup> First, the evaluated cluster programmes were in a number of cases able 'to mobilise resources and actors towards advancing the innovation potential of the target regions'. Secondly, the business support services given by clusters were often able to increase the productivity of the cluster. Third, cluster policies have proven to be largely successful in creating collaborations between stakeholders that would not have taken place otherwise. Fourth, cluster managers can play an important role in economic success, particularly if they 'act as network facilitators or brokers' and are able to increase the active participation in the cluster. However, how policies must look in order to be successful is less clear-cut: the authors emphasise that 'there is no one-size-fits-all approach to support clusters that is applicable to all regions, all sectors and all times.' When designing cluster policies, policymakers should make sure that the policies have precise objectives and a clear policy rationale and make sure that the chosen instruments are coherent with these objectives.

**Key learning point 7: Entrepreneurship programmes should start at the university-level**

Entrepreneurship support can have many different faces, covering advisory services, incubators, or cultural change to mention just a few. But empirical evidence about the best design for these is limited.

Rigby and Ramlogan (2013) for instance examined the effectiveness of entrepreneurship policies that mainly focus on increasing awareness of the benefits of an entrepreneurial career and start-up support for early-stage entrepreneurs. But the high variability of these programmes

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<sup>26</sup> What Works Centre for Local Economic Growth (2015), Innovation: grants, loans and subsidies. Available at: [https://whatworksgrowth.org/public/files/Policy\\_Reviews/15-10-20-Innovation-Grants-Loans-Subsidies-Report.pdf](https://whatworksgrowth.org/public/files/Policy_Reviews/15-10-20-Innovation-Grants-Loans-Subsidies-Report.pdf)

<sup>27</sup> Technopolis Group (2021), FH-Impuls – Zentrale Erfahrungen und Erfolge aus den ersten vier Jahren, accompanying research for the Federal Ministry of Education and Research. Available at: [https://www.forschung-fachhochschulen.de/fachhochschulen/shareddocs/downloads/files/fh-impuls\\_begleitforschung\\_abschlusspublikation\\_c1.pdf?\\_blob=publicationFile&v=3](https://www.forschung-fachhochschulen.de/fachhochschulen/shareddocs/downloads/files/fh-impuls_begleitforschung_abschlusspublikation_c1.pdf?_blob=publicationFile&v=3)

<sup>28</sup> Uyarra E & Ramlogan R (2016), 'The impact of cluster policy on innovation' in J Edler, P Cunningham, A Gok & PS (eds), *Handbook of Innovation Policy Impact*. First edn, Edward Elgar Publishing Ltd, UK.



in terms of objectives, content and delivery and general lack of systematic evaluations, affects the extent to which their results can be generalised.

The authors however found that programmes that aim to foster a career change towards becoming an entrepreneur are better placed at the university level than the school or college level. Information and advisory services to early-start firms can have positive impacts in terms of sales or survival, and all evaluated programmes had a positive impact on employment in the short term.<sup>29</sup>

**Key learning point 8: Technology and advisory services generally have positive benefits, but the strongest impact comes from customised and high-intensity programmes**

Advisory services such as manufacturing diagnostics, consultancy for foundation improvements, or training and networking events, are at the core of the local development policy mix and are very often provided by development agencies. Shapira and Youtie (2014), who reviewed multiple evaluations of technology and innovation advisory services found that overall, these services can provide a range of positive benefits such as reduction in costs, higher productivity or new product development and innovation. While individual advisory services sometimes appear to be small in impact, when added up they are found to be able to significantly contribute to an SMEs survival.<sup>30</sup> These results suggest that advisory services that focus on various business-relevant areas and have several touch points with SMEs over time are most likely to be successful.

There is also clear evidence that advisory services which focus only on a few firms and deliver a more intense or customised service leads to better results than serving many firms with a rather generic offer. To deal with this trade off, Shapira and Youtie found that most programmes would typically provide initial assistance and then 'refer companies to qualified private consultants.' This trade-off between 'quality and quantity' was also reflected by the case study agencies but led to different results. The most selective approach comes from Enterprise Ireland, which offers its tailored services only to selected businesses – mainly those that are exporting and growing. All other businesses are supported by another set of institutions: the Local Enterprise Offices (LEOs). Scottish Enterprise in contrast, explicitly abolished the customized approach to follow the equality rationale in order to serve more businesses.

In terms of the overall design of advisory services, Shapira and Youtie found that the likelihood of programme effectiveness and impact was increased by the application of best practices in operation and delivery, staff capability, flexibility, long-term engagement and when connections with other services were created.

**Key learning point 9: Skill policies with the aim of strengthening innovation should incentivise the development of different skill-mixes within firms**

The importance of local human capital in stimulating economic growth is widely acknowledged in the literature, yet 'policy recommendations for skills development have received limited attention in regional studies'.<sup>31</sup> One way to see this is to look at how skill policies can strengthen (local) innovation systems. This is for example addressed in an article by Jones

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<sup>29</sup> Rigby J & Ramlogan R (2013), The impact and effectiveness of entrepreneurship policy, Nesta Working Paper No. 13/01. Available at: [https://media.nesta.org.uk/documents/the\\_impact\\_and\\_effectiveness\\_of\\_entrepreneurship.pdf](https://media.nesta.org.uk/documents/the_impact_and_effectiveness_of_entrepreneurship.pdf)

<sup>30</sup> Shapira P & Youtie J (2014), Impact of Technology and Innovation Advisory Services, (Compendium of Evidence on the Effectiveness of Innovation Policy Intervention),Nesta.

<sup>31</sup> Corradini C, Morris D & Vanino E (2022): Towards a regional approach for skills policy, Regional Studies.

and Grimshaw (2016) who review the empirical evidence surrounding the association between training and innovative performance at the organisational level.<sup>32</sup> They find that innovative firms generally spend more on formal and informal training, benefit from developing a knowledge pool around past innovations and that the specific skill composition within a business is an important contributing factor to innovation.

Based on these findings, the authors suggest that innovation policy should incentivise the development of different skill mixes within firms, which often include both tertiary and vocational skills. This would particularly mean strengthening (national) mid-level institutions at the industry level, such as the UK's sector skill councils. Similar concepts also exist at the regional level. The German federal state Baden-Württemberg for example launched the 'skilled workers alliance' ('Fachkräfteallianz') in 2011, in which more than 40 local stakeholders from industry and politics discuss local skill-related challenges and how they can be resolved with tailored policy-initiatives.<sup>33</sup> This stakeholder-network is supported by even more local skills-networks.

While Jones and Grimshaw also look at the effects of levy schemes and programmes addressing the links between higher education institutes and industry, the impact of these schemes is less clear-cut, mainly because of a lack of evidence.<sup>34</sup>

## 7 Conclusions

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This report aimed to identify what a successful economic development ecosystem looks like in terms of supporting business development and economic growth, and describe the factors that contribute to this success. Via an examination of several areas of literature, the report has shown that the systems in which local stakeholders operate are, on the one hand, very complex. On the other, these systems are (individually) determined by their local institutions and circumstances.

While this setting makes it difficult to define the tasks of specific stakeholders such as local development agencies, or to identify ecosystems that can serve as an example for others, there are still many lessons to be learned. First of all, for an economic development agency to be successful in this framework, it is crucial that its mechanisms and structures allow for continuous adaptation and that its remit is harmonised with those of other stakeholders. Second, the features of the framework conditions of a local development ecosystem are crucial for its success. This does not only mean having a sound understanding of local challenges and how each element of the system contributes to solving them, but also that leadership, cooperation, and communication within this system are able to serve these purposes. Third, policy instruments to address local challenges are much better researched than the cooperation between different stakeholders in a local ecosystem, making it relatively easier to identify which policy instruments are likely to be successful. Policymakers should be cautious with the selection and application of these instruments, however, because for them to be

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<sup>32</sup> Jones B & Grimshaw D (2016), The Impact of skill formation policies on innovation. in J Edler, P Cunningham, A Gok & PS (eds), *Handbook of Innovation Policy Impact*. First edn, Edward Elgar Publishing Ltd, UK.

<sup>33</sup> See: <https://wm.baden-wuerttemberg.de/de/arbeit/fachkraeftesicherung/fachkraefteallianz/>

<sup>34</sup> An example for a programme that intended to match higher education with industry is the German programme '[FH-Impuls' that supported collaborative innovation projects between universities of applied science and local businesses](#)'. In general, most policies that focus on clusters have the objective to bring these two types of stakeholders together.





effective, they must respond to the specific problems of the region and fit in the broader policy mix.



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