

*RIS3 Vivo Policy Brief 2*

**MULTILEVEL GOVERNANCE AND  
INVOLVEMENT OF SMALL ENTERPRISES IN  
THE RIS3 OF THE BASQUE COUNTRY**

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## 1. Introduction: why this challenge is important

In view of the EU lagging behind the US with regard to productivity and competitiveness, and considering that this lag derives from the fact that the regions do not concentrate their investments in research and innovation in the areas which show the greatest potential, the European Commission (EC) has urged all EU countries and regions to “develop and implement a research and innovation strategy for smart specialization” (RIS3). To achieve this, priorities should be set in research and innovation through entrepreneurial discovery processes that involve the main regional stakeholders: firms, governments, research centres/universities and civil society. This implies that RIS3 are not a “Government strategy” but a “territorial strategy” in which the Government plays a different role from the one it usually plays in traditional industrial and innovation policies, where it must facilitate “bottom-up” processes as well as the traditional “top-down” processes (Coffano and Foray 2014). To sum up, advances in productivity and competitiveness require prioritization and taking chances, and therefore inclusive governance is necessary to allow knowledge to be exploited and for the capabilities of all the agents that act in the territory to be aligned.

Steps towards a more inclusive governance should be taken in two directions. On the one hand, competitiveness and innovation are realities affected by factors belonging to multiple dimensions: educational, economic-business, infrastructural, etc., whose competences, from the administrative point of view, can correspond to different levels of government (European, state, regional, local, etc), departments and agencies. And, on the other hand, the new governance needs to overcome the traditional view that public policies are the exclusive work of governments and move to a governance in which multiple actors are involved. Returning to the above reasoning, if steps towards a new model of governance are not taken, then the effectiveness of entrepreneurial discovery processes will be hindered, limiting progress in the prioritisation required by smart specialisation strategies to advance in productivity and competitiveness.

The need for multilevel governance is all the more necessary in a territory like the Basque Country (Euskadi), characterized not only by a regional government with considerable powers in the economic field and R&D, but also by sub-regional levels of

government which also have fairly unique competences and ambitions to develop their own territorial development strategies.

In addition, among the stakeholders which should play a greater role in the new governance are firms. While large enterprises typically have the resources and capabilities to participate in processes of entrepreneurial discovery, this is not the case with small and medium-sized firms (SMEs). In general, the latter, which are in a worse competitive position than large firms (as shown by Orkestra's "The Basque County Competitiveness Report 2015") but play a significant role in the total employment and progress of the Basque economy, are not being integrated into RIS3 processes. This is the case in the vast majority of EU regions and specifically in Euskadi, as pointed out in the report by Aranguren et al. (2016) on the implementation of RIS3 in Euskadi, and also by the President of the Basque Government himself at the Basque Council of Science, Technology and Innovation (CVCTI) meeting on June 28, 2017.

It is difficult for innovation to occur in small firms and for them to participate in the new governance models if not facilitated through different policies which accompany these processes. Our hypothesis is that a more precise definition of the role of each level of government in RIS3, involving sub-regional governments in which local stakeholders accompany small firms throughout the process, alongside a more strategic coordination between the Basque Government and the sub-regional levels, are essential for the SME involvement in innovation and in the RIS3. The Basque Country has an institutional structure of different levels of government which, with good multilevel governance, can be harnessed to boost SME innovation processes.

This policy brief focuses on the multilevel governance of the Basque Government and the sub-regional governments, given that this is the key issue for the involvement of small companies in innovation and in RIS3.

## 1. The state of the art in the literature and in the practice of policies

Nowadays, the key factor of competitiveness is knowledge, but especially the capacity for learning and innovation. Due, amongst other factors, to its tacit component, knowledge is not as mobile a factor as traditional productive factors (e.g. capital). Therefore, competitiveness and innovation are mainly promoted at regional and local levels. The relevance of proximity for learning and innovation means that regional and local policies are gaining prominence in the promotion of competitiveness and calls for collaborative multi-level governance between different levels of government combining "top-down" policies with "bottom-up" policies (Landabaso 2014). As stated in Orkestra's Competitiveness Report (2017, page 189), "In virtually every country, the central government has experienced a certain stripping of functions, to the benefit of bodies at supranational (such as the European Union) and subnational (regions and cities) levels. As a result, stakeholders and activities operating in a given location are now subject to public policies established at multiple territorial levels".

Furthermore, the challenges facing societies today are more complex and competitiveness policies are affected by many factors (many of which are intangible) which require greater collaboration among different government departments. Additionally, as knowledge about the key factors of competitiveness transcends that of the Administration and the effectiveness of public policies requires that users participate in them, when redesigning public policies it is essential that they are the result of participatory governance based on public-private cooperation networks, where the Government acts as a facilitator and catalyst.

Alongside this greater complexity of public policies are the particular difficulties that small firms encounter in order to be competitive. Although nowadays it is no longer accepted that the size of a firm provides a competitive advantage of a general nature (in fact, small enterprises present advantages associated with greater flexibility, etc., which are crucial in the current changing environment), we must recognise that small firms have particular weaknesses in certain areas (R&D, internationalisation, financing and qualifications of their staff, in particular). In fact, Orkestra's (2017, p.78) report showed once again that there is the risk of falling into a two-speed economy, with two business realities with very different indicators of innovation (as was the case in

previous reports by Orkestra), these being clearly more positive in large firms than in small ones.

One of the key strategies that small firms can follow to overcome these disadvantages is to collaborate with other companies or stakeholders of the innovation system (technology centres, vocational training centres, development agencies, etc). The presence of local stakeholders that facilitate these processes is crucial (see Parrilli et al., 2009), and the levels of government closest to them with competences in innovation and competitiveness policies can play a key role in promoting these local agents and adapting their policies to the needs of small businesses. In order for these policies to be efficient and to reinforce those that are promoted from other levels (regional, national and supranational), it is fundamental to build an adequate multilevel governance.

This greater complexity of public policies and the need to boost the competitiveness of small enterprises has made it essential to provide adequate mechanisms of multilevel governance. To achieve this, it must be taken into account that governance systems and mechanisms of public policies vary from one territory to another, depending on their political systems and the scope of the public policies in question. While in most countries there are two sub-state levels of government (the regional and the municipal), in the case of the Basque Country, in addition to these two levels is the provincial level which has a very high level of policy competence.

Regarding R&D&I policies, analysts tend to consider that the scope of R&D policies remain at the state or supra-state level, but that innovation policies less based on R&D and more focused on interaction are more appropriate in the regional and local spheres, where geographical and cultural proximity favour the interaction of governments with the different innovation system agents. However, in reality, although it is logical that depending on the type of innovation policy, the main role corresponds to the administration of one territorial level or another, R&D&I policies require the exercise of concurrent competences. Thus, in the case of the Basque Country, apart from the support given by the European Commission to R&D, the competences with regards R&D correspond to the Spanish and Basque governments.

Although in principle the Provincial Councils do not have recognized R&D competences, they have been developing actions complementary to those of the Basque Government in the field of R&D&I. There are even some municipalities, especially the provincial capitals, which carry out activities in this area, albeit with much more limited activity.

In the current context, for the period 2014-2020 of European funding for regional development, the EC has introduced an ex ante condition whereby all Member States and regions of the EU must have a Research and Innovation Strategy for Smart Specialisation (RIS3) before their operational programmes can be approved (European Commission, 2014). In Euskadi, the Basque Government has developed the Science, Technology and Innovation Plan (PCTI) 2020, according to the criteria established by the EC for these strategies. The coordination of RIS3 among the different levels of government is provided by two committees established in the RIS3 governance framework (see Aranguren et al., 2016). At the most formal level, the CVCTI, in which the three provincial council leaders participate, meets twice a year and cannot be expected to provide the necessary operational synergies for the RIS3 process. In addition, there are no representatives from the municipal level.

In practice, the reference point for inter-institutional governance within the region is provided by the inter-institutional committee, which meets after each interdepartmental committee and is made up of representatives of four departments of the Basque Government (President's Office, Economic Development and Competitiveness, Education, Language Policy and Culture, and Health) and of the Departments of Innovation or Economic Development of the three provincial councils and of EUDEL (the Association of Basque Municipalities). It acts as a forum to share information on regional RIS3, so that the sub-regional institutions connect or align their own strategies with the regional strategy. These connections and alignments are expected to happen operationally with the involvement of other levels of government in the living processes for developing priority areas and opportunity niches. In recent years, one of the characteristics of the RIS3 process in the Basque Country, which was not anticipated, is the emergence of more localized RIS3 plans at provincial and city levels. The emergence of RIS3 plans at the sub-regional level cannot be ignored and it

would be very positive to connect these plans with the three priorities and the four opportunity niches.

In particular, e.g. in the case of the DFG (Provincial Council of Gipuzkoa), since 2009 (in a collaboration project with Orkestra) a new governance model has been built to address the development of several of its policies collaboratively with the stakeholders of the territory. This process began with the local development agencies and is being extended to other types of actors involved in both economic and social development. This collaborative model culminated its institutionalisation process on June 2, 2017, with the signing of a formal agreement between the DFG and eleven district development agencies of Gipuzkoa. This agreement consolidates a series of spaces for reflection and decision that were already operating experimentally and initiates a collaborative process which, through annual evaluations, decisions on priorities and defining and implementing collaborative programmes, aims to improve the efficiency of policies in the territory. One of the characteristics of this governance model is that it does not respond to the requirements of one programme or another, but its structure has been devised so as to address in its context the initiatives and programmes that could benefit from a multilevel approach. At present, the DFG has established two objectives in relation to the development of this governance model. The first one is to explore the possibilities of collaboration with the Basque Government (where it is desirable that there is coordination between the Etorikizuna Eraikiz programme of the Provincial Council of Gipuzkoa and the RIS3 of the Basque Government) in order to continue improving the quality of the programmes developed. For this purpose, work is being undertaken in the programme to bring the Basque Country's Industry 4.0 strategy closer to Gipuzkoa's SMEs (this initiative is led by the Innovation Department of the Economic Promotion Directorate which aims to contact approximately 500 industrial firms with between 20 and 100 employees in Gipuzkoa) so as to understand their situation regarding the future implementation of advanced manufacturing technologies. Guidance is also offered to enterprises in relation to existing programmes. The second objective is to incorporate vocational education and training (VET) centres, in their role as local stakeholders, into the dynamics already established with district development agencies.

In the province of Bizkaia, there have also been experiments with the model of territorial governance over the last three years, with relevant implications for how a multilevel RIS3 can be structured. In 2014 Orkestra carried out a diagnosis divided into six reports, which provided an in-depth analysis of the competitiveness of Bizkaia. One of these reports focused on the analysis of the municipal development and territorial cohesion. The report showed great heterogeneity among the municipalities and counties of Bizkaia, and identified three large groups or categories based on their productive specialisation (manufacturing, services or with no defined specialisation).

Reflections in the Provincial Council of Bizkaia (DFB) on this diagnosis gave rise to a concrete proposal to recognize this heterogeneity, consisting of a new territorial cohesion policy with different processes in various groups of municipalities. Work began on this proposal internally in the DFB during 2015, and after the provincial elections of May 2015, the “Territorially Well-Balanced Bizkaia” plan was incorporated as one of the five strategic pillars for the new four-year term. In 2016 and 2017 this strategic plan was launched with the Bizkaia Orekan initiative, which establishes four long-term working groups, involving the DFB, Beaz<sup>2</sup>, Orkestra and local development agents from different areas of Bizkaia.

The objective of this process is twofold. First, the creation of stable communication channels between the Department of Economic and Territorial Development of the DFB and the local stakeholders within the framework of competitiveness policies to achieve: (a) a better inclusion of knowledge about local realities in the design of the DFB/Beaz policies; and (b) better knowledge in the municipalities regarding the policies and resources of the DFB/Beaz for competitiveness. And second, the training of necessary agents for the consolidation of governance models and regional competitiveness strategies in the medium-long term. Among the actions that are being addressed in different zones of Bizkaia, are analyses the particular specialisations of the different zones so as to improve the connection between the actions of the agents working in these territories and the implementation of RIS3 in Euskadi.

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<sup>2</sup> Public company of the Provincial Council of Bizkaia which supports enterprises and entrepreneurs in their efforts to create new projects, to innovate and to internationalise.

As for Euskadi's RIS3 in the provincial capitals, the three cities are also currently collaborating with the steering groups (e.g. in the opportunity niche of cultural and creative industries). In the case of Bilbao, the "Intelligent Innovation and Specialization Strategy of Bilbao-iBilbao2020", designed in 2014, points out the six areas and sectors on which to focus the urban specialisation strategy. With the objective of articulating the city's strategy with the Basque Country's RIS3, the following three areas out of six have been prioritised: Cultural and Creative Industries, Advanced Services and Digital Economy. These are sectors in which Bilbao has high specialisation rates compared to the rest of the territory and which are characterized by their presence in urban environments. In addition, its role in regional specialisation in the field of advanced manufacturing is crucial and, therefore, the complementarity and the need for coordination between urban and regional strategy are evident. In this context, the Bilbao Next Lab project, in which the Bilbao City Council and Orkestra collaborate, focuses on two challenges arising from the implementation and development of the city's specialisation strategy: (i) developing the capabilities of the Bilbao Ekintza and City Council team to exercise their role as facilitators of the specialisation process; and (ii) providing mechanisms for multilevel coordination and defining the role of the Bilbao strategy in the RIS3 of the Basque Country. One of the main areas worked on in relation to the first challenge is to develop capabilities to facilitate entrepreneurial discovery processes (EDPs). These EDPs, which are currently in a pilot phase, will allow different entrepreneurial agents<sup>3</sup> of the city and the region to be involved in discovery processes corresponding to the areas of specialization of the city. Specifically, the Basque Government participates in the design and development of Bilbao's specialisation strategy through the Infocus project.

In the case of the province of Araba, the Agora Initiative has been developed. A wide range of different stakeholders from the business sector, knowledge infrastructures, governments and civil society participate in this initiative, which has identified the main challenges facing Araba. Working groups have been set up to address

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<sup>3</sup> Entrepreneurs, firms, universities, technology centres, VET centres, etc.

collaboratively these specific challenges and the Basque Government also participates in these work dynamics.

Additionally, bilateral talks are held between the Commissioner of Science, Technology and Innovation and the Deputies of Economic Promotion and Innovation of the three Provincial Councils. However, reinforcing the mechanisms of coordination and collaboration among the Basque Government, the Provincial Councils, the capital cities and the local level would help boost innovation in small firms as well their involvement in RIS3.

As stated in the sixth chapter of Orkestra (2017), in the same way as a great diversity can be found in the forms adopted by multilevel governance from one territory to another, a great diversity can also be found in the use of mechanisms and coordination instruments that are applied in them. There is no classification of coordination instruments in general use, but taking into account the categories defined in the different types of classifications and analyses (see, especially, Braun, 2008; Charbit and Michalun, 2009; Bouckaert et al, 2010; OECD, 2014), the following types of coordination instruments can be identified: strategies, plans and programmes; organisational structures (e.g. interdepartmental committees); laws, regulations or standards; agreements and contracts; finance and budget; actions linked to staff (e.g. mobility and training); evaluation and indicators; reports, exploratory studies, consultancy, etc; calls, informal contacts, personal relationships, etc; and inter or intra-party relationships. An analysis should be carried out to identify which of the above-mentioned are applied in the Basque Country and what results are obtained, in order to reinforce, correct or replace them.

Alongside these categories of coordination instruments, the governance literature refers to three major mechanisms of social coordination: hierarchies, markets and networks, confirming that although in the past relationships among stakeholders linked to public policies were especially of a hierarchical nature (based on the exercise of authority and power), the shift to new modes of governance has become increasingly significant in market-based relationships or in cooperation networks. In addition, the literature distinguishes between coordination that arises from mere spontaneous

adjustments made by the stakeholders to avoid duplication (which is sometimes called *negative coordination*) and positive coordination, which is more based on specific cooperation and agreements. The literature has proposed different scales to assess the degree of coordination achieved, which range from coordinating projects to coordinating policies or strategies. Most of the international literature simply chooses to distinguish between cooperation (working together to achieve each one's own objectives), coordination (adjusting the actions of different organisations to reinforce each other and being consistent) and collaboration (working together to define new policies or objectives).

It should be kept in mind that using coordination instruments also comes at a price and the assumed efficiency benefits deriving from the use of coordination instruments must always be compared with the cost these may entail (Edler, 2010).

### 3. How to continue advancing in this challenge

As can be seen in the previous sections, one of the fundamental challenges of implementing RIS3 in Europe and also in the Basque Country is multi-level governance and the involvement of firms, especially small enterprises, in the processes of entrepreneurial discovery. The promotion of multi-level governance appropriate to the specific context of each region, in which sub-regional governments have a more active role in facilitating the involvement of small businesses and coordinating their actions with the regional government could be a way to respond simultaneously to the two challenges.

As concluded by Estensoro and Larrea (2016), the opportunity lies in the fact that regional governments often have the competences for RIS3, but not the capacity to be in the areas where opportunities may arise. Governments can, therefore, benefit from long-term open dialogues with representatives of companies, technology centres, universities and other organisations that have useful knowledge for RIS3. It is often the case that regional governments do not have the necessary people to take part in these processes of long-term dialogue, while sub-regional governments, district agencies or municipalities do. By placing value on this multiplicity of relationships that governments of different levels have with multiple stakeholders, regional governments

would have easier access to their knowledge to be able to integrate it into the RIS3 processes, while stakeholders would gain access to the policies of different levels of governments.

With regards involving SMEs, a series of advances are being made with initiatives financed by the regional Innovation Fund, among which the following can be highlighted: (1) the development of social activities of the Basque Country's RIS3 at local level (in 2017, in collaboration with Innobasque and coordinated with the Provincial Councils, 17 workshops were organised, while in 2018 intermediary agents will be trained in concepts and technologies of the seven RIS3 areas); (2) diagnoses of the Basque Business Development Agency (SPRI) and Innobasque on non-technological innovation in 2,000 SMEs; (3) micro-projects of non-technological innovation in metal companies of between five and 100 workers (Hazinnova) to train staff and to improve existing policies and instruments (in collaboration with the Bizkaia Federation of Metal Companies and the Provincial Council of Bizkaia); (4) promotion of the technological innovation and experimental development programme of VET centres in SMEs to offer them technological services.

Thus, it is important to continue moving forward in the coordination with the sub-regional agents (both provincial councils and other local agents) and in the involvement of small firms in RIS3. Working with these stakeholders as allies can foster not only a more systemic and sustainable impact at local level, but also the integration of the demands of small firms.

Therefore, it is important to continue working on two levels of coordination:

- 1) The level of the general RIS3 strategy. The most operative way to achieve this would be to open a dialogue between the Commissioner and the stakeholders in each Provincial Council or capital who have a vision of their general strategy. The objective of this dialogue would be that each one knows the strategy of the other, the synergies among the different strategies are identified and the coordination mechanisms between them are decided. These talks can be bilateral between the Commissioner and the rest of the Governments (which is already taking place), and also collective so that the different Provincial

Councils and capital cities learn about how the others are working on their strategies. The institutional Committee, which already exists formally, could be, for example, the appropriate place to use this work dynamic. The coordination work that is being developed in the Orkestra workshops together with the Basque Government, the three Provincial Councils and the municipal governments of the three capitals is also aimed at identifying synergies and learning from each other about the projects that each level of government is developing with regard to RIS3.

- 2) The level of priorities or opportunity niches. Once the synergies have been identified in specific areas among the RIS3 of Euskadi and the strategies of the Provincial Councils and cities, a dialogue should be opened among the stakeholders working on strategies in a specific area (industry 4.0, energy, etc.) This is already occurring naturally for some of the priorities, but it should also be implemented in all the priorities where the sub-regional level also plays a role.

By creating a multilevel governance in Euskadi, there is an opportunity for this region to be in an advantageous position in Europe. A starting point for this was the workshop organised by the Basque Government, the City Council of Bilbao and the EC Joint Research Centre of Seville (with the support of Orkestra) in April 2018, in which together with the proposal for multilevel governance in the Basque Country, also presented were the strategies of six cities in Finland, the case of Flanders and the Policy Brief which, based on the content developed in the workshop, is being developed by Orkestra for the European Commission.

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