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# Regional development policy should focus more on the long term

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# Regional development policy should focus more on the long term

The societal challenges of our time – such as Covid-19, climate change and inequalities – require regions to change, and policy plays a crucial part in supporting this change. A study of why, how, and under which conditions local and regional actors can shape regional futures leads the way for policy on regional development.

## THE ROAD FORWARD FOR POLICY

A long-term perspective and involvement from multiple actors:

- Regional transformations require a long-term policy perspective of 10 to 15 years.
- Policy may most be needed in promoting long-term explorative activities because market incentives and policy cycles make actors too often focus on the short-term.
- Cultivate a long-term perspective among local actors, and rethink incentive structures accordingly.
- The engagement of multiple actors should be encouraged in long-term regional development activities.

## A STUDY OF WHAT DRIVES CHANGE

The recent study this policy recommendation builds on focuses on actions directed at change, and their intended and unintended consequences (change agency), in particular:

- **Innovative Entrepreneurship:** Combining knowledge and production factors in novel ways, creating new products, services, processes, or business models.
- **Place-based Leadership:** Mobilising multiple actors for goals that go beyond individual interests, and pooling competences and resources to reach these goals.
- **Institutional Entrepreneurship:** Introduce new, or change existing, informal institutions such as norms and values, and existing formal institutions for example laws and regulations.

Researchers Markus Grillitsch, Bjørn Asheim and Hjalti Nielsen have studied why and how the maritime industry in Sunnmøre, Western Norway could first, highly successfully exploit the market boom for offshore service vessels from 2004–2014, and second, diversify after this market completely collapsed in 2014.

## WHAT IS CHANGE AGENCY?

Change agency is a term that describes meaningful actions intended to make a change and the intended or unintended consequences of those actions

Sunnmøre is known to be one of the most entrepreneurial regions in Norway, where locals are thought to innovate and take risks when being challenged. Hence, it is an interesting location to investigate the role of change agency in times of boom and crisis.

The researchers argue that change agency requires a long-term perspective. This is because change processes inflict short-term costs while the benefits accumulate over time. Furthermore, in the long term many of the regional structures such as competences, networks or institutions can be moulded, while they are quasi fixed in the short run. Put differently, in the long term, structural factors are less rigid than in the short term.

## BALANCE LONG-TERM PERSPECTIVE WITH SHORT-TERM OPPORTUNITIES

Overall, the key issue for firms and regions is to balance long-term oriented explorative activities with the exploitation of current opportunities. It is important to support and encourage change agency, which is essential for the renewal of industrial pathways as well as regions' resilience to external shocks.

In the Sunnmøre case, regional actors struggled to find such a balance. Immediate opportunities and economic pressures incentivized actions with a short-term horizon reproducing existing structures. During the crisis, the sup-

port structures put more focus on dealing with short-term consequences of the crisis while leading firms pursued the double strategy of cutting costs for short-term survival and investing in innovation for long-term success.

**In the Sunnmøre case the following conditions supported change agency:**

- The presence of financial resources and the willingness to invest them locally.
- A widely shared awareness that investments in innovation are necessary to succeed in the long term paired with the experience that market leadership through innovation was possible.
- Exposure in national and global networks as well as experience and competences gained in the past, which facilitated the identification of opportunities.
- The preparedness to take risks and invest before the market took off.

Small- and medium-sized firms targeted different market segments and turned profitable faster after the crisis hit. Yet, large and mainly family-owned firms were essential not only in terms of employment and as a source of demand, but also as innovators and taking a leadership role in building the regional environment.



**Figure 1:** Geographic location of study area



Photo from Sunnmøre

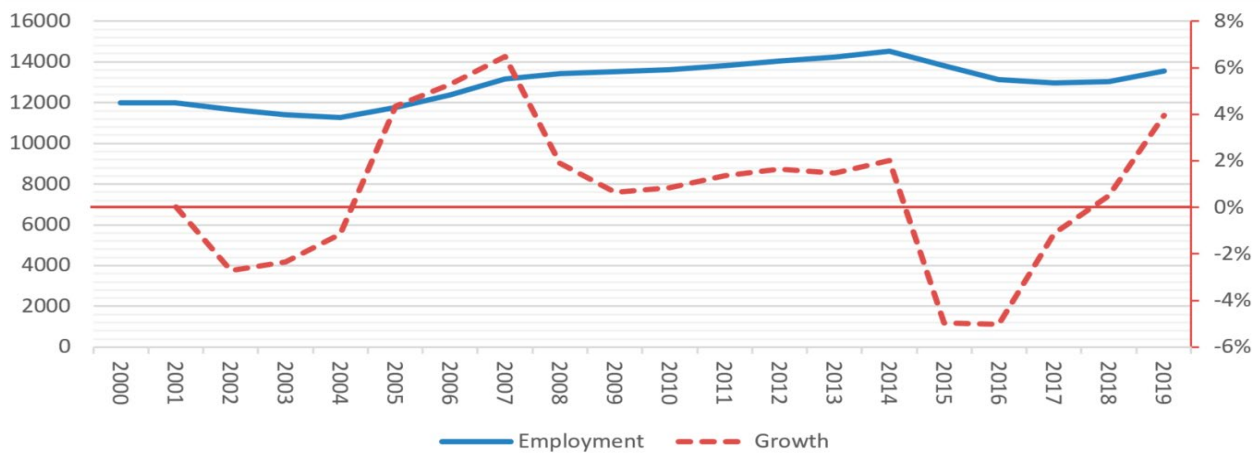


Figure 2: Employment and growth in coastal Sunnmøre from 2000-2019

### ACTIONS THAT IMPACT THE OUTCOME

The researchers found that regional development resulted from an interplay between external forces and the strategies, decisions, and actions by local actors. External forces in this case refer to changes in demand for offshore service vessels, which provided opportunities for growth between 2004 and 2014, but also caused a deep crisis after the market collapsed in 2014. To fully understand regional development the external forces must be seen in combination with the decisions, strategies, and actions by a wide range of stakeholders.

#### The following long-term oriented actions shaped the boom from 2004 to 2014:

- Early investments in offshore service vessels were essential to kick-off the growth phase. Major shipping companies and yards anticipated the market opportunity and shared risks for new orders of offshore service vessels.
- Despite a sluggish demand in the early 2000, firms invested in long-term innovation projects with the X-Bow ship design as most prominent example. Patient capital invested preferably locally with long-term intentions plays an important role.
- Local actors were highly engaged in building regional support structures and a knowledge infrastructure, in particular the Ålesund Knowledge Park resulting in successful applications to the National and Global Center of Excellence cluster programmes (2004 and 2014 respectively). Shared place leadership nourished over decades intensified.
- The investments in the Eiksundsamband bridge and tunnel system were approved in 2002 after more than



Photos of Sunnmøre shipyard and Bjørn Asheim and Hjalti Nielsen

a decade of engagement and lobbying of local leaders, firms, and mayors. The investment greatly increased the mobility within and beyond the region and enlarged the labour market

- Ålesund University College (integrated into the Norwegian University of Science and Technology in 2016) played an important role in anchoring science-based knowledge in the engineering-based maritime industry and was awarded in 2014 with a Centre of Research Driven Innovation with focus on demanding maritime operations.

**After the collapse of the offshore service vessels boom in 2014, the following actions played an important role:**

- Actions to exploit the boom before 2014 made many firms vulnerable due to high fixed costs in terms of physical infrastructure and wage levels, and few firms had foothold in alternative markets.
- Diversification efforts of firms: In the crisis, firms aggressively ventured into new markets (e.g. aquaculture, offshore wind, and fisheries) and technologies (e.g. hybrid engines, deep sea technologies). R&D expenses doubled. The regional economy is more diversified than before, yet, in particular large firms struggle to become profitable again.
- Business leaders and mayors mobilised restructuring support from the national level.
- Local support organisations set actions to retain competences in the region.



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**KEY POINTS FOR POLICY**

- Regional development is a trade-off between the exploitation of existing opportunities in the short term (growth in existing markets) and the exploration of new opportunities in the long term (new markets and technologies).
- Firms and other actors often struggle to strike a balance between short-term and long-term actions.
- Policy is mainly needed to promote long-term explorative actions because actors often focus too much on the short term due to market incentives and policy-cycles, and regional transformations require long-term explorative actions.
- This is particularly important in current times, which call for structural changes to the economy and society to tackle societal challenges such as global warming and uneven development.

**LINKS**

Link to publication, website, or other relevant place for the reader to get more information

<https://journals.sagepub.com/doi/full/10.1177/09697764211028884>

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