

Rethinking Regional Innovation: The Role of Power in Firm Networks

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What are the key components of Regional Innovation Systems?

- Entrepreneurial, innovative small firms
- Lead firms (global corporations) connected to global markets
- Institutions, particularly universities, that provide research infrastructure
- A skilled workforce that is continuously learning

What do we know about how Regional Innovation Systems (should) work?

- Co-located firms come together in cooperative networks to share knowledge and skills.
- Small firms are critical to innovation because they are nimble, take risks, and respond flexibly to changing markets.
- They are disruptive innovators, producing new products that change the market.

What is wrong with this story?

- Evidence from US Regional Innovation Systems indicates that firms are adversaries rather than allies.
- Cooperation is the exception rather than the rule.
- Small innovative firms and large Transnational Corporations (TNCs) have different needs and different agendas.

The Transnational Firm Agenda:

- Sustainable competitive advantage (market dominance)
- Risk reduction
- New products but with large potential consumer markets
- Innovation around a standard that they control
- Reduced competition for skilled regional labor pools

The Small Innovative Firm Agenda:

- Taking risks to make gains
- New products for intermediate markets
- Disruptive innovations and first mover advantage
- Connections with global markets

Competition comes together in the region

TNCs and small firms both leverage regional assets:

- High and medium-skilled labor
- Research and development capacities provided by universities and government

Small firms are disadvantaged in this competition

- Government sponsored R&D centers predominantly serve TNCs
- Governance rules (e.g. non-compete and IP agreements) favor TNCs
- Small firms can't compete for medium-skilled labor

What would change these dynamics and redress the balance?

- Better understanding of the needs of small firms
- Intervention to meet labor force needs of small innovative firms
- Place regional comparative advantage ahead of serving large TNC needs
- Enable small firms to influence innovation policy agendas