Intermediary Organisation in a Regional Development Network

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Keywords: network, regional development, intermediary organisation, Finland

Abstract

Governments are working to create thriving innovative industries that provide more quality jobs, help implement sustainable business practices to protect the environment, build safe and caring communities, and nurture cohesive links between government and industry. In the recent years, more and more regional supportive infrastructure or knowledge generation subsystems have occurred. These systems consist of public and private organisations, etc. (Asheim & Coenen 2005). New service organisations are established to facilitate the networking among different actors in the region.

The purpose of this work-on-progress paper is to scrutinize intermediary organisations in the Finnish regional development context. Starting from the national regional development system two intermediary organisations from different regions are described and analysed. The contribution of the paper is the enhanced understanding about new types of actors in the changing structure of regional development and national welfare.

The data concerned with the regional development system was collected by visiting the WWW homepages of Finnish institutions and organisations. Empirical data from the case organisations was collected by interviews. Secondary data received from the interviewees and available on the organisations’ web pages was also utilised in the analysis.

Preliminary findings suggest that the multiplicity and diversity of both public and private actors is a decisive issue in regional development networks. Intermediary organisations in this context act for public good and mainly operate with public money. Their existence is mission driven which make them to resemble non-profit organisations considering the return of investments to the owners.

The challenge of intermediary organisations operating in the intermediary is the different time perspectives of the private and public sectors as well as the emphasis of these sectors. Public actors stress the laws and statutes while private actors stress voluntary choice. The burden of public funding sources is the reporting of the spending of money. Especially in the cases with several sources of money, different reporting systems cause ineffective use of resources. Another threat for the effective functioning of intermediary organisations is their institutionalisation. Instead of looking for a genuine customer interface and regional problem solving they may institutionalise and start acting as ‘a left hand’ of the public sector.
Introduction

Globalisation and hypercompetition have made policy makers pay more and more attention to regions as designated sites of innovation and competitiveness. Governments are working to create thriving innovative industries that provide more quality jobs, help implement sustainable business practices to protect the environment, build safe and caring communities, and nurture cohesive links between government and industry. In the recent years, more and more regional supportive infrastructure or knowledge generation subsystems have occurred. These systems consist of public and private organisations, etc. (Asheim & Coenen 2005). New service organisations are established to facilitate the networking among different actors in the region.

The purpose of the paper is to scrutinize intermediary organisations in two Finnish regions by describing the national regional development system based on the Finnish science and technology policy and by analysing two intermediary organisations’ characteristics and roles in their networks.

Theoretical understanding of intermediaries and regional development was created by a literature review after which WWW homepages of different Finnish institutions were visited to draw a picture of the Finnish regional development system. Empirical data concerning the case organisations was collected by interviews. Secondary data received from the interviewees and available on the organisations' web pages was utilised in the analysis too.

The paper starts with an introduction followed by a short discussion about the regional development based on the Finnish technology policy and innovation system. After that intermediary organisations are discussed followed by the introduction and analysis of the case regions and intermediary organisations. Finally, conclusions are drawn.

Regional development

The society is going through a development process that can be described by revolution of information technology and rise and extension of the network economy (Castells and Himanen 2001). The globalisation of technology and economy and the ensuing rapidly proceeding change have a strong effect on the industrial structures, business models and the competencies required of society at large. Knowledge and know-how in their different forms have become competed key factors for societal development. Such multi-national institutions as the European Union, the World Bank and the U.N. are also moving to embrace concepts of knowledge based economic development that bring the knowledge, productive and regulatory spheres of society into new configurations (Etzkowitz and Leydesdorff 1995).

An efficient and effective national innovation system and regional systems are an increasingly important factor for economic growth and social welfare. Asheim and Coenen (2005) studied regional innovation systems from the knowledge base perspective. They argue that in terms of innovation policy the regional level often provides a grounded approach embedded in networks of actors acknowledging the importance of the knowledge base of an industry.

A regional innovation system (RIS) is defined by Cooke (2004, p. 3) as “interacting knowledge generation and exploitation subsystems linked to global, national and other regional systems”. It stretches across several sectors in the regional economy, given that firms and knowledge organisations interact systemically, i.e. consistently. Following from the above, clusters and RIS can — and often do — co-exist in the same territory. Asheim and Coenen (2005) argue that it is crucial to acknowledge the sector specificity of clusters and the more generic sector orientation of RIS, especially in a policy context.
Technology forms an essential part of the Finnish industrial policy and is acknowledged at the highest level of the Finnish government. Key issues concerning technology are regularly discussed at the Science and Technology Policy Council\(^1\), chaired by the Prime Minister. The Ministry of Trade and Industry oversees Finland’s technology policy. On an operational level the National Technology Agency (Tekes)\(^2\) independently promotes and coordinates R&D projects and programmes, in addition to maintaining cooperation within international networks. Tekes works in collaboration with several partners within the Finnish innovation environment. For basic research, the main agency of implementation is the Academy of Finland\(^3\). At the regional level, the technology policy is implemented by the Employment and Economic Development Centres (TE-Centres)\(^4\). From a purely business perspective, the key players are the Finnish National Fund for Research and Development (Sitra)\(^5\), Export Credit Agency (Finnvera)\(^6\), Association for internationalisation services (Finpro)\(^7\) and Invest in Finland\(^8\). The innovation system approach has gained importance within regional development. The Finnish network of higher education institutions, technology centres, centres of expertise and other similar operational players have promoted innovation in the regions to the extent that we now speak of regional innovation systems and their development.

A total of 15 TE-Centres were established in Finland in 1997. They are centres of expertise concerning the development of industries, human resources labour force, rural issues, technology and export. In Finnish regional policy the TE-Centres have adopted the main responsibility of for regional foresight activities, while the Regional Councils are responsible for the coordination of regional development.

Finland is divided into 19 regions, plus the autonomous province of Åland, and into 85 sub-regions, which are composed of local authorities. Regional councils act as regional development authorities in accordance with the Regional Development Act. It is the councils’ task to manage and coordinate development work in their respective areas. Regional development is implemented with the aid of national and EU programmes. Supervision of regional interests is carried out in close cooperation with local members of parliament, municipalities and local chapters of political organisations. The emphasis in the work of the councils is on both long term planning and reaction on current affairs. The councils prepare the general regional policy and programmes in cooperation with central and local authorities, companies and organizations within the region. They are also responsible for controlling that these programmes, including EU Structural Fund Programmes are implemented.

Collaboration with a variety of interest groups is a key working method. The councils moreover maintain international contacts required to its purposes, engage actively in international operations and build good cooperation with other European regions. The management of the development policy is increasingly spread out across the entire municipal organisations. The policy is implemented through economic development companies, business partnerships, enterprise agencies, or incubators, to name a few. Also, local authorities have entrusted the management of EU grants to public authorities responsible for rural economic development.

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1 See http://www.minedu.fi/tiede_ja_teknologianeuvosto/eng/index.html
2 See http://www.tekes.fi/eng/
3 See http://www.aka.fi/index
4 See http://www.te-keskus.fi/web/ktmyht.nsf/FrameSetENG?OpenFrameSet
6 See http://www.finnvera.fi/index.cfm?id=3
7 See http://www.finpro.fi/en-US/Finpro/
8 See http://www.investinfinland.fi/
Many municipalities are also involved in business mentor projects that are aimed at reinforcing local business operations. (http://www.kunnat.net/)

**Intermediary organisation**

The concept of intermediating emerged in the 1980s when needs for strengthening technology transfer, commercialisation and innovative business were discovered. Usually it is referred to when describing organisations and actors that act as intermediaries between both business and research organisations and business. (Valovirta and Niinikoski 2004) In innovation environments intermediating is an integral part. Networks are needed to both produce and launch innovative products and services efficiently and to transmit information between the actors more effectively. (For more about intermediating, see Tommila 2005)

An extreme interpretation of intermediating argue that any business can be seen as a middleman business, since most companies are in-between other companies. (Gadde and Snehota 2001) Within the IMP tradition, intermediaries have been studied in triadic nets. An intermediary is seen as the “third party in common”. (Havila 1996) Intermediaries and their roles have been studied, in addition to Havila, by Tähtinen (2002) and Havila, Johanson and Thilenius (2004). Tähtinen (2002) refers to the earlier work by Simmel, who distinguishes three different roles for the third party: mediator, tertius gaudens and oppressor. The mediator aims at enhancing the relationship between the two by keeping them together. It is interested in finding solutions and creating situations which benefit both parties. The other roles differ from the mediator as they aim at satisfying their own interests. The tertius gaudens is ready to take advantage of every emerging opportunity, e.g. to form a coalition with one of the actors in a conflicting situation. The tertius gaudens does not have an active role whereas the oppressor deliberately causes conflict in order to gain a dominating position.

Mittilä (2000) has brought the term bistomer to describe a third party in a business relationship. The concept of a bistomer refers to a phenomenon where a third party has an official role in a commercial decision making process of a customer (for more, see Mittilä 2001). Järvelin and Koskela (2005) discovered two additional intermediary roles in a network. The initiator holds a large contact base and serves as a door opener bringing the parties together. The role of the initiator is somewhat active while the other actor, the invisible hand, is of a facilitating nature. It provides infrastructure and facilities in order to help others to build contacts and relationships. The writers note that these to roles are essential in the beginning of the relationship while the above mentioned mediator, tertius gaudens and oppressor can only exist in the ongoing relationships.

According to Ståhle, Smedlund and Köppä (2004) intermediary organisations can be defined in two ways in innovation environments. A narrow definition describes intermediaries as information transmitters. The broader one covers both the information transmitting related to the substance and the direct and indirect influence that the intermediaries have on the structure and dynamics of their environment.

In innovation environments the role of the intermediary organisation is linked to the levels and components the innovation environments consist of. The main components include the substance, the structure and the dynamics. An element affecting the roles of intermediaries is their category level. The national macro level focuses on the structure component by building steering mechanisms and creating operational preconditions in general. In Finland, for instance, the National Technology Agency, Tekes, is an important actor through financing research and development projects between businesses and universities. On a regional level the dynamics component is the key focus and efforts are made to create unified strategies with a city or some other regional actor as a network coordinator. Lately, cluster thinking has gained ground and this has led to regionally specified strategy building. The micro or focal level is where substance matters are approached and the knowledge is developed. The intermediary organisation can
produce services for the companies in the area, for instance, financing, planning services and risk management. All these services support intermediaries’ role as a coordinating entity thus facilitating the production processes of the innovative networks. (Ståhle et al 2004)

The involvement of the government sector has helped build new types of actors helping the knowledge-creating interaction. These organisations aim to institutionalise and reproduce interface as well as stimulate organisational creativity and regional cohesiveness. This is achieved by intermediating new projects and new ideas which might have not emerged through the normal interaction between the parties. (Etzkowitz, Webster, Gebhardt, Regina and Terra 2000)

Intermediaries operate in rather vague and undefined intermediary area and this is often reflected in their characteristics. Organisations are connected to many stakeholder groups and they try to serve the purposes of many different actors. Valentin (2000) has summarised different intermediaries in a university-industry partnership setting. In Table 1 I have slightly modified some descriptions to better fit the multi-party environment of regional development intermediaries.

<table>
<thead>
<tr>
<th>Intermediary term</th>
<th>Description</th>
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<tr>
<td>Linkage/ Liasion unit, Liasion office</td>
<td>Acts as an institutional and cultural intermediary between actors. Acts as a formal function of an organisation in managing the interface between the organisation and various external institutions.</td>
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<tr>
<td>Interface agency</td>
<td>Intermediary institution that provides an interface between public sector and industry.</td>
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<tr>
<td>Bridging institution</td>
<td>Acts as an intermediary for the transfer of knowledge, connecting its customers’ technological needs with a wider knowledge base.</td>
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<tr>
<td>Technology broker</td>
<td>Facilitates the transfer of technology between organisations. Creates direct links between government, university and industry, maintaining short communication channels and a limited number of links to retain the value of information. Facilitates the transfer of discoveries that are incompatible with the firm’s current product mix or production process capabilities to other firms that are able to use the technology.</td>
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<tr>
<td>Transfer office</td>
<td>Aims to promote communication between public-sector organisations and firms in various ways (briefing meetings, etc.).</td>
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<tr>
<td>Gatekeeper</td>
<td>Facilitates the internal dissemination of knowledge acquired in the collaboration. All parties should carefully design and implement the interface function in order to avoid information appropriation by key individuals.</td>
</tr>
<tr>
<td>Transfer agent</td>
<td>Administrates and manages cooperative research programs (provides technical expertise, acts as a ‘translator’ for different cultures, seeks funding, provides process consulting, etc.). Builds a research network of contacts.</td>
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<tr>
<td>Science and technology park</td>
<td>An interface organisation between universities, firms and government, which improves interaction and technology transfer, and contributes to industrial diversification. If we consider three nuclei (scientific, techno-industrial and market), the science park is a techno-industrial nucleus and it constitutes an interface between science and the market.</td>
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Table 1: Intermediaries in a public-private area (Modified from Valentin 2000)

Many intermediaries are structured and owned in various ways as they operate in indefinite interface areas which often lie between businesses, universities and governments helping to strengthen and develop collaborative programs between these actors (Valentin 2000). Some of the intermediaries are government owned, some have rather varied ownership base with public, private and third sector shareholders. There are intermediaries that are profit oriented and others that are mission driven. Also, the level of participation and commitment in collaboration and outcomes may vary thus creating challenges in responsibility and revenue issues.

Cases

The case intermediary organisations are located in two different regions. The Tampere Region, the second largest region by population in Finland, is a concentration of industry, commerce, services and education. It is one of the three most rapidly developing regions in Finland consisting of 33 municipalities, and 455,000 inhabitants within its area. The region has carried out a cluster based innovation policy for the past 15 years. In the heart of this development is a combination of novel and older industrial clusters that form the economic core of the region.

The regional centre Tampere, founded in 1779, is the third largest city in Finland and the largest inland centre in the Nordic countries. Currently there are over 200,000 inhabitants in Tampere. In 2004, the city of Tampere came first in an image survey comparing the largest cities in Finland. It was also the most attractive city among Finns who plan on moving. (http://www.tampere.fi/english/tampereinbrief/index.html)

Tampere promotes a diverse and controlled cluster-based specialisation in the following fields: information and communication technology (Hermia Ltd.\(^9\)), health and biotechnology (Finn Medi – Research Ltd.\(^10\)), mechanical engineering and automation (Hermia Ltd.) expertise-intensive business services incl. media and communication (Professia Ltd.\(^11\)), tourism (City of Tampere\(^12\)) and center of expertise for meeting industry (Tampere Convention Bureau Ltd.).

The Satakunta region, the neighbour of the Tampere Region, is located on the southwest coast of Finland. There are 26 municipalities in the region. The total population of the region is 230,000. The population density varies considerably in the different parts of Satakunta. (http://www.satakunta.fi) The regional centre is the city of Pori, founded in 1558, with approximately 76,200 inhabitants. Pori is the 10th largest city in Finland. The industrial upheaval in Pori that started in the 1970s has been drastic, and the process of regeneration is still to some extent incomplete. The city’s economic base is now more diverse than before.

The regional development of Satakunta is run by three different companies. Northern Satakunta Development Centre Ltd\(^13\) is an economic company established by seven municipalities. Pori Regional Development Agency Ltd\(^14\) started on February 2003 as a regional development centre in Pori region. The third company is Rauman Seudun Kehitys Oy\(^15\) (RSK) (Rauma Regional Development Agency Ltd.) established by eight municipalities. Satakunta’s regional development

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9 see http://www3.hermia.fi/in_english/
10 see http://www.finnmediresearch.com/in_english/
11 see http://www.professia.fi
12 see http://www.tampere.fi
13 see http://www.pskk.fi/english.php
14 see http://www.posek.fi/sivu.asp?taso=0&id=7
15 see http://www.rsk.fi/
strategy is accomplished in collaboration with Prizztech Ltd. (Science Park in Satakunta region) and ENTER enterprise services\textsuperscript{16} (Jobs and Society -partner). The Centre of Expertise program in Satakunta is among the leading projects in the region. Its fields, distance technology and materials technology, are a part of the Satakunta technology strategy.

**Case intermediary organisations**

The intermediary organization located in Tampere, Professia Ltd, is a consultancy and a development company specialised in service business. It was established in 2002 to counterbalance the technology-oriented Hermia Ltd by the city of Tampere, University of Tampere, Finnvera and The Finnish Venture Capital Association (FVCA)\textsuperscript{17}, all parties having equal shares. In March 2006, the company merged with another local developer organisation. This merger brought four private companies to the shareholder portfolio.

Professia operates in three lines of business on a project bases. It a business consultant for municipalities and specialises in the development of local government service processes. Second, the company offers business development services. It assists start-up companies in particular to grow and develop and offers versatile business development services. The company offers information, expertise and training. The services are customized according to each customer’s needs. Professia runs one of the three incubators in Tampere. A third line of business is the running of Tampere International Business Office, TIBO, which provides information about the region, assistance, contacts and solutions for foreign business entities considering setting up business in Tampere.

Professia is a for profit organisation. However, the profit is not divided to the shareholders but used for further development of the company. The revenues of the company were 1.5 million €, and the profit 60,000 € in 2005. The number of employees is 15 and the company links to about 120 experts in different projects. There are 12 projects going on at the time of the study. The length of the projects varies from two weeks to two years.

The second case organization, Prizztech Ltd. is a professional project management organization. Its primary task is to enhance enterprise competitiveness in the region. It was established in 1989 under the name of Satakunnan teknologiakylä Oy (Technology village of Satakunta Ltd.) In 1993 the company sold its premises to the city of Pori and changed its name to Prizztech. The main owner of the company is the city of Pori with the share of almost 60 %. Other owners are the city of Rauma, Hospital district of Satakunta, Finnvera and six private companies.

The company’s share capital is € 1,050,000 and its revenues were € 7 Million in 2005. Because Prizztech is a company for public good and operates with public money, it is not allowed to be profitable. Due to the rejection of some project costs by the financiers, Prizztech is allowed a small amount of money for general purposes. Furthermore, they sell some expert work of their own to show the profit of about 2000 € in the fiscal balancing of the accounts. The company has no money for its own development. Prizztech Ltd. has 60 professionals at its disposal and links to over 700 experts in different projects. The number of Prizztech’s ongoing projects is 90. The average length of the project is two years.

Prizztech aims at constructing network type structures of the actors in the Satakunta region though different development processes and development projects. Their mode of action is to

\textsuperscript{16} see http://www.ypenter.fi
\textsuperscript{17} The goal of FVCA is to develop private equity and venture capital as an industry and promote the interests of its members in Finland. FVCA is a member of the European Private Equity & Venture Capital Association (EVCA). (http://www.fvca.fi/english_fvca)
involve in the project as a coordinator and manage the project to the point when they are not needed any more because the network created is able to proceed on its own.

Both Professia Ltd and Prizztech Ltd are members of the Finnish Science Park Association TEKEL\(^\text{18}\), a nation-wide cooperation network connecting 23 science parks and technology centres in Finland’s university cities.

**Network partners of the case companies**

In intermediating, the basic issue is to know people, organisations, companies, firms, experts and specialists as well as their organisations in addition to the sources of finance. It is also crucial to identify the competences and lack of competences in the region.

To accomplish their task the case intermediaries collaborate with their partner network. The main partners are universities, polytechnics, TE-centres and expert service companies such as law firms, different business trainers, consultancies etc. at the regional level. Furthermore, they collaborate with other development organisations, municipal authorities and companies in different industries. At the national level, companies collaborate with the national key players introduced earlier in the paper. At the international level, companies utilise the network of TEKEL in addition to their own networks.

Network partners can be categorised in four categories. First, there are the customers served. They may operate in private, public or the third sector. Second, there are other regional development organisations with whom the projects are realised. Third, there are knowledge intensive organisations which supply their competence and know-how to the projects. Finally, there are the financiers which can be either ‘faceless’ or collaborators. Faceless financiers are such as Tekes when directing money for the general business development programme. In a technology programme project Tekes has a face. There is a liaison person interacting with company and the realisation of the programme as well as the money spending is controlled.

**Role and position of the case intermediary organisations**

The role of Professia in its network is the same in all its business lines while the position differs. In the overall network the role of the city is central. There are different city actors in different functional sub-networks but all in all, the number of central actors is about five. Professia’s position in relation to the city in business consultancy for municipalities is that of an independent supplier. In TIBO-business Professia is a partner selected by the city after the competitive bidding. In business services, Professia runs one of the three incubators in Tampere. Furthermore, it collaborates with the local Chamber of commerce and Association of enterprises in relation to the city. Professia is considered as more neutral an actor than the above mentioned by the authorities.

The role of Prizztech in the regional development network is to implement the development strategy by bringing the companies, financiers and experts together to form development projects. In the course of years, according to the interviewee, the position has stayed the same while the weight and significance as well as the responsibilities of the actor have increased both at the local and national level due to the growth and success of the company.

\(^{18}\) see http://www.tekel.fi
Conclusions

Intermediary organisations in the regional development are heavily steered by the national and local policies. The multiplicity and diversity of both public and private actors is the decisive issue in regional development networks. The overall umbrella network consists of different layers of actors, activities and resources forming sub-networks. Intermediary organisations in this context act for public good and mainly operate with public money. Their existence is mission driven which makes them to resemble non-profit organisations considering the return of investments to the owners. However, intermediaries differ in their possibilities of running the business in a for-profit or a non-profit manner.

Intermediary organisations have different roles in the regional development network depending on the system level they exist. At the local level they may act as linkages, interface agencies, bridging institutions, technology brokers, transfer offices, gatekeepers and transfer agents. They may act as initiators or facilitators.

The challenge of intermediary organisations operating in the intermediary area is the different time perspectives of the private and public sectors as well as the emphasis of these sectors. Public actors stress the laws and statutes while private actors stress voluntary choice. The burden of public funding sources is the reporting of the spending of money. Especially in the cases with several sources of money, different reporting systems cause ineffective use of resources. Another threat for the effective functioning of intermediary organisations is their institutionalisation. Instead of looking for a genuine customer interface and regional problem solving they may institutionalise and start acting as ‘a left hand’ of the public sector.

Research on public-private networks is still in its infancy. The contribution of the paper is the enhanced understanding about new types of actors in the changing structure of regional development and national welfare. To gain further understanding and to generate theory, more research is needed both on intermediary organisations and on their networks.

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Interviews


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