

RESEARCH PROPOSAL

Title of the project: Innovation through knowledge-intensive producer services: progress in EU and perspectives of experience transfer to the Baltic States.

Objectives. Research aims to develop concepts and empirical evidence through enquiry into experience of EU countries, and consequently to suggest practical action concerning the role of knowledge-intensive services in innovation systems.

1. Theory / model. Producer services are important in national, regional and sectoral innovation systems. The economics of services generally, and knowledge-intensive services (such as consultancies) especially, the role of service organisations as originators, carriers and users of innovations, are neglected in policy and poorly covered by research.

Services and service innovation have been largely overlooked in economic, industrial and innovation research, since they were regarded as not fully distinct manufacturing industries. A number of mostly qualitative and now increasingly also more statistical studies have been produced and are still underway that show that services innovations are important, have some characteristics of their own, are increasingly intertwined with manufacturing. However it becomes widely accepted that the progress is not sufficient in services research and services policy-making. More research is needed concerning the nature and significance of productivity-enhancing interactions among services, especially producer services, goods production, and the quality of the labour force. A better understanding of the demand for producer services by the public sector would also be valuable. In this sense, research aims to broadly map the knowledge-intensive producer services in terms of innovation-related service functions.

This research does not consider whether, or to what extent, government should tax, subsidise, regulate, or engage in macroeconomic policy, but, instead, large government investments in human resources and infrastructure are necessary to sustain the development of an economy that is increasingly based on innovation, flexible production, knowledge, information, and communications.

I assume that policy emphasis, especially in relation to SMEs, has already shifted from manufacturing output and the content of manufactured products at an engineering level, to include manufacturing competitiveness and the sustainability of economic roles and competencies. Competitiveness is now seen as an innovation contest where the bureaucratic, inflexible and non-creative may not survive. Thus a key policy concern is now advanced manufacturing strategy as distinct from advanced manufacturing technology, in a conventional, engineering-oriented sense. Also, competitiveness may now be significantly dependent on the “supply” of strategies or strategic competencies, whatever this may mean, as distinct from (hardware or software) technologies.

The State has a twofold relationship with knowledge-intensive producer services. Firstly, knowledge-intensive business services extend the State policy operations system, increasingly appearing within the “public” sphere as elements of programme formation and delivery (consultants as managers of innovation programmes, quality control functions, suppliers of specialist knowledge, etc). Secondly, the State manages markets for the knowledge-intensive producer services. At one extreme are strategies aimed at modest compensation for market failure (e.g. the partial funding of schemes involving independent research-and-technology institutes in pre-competitive R&D clubs, or subsidised consultancy to diffuse best practice and strategic awareness). At the other there is radical restructuring, market-making, brand management and the creation of national-scale networks of franchise outlets for government-branded service products (e.g. the UK Business Link network of one-stop shops for advice in support of SME innovation and competitiveness).

2. Methodology.

2.1. Research design. Method of *comparative analysis* of advanced economies versus transitional economies (the three Baltic countries in this particular case) will be used for the research. From this analysis I expect to educe the main theoretical principles based on which further *modelling* of possible, broadly understanding, "experience transfer" from EU to the Baltic States in the field of knowledge-intensive producer services will follow.

The industrialised countries are already advanced service economies. The New Economy has shifted the economic development paradigm from a capital driven

economy to knowledge driven economy. Typically the service sector represents more than two-thirds of employment. A substantial fraction of the value-added in any one country originates in the service sectors. Industrialised countries are undergoing significant structural and socio-economic changes, with services playing an important role in these changes. Many sectors of economic activity are running through phases of rapid internationalisation and globalisation, restructuring competitive markets and potentialities for growth.

From another perspective, supply of knowledge-intensive producer services in the CEE countries is diverse and, according to recent research, not evenly distributed in different countries. This reflects different degrees of progress towards the development of market economies in the region. The three Baltic countries (Estonia, Latvia, Lithuania) have formed a relatively homogenous market conditions for knowledge-intensive producer services, yet there are different levels of organisation of service provision and consumption in these countries. It may be claimed that knowledge-intensive services have not yet reached the desired level of maturity. Several reasons are in the origin of present situation: historical, socio-cultural and political. There is a vast potential that the development of knowledge-intensive producer services may bring to the Baltic economies.

2.2. Sample. The geographical scope of the research is Western Europe and the Baltic States (Estonia, Latvia, and Lithuania). As it is stated in this proposal, the Baltic economies have formed a relatively homogenous market conditions, yet there are significant differences; these will be explained in the light of experience in EU countries. The timeframe of the research will include the period from late 70-ies to present: major shifts in the service economy, service and service innovation research took place during the last three decades.

2.3. Data and data sources. Main approaches planned for the research are as follows:

- analysis of publicly available data sources (monographs, periodicals, official documentation, European documentation, working papers);
- macroeconomic data;
- firm level data (conduct of a questionnaire survey).