

In this issue
we present

The Policy Workshop

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Challenges and Prospects of Cross Border Co-operation in the Context of EU Enlargement

Policy Workshop held on 13 November 2008 in Brussels, Belgium

One of the main objectives of all research projects funded under the EU's FP6 programme is to contribute to policy developments. CBCED is no exception. In this context, a final workshop was held in Brussels in November 2008 to present the policy implications of the study to Europe's policy making community. This included identifying examples of good policy practice and making evidence-based policy recommendations at the EU, national and regional levels.



Professor David Smallbone and Ms Pia Laurila

cross border co-operation, by seeking to contribute to an evidence based approach to policy development with respect to cross border entrepreneurship. The project has



The CBCED project is concerned with entrepreneurship in EU border regions, focusing on cross border co-operation. CBCED complements previous EU funded projects which have investigated other aspects of

analyzed the implications of EU enlargement on entrepreneurship development in different types of border regions and assessed the potential for cross border entrepreneurship contributing to regional devel-



Mr Jean Peyrony, DG Regional Policy

opment. Specific issues investigated include the effect of border changes on the perception of entrepreneurs and institutional actors, with respect to regional identity; the scope for the development of emerging clusters of economic activity in border regions; and the role of individual and collective learning at the regional level, as well as personal and institutional trust, for fostering or impeding cross border co-operation and its contribution to economic development. A key element has been to make



Mr Pierre Vallete, DG Research

practical recommendations to policy makers and practitioners in the fields of entrepreneurship and economic development, concerning cross-border co-operation.

The policy workshop was attended by many policy-makers representing EU institutions, as well as institutions and organization from Finland, Poland, Germany, Greece, Bulgaria, Estonia, Switzerland, Ireland. The workshop participants were welcomed by Mr Pierre Valette, Head of Unit L.2 Research in Economic, Social Sciences

and Humanities - Prospective, DG Research, European Commission.

The project co-ordinator Professor David Smallbone (Kingston University) introduced the project and presented the main findings and policy implication. Comments on the findings were made by Mr Jean Peyrony, Unit C.2 Urban Development and Territorial Cohesion, DG Regional Policy followed by discussion with the workshop participants.



Mr Inigo Urresti, DG Enterprise

Prof. Dr. Friederike Welter (Jonkoping Business School (formerly of University of Siegen) and Prof. Dr. Anna Rogut (Academy of Management in Lodz, Poland) presented some policy perspectives on one of the CBCED case study regions i.e. Görlitz-Zgorzelec. This was followed by comments from Mr Inigo Urresti, Unit E.1 Entrepreneurship, DG Enterprise and Industry.



Challenges and Prospects of Cross Border Co-operation in the Context of EU Enlargement — Policy Implications

Project Overview

Objectives of the research

- (i) To identify the implications of EU enlargement for entrepreneurship development in border regions.
- (ii) To assess the potential for cross border entrepreneurship in contributing to regional development in EU border regions.
- (iii) To assess the effect of border changes on the perception of entrepreneurs and institutional actors, with respect to regional identity and the implications (if any) for cross-border co-operation.
- (iv) To identify the scope for the development of emerging clusters of economic activity.
- (v) To assess the role of individual and collective learning and trust at the regional level, for fostering or impeding cross border co-operation and its contribution to economic development
- (vi) To make practical recommendations to policy makers and practitioners, concerning cross-border co-operation, paying attention to the need for new forms of governance.

Scientific approach / methodology

The methodology employed included both desk-based and empirical investigation in selected case study regions. More specifically, the methodology involved:

- a review of the existing evidence base and relevant theoretical literature
- identifying the implications of existing knowledge for the research questions to be examined empirically
- empirical investigation in 12 selected case study border regions in Finland, Germany, Poland, Greece, Bulgaria and Estonia.
- analysis of results of the empirical investigation
- drawing out the implications of the results for (a) existing theory and (b) policy.

The empirical investigation included both primary and secondary data. Primary data were qualitative in nature,

including in-depth face to face interviews with actors involved in various forms of cross border entrepreneurial activity; interviews with entrepreneurs, enterprises, institutions and practitioners; interviews with individual entrepreneurs involved in cross border entrepreneurial activity.

New Knowledge and European Value Added

The focus of the CBCED project on cross-border co-operation involving entrepreneurship (i.e. cross border entrepreneurship) and economic development. Cross border entrepreneurship (CBE) offers potential benefits for regions as well as for individual enterprises. For entrepreneurs, it offers an opportunity to access new markets and sources of supply, as well as capital, labour and technology. For regions, that are typically peripheral to the core of economic activity in their national territories, cross border entrepreneurship may contribute to economic development on both sides of the border. Whilst this is not a new argument, the study provides a contemporary evidence base to support informed policy development, as well as new scientific knowledge.

The empirical evidence shows that in many regions, entrepreneurs develop forms of cross border co-operation (e.g. subcontracting, use of relatively cheap labour from the other side of the border) without policy support and, in some cases, despite barriers resulting from the policy environment. However, in such circumstances, the extent of such co-operation is limited and its contribution to regional development typically under-fulfilled.

The case study regions featuring in the study include a variety of experiences with institutional co-operation across borders. Positive experiences appear to be more common where the border is soft; there is local awareness of the potential practical benefits of cross border co-operation; and local authorities and other institutions have the capacity to both mobilise and utilise resources, as well as sufficient decision making authority with respect to economic development. At the same time, most cross border initiatives involving local government contain little that is directly concerned with entrepreneur-

ship, although they can offer networking opportunities for proactive entrepreneurs.

The findings overall support the need to take a broadly based view of what constitutes policy, since policies that are directly focused on encouraging and supporting cross border entrepreneurship are sometimes overshadowed by government policies and actions that are not part of entrepreneurship or SME policy per se.

Three groups of regions were identified in the study, on the basis of the role of public policy.

Public policy is constraining rather than enabling: These are 'hard', external border regions of the EU where the cross border partner region is in Russia (South Karelia in Finland; Ida Viru and South East Estonia); Belarus (Biała Podlaska in Poland); or Macedonia (Florina in Greece and Kyustendil in Bulgaria). In such cases, the negative effects are associated with external border restrictions (e.g. customs' procedures, border delays) and a variety of institutional deficiencies. Some of these deficiencies are specific to cross border activity, while others are more generally associated with the environment for entrepreneurship, which act as a disincentive for cross border entrepreneurship.

Public policy is largely enabling: These are regions with internal borders with another EU member state, such as Tornio in Finland (with Sweden); and in Germany, Görlitz (bordering Poland) and Hochfranken (bordering the Czech Republic), and where a well developed business support infrastructure is demonstrating some engagement with entrepreneurs and offering some support to their cross border activities. These regions contain examples of support organisations focusing on cross border activities, promoting networking between enterprises, providing information to promote contacts, co-operation, trade and benefits of knowledge exchange.

Public policy is potentially enabling: These are regions with soft borders, involving new members of the EU and a country with a weakly developed business support infrastructure. Whilst border controls are no longer a major barrier offering potential for increased CBE in these regions, the business support infrastructure is insufficiently developed to offer entrepreneurs effective support for cross border co-operation.

New scientific knowledge with potential policy implications focuses particularly on the findings with regard to identity, trust and learning. The evidence shows that

regional identities may act as a stabilising and constructive factor in some regions, whilst in others, it may have destructive effects, particularly when national and regional identities clash. Four emerging typologies related to identity construction among entrepreneurs engaged in CBE were identified. The implications for fostering cross border co-operation suggest it is important to secure communication in native languages spoken locally; together with cross border mobility of persons, symbols and ideas; a shared understanding of socio-cultural differences inherited from the past; start-up business support programmes contributing to the understanding of entrepreneurial cultures existing across the border; and the reduction of barriers to entry in entrepreneurship and proactive measures to make it easier to start and run businesses.

The study also emphasised the complex and reciprocal nature of the inter-relationships between personal and institutional trust and also levels of learning. The empirical results confirm that trust-building and learning processes in cross border co-operation are facilitated in environments with similar levels of trust. They also demonstrate that trust in formal institutions is not required for cross border partnerships to emerge, although it gains importance in the longer run, as in the case of the West European case study regions (Greece, Germany, Finland) and some of those in new member state (Poland and to some extent Estonia). Trust in informal institutions (as reflected in cultural proximity) is important for cross border co-operation; firstly, because it allows personal trust to develop; and secondly, because it can substitute for an initial lack of institutional formal trust, as seen in regions bordering highly deficient institutional environments (Bulgaria-FYROM, Estonia-Russia, Finland-Russia).

Since trust between partners is essential for the development of cross border-co-operation, learning to trust is needed in all regions for trust to evolve. This is influenced by the background and behaviour of partners and the nature of their relationship and experiences with current and previous cross border co-operation. Learning to trust is fostered by Western entrepreneurial identities, but also by shared regional identities (and vice versa). Learning is also triggered by negative experiences, which either restrict learning processes or result in higher level of entrepreneurial learning, as reflected in evidence from all regions.

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Key messages for policy-makers, businesses, trade unions and civil society actors

The research findings have implications for policy makers at the EU, national and regional levels. Whilst some of these are specific to one of these three levels, most have implications for more than one level.

1. The Potential Contribution of Cross Border Entrepreneurship to Regional Development

The relationship between the nature and extent of entrepreneurship development in a border region and cross border co-operation (CBC) involving enterprises is a reciprocal one. On the one hand, CBC may act as a stimulus for entrepreneurship development in regions, which in many respects appear disadvantaged and peripheral to national and/or Europe's economic core. On the other hand, the nature and extent of entrepreneurship in a region is likely to affect the demand for cross border co-operation from businesses. This is because entrepreneurship and the level of growth orientation in a regions' enterprises is likely to affect the number of individual entrepreneurs and businesses that are seeking to exploit new markets, sources of supply, labour, capital, technology and/or know how that cross border co-operation potentially offers.

Cross border entrepreneurship may be viewed as a potential asset for regional development that policy makers can actively promote. Further, creating a policy environment to enable and facilitate productive forms of CBE may be viewed as a necessary part of the regional development strategies for border regions that typically suffer from economic peripherality. However, this is likely to be more difficult to achieve in situations where the border is 'hard', such as in the case of the external borders of the EU.

Although cross border entrepreneurship may be viewed as a potential asset for regional development, the heterogeneity of border regions (including those with hard and soft borders) and the different levels of economic development, institutional settings and levels of entrepreneurship affect the nature and extent of interaction across borders. It is important that this heterogeneity is taken into account when designing policies to assist in the development of these regions.

2. Policies to Promote Cross Border Entrepreneurship at the Regional Level

The empirical research undertaken in 12 case study regions, drawn from a range of countries with a mix of hard and soft borders, has revealed some examples of

policy-led cross border co-operation, although there is little evidence of the strategic promotion of cross border entrepreneurship on the part of public bodies. In many regions (particularly in new EU member countries), this appears to reflect a lack of an effective regional policy and weak regional institutions more generally.

The reported use of business support targeted at cross border co-operation by enterprises was low in all case study regions, with only Görlitz containing more than a handful of firms receiving such support. This is somewhat surprising in view of the fact that all enterprises interviewed were either involved in CBE or had experience of it in the past. In practice, this reflects the low take up of business support services, more generally, with only a few firms in each region reporting some use of them. The exceptions were in the two Finnish regions; Hochfranken in Germany; and Serres in Greece.

In terms of the specific measures required to promote CBE, improved information provision appears to be a priority particularly with respect to raising awareness about the potential benefits of cross border co-operation. This is especially important for border regions in the new EU member countries, where there is a need for enterprises to become acquainted with EU programmes and other forms of support that are available. Another issue relates to the continuity and sustainability of the business support provided, which can be a problem when reliance is placed on short-term project funding.

The expressed 'support needs' of enterprises involved in cross border activities focused on finance to fund new investment; shortages of suitably skilled labour; and needs specifically related to cross border activity, such as finding appropriate business partners and legal advice. Reported labour shortages emphasise the need to improve the educational and economic infrastructure in these peripheral regions, as part of a strategy of retaining more young people. Complementary measures in the short term might include agreements between local authorities to facilitate labour movement across the border. Improved vocational training is another priority to provide the workforce with the skills and competences demanded by the regions' enterprises. Other issues identified included a lack of investment in the region, low purchasing power and a strong perception on the part of business owners of being located in a peripheral region.

Policies to promote cross border entrepreneurship are unlikely to be successful unless effective business support agencies exist to deliver them. As a consequence,

policies to support cross border entrepreneurship need to be embedded within wider regional development programmes promoting entrepreneurship. Whilst specific policies (such as partner search facilities and 'meet the buyer' events) can undoubtedly help to promote CBE, their take up is likely to be affected by the credibility of the organisation delivering the support with local businesses and its integration with 'mainstream' business support. In this context, it is not surprising that, in general, public policy with respect to CBE tends to reflect the policy of the state towards the entrepreneurship and economic development more generally. Improving the transport and communications infrastructure can also be a pre-requisite for facilitating the development of productive cross border enterprise activity.

3. Implications for EU policy makers

Many of the policy issues identified above have implications for EU policies, particularly those related to regional policies and policies for business support, which are key elements in the allocation of Structural Funds for the development of the EU's disadvantaged regions.

Many of the barriers to cross border co-operation faced by entrepreneurs in hard border regions are associated with border controls and visa regimes, which are areas where the active dissemination of good practice and capacity building programmes for key officials and agencies would be helpful.

Five of the case study regions contain Euroregions, which are one of the EU's main policy tools for promoting cross border co-operation. Although a number of Euroregions include tourism as a development objective, few have successfully involved entrepreneurs, apart from Euroregion Egrensis (Hochfranken-Czech Republic). As a result, Euroregions were not mentioned by any of the entrepreneurs interviewed in the case study regions, suggesting that there is unfulfilled potential in the Euroregions' programme in contributing to regional economic development by encouraging and facilitating cross border entrepreneurship.

4. Cross Border Co-operation and the Business Environment

Interventions designed to promote CBE as a regional development tool can be frustrated by changes in border regulations and/or procedures which increase the time and cost involved in cross border activities. This may be viewed as a specific example of a wider policy issue concerning the effects of government regulations on business behaviour and performance, emphasising that the

costs of compliance can fall disproportionately on small businesses. As far as CBE is concerned, the regulatory framework includes customs procedures and visa regimes, which can both be affected by political relations between national governments, as well as by the behaviour of officials at a local level.

Cross border entrepreneurship can be affected by the wider regulatory environment in both countries, as well as by regulations specific to cross border activity. Extended bureaucratic procedures increase the costs of compliance and differences in legislation between countries are a particular problem. One specific issue facing entrepreneurs when operating across borders relates to 'contract enforcement'. According to entrepreneurs it is difficult to solve problems of this nature, particularly when the partner region is not part of one of the old EU member states. The difficulties in making legal claims with respect to infringed payment obligations have encouraged many entrepreneurs to base their co-operation on cash payments.

5. Cluster Policies

The research included an investigation of cluster development in case study regions, together with an assessment of their cross border potential. The results suggest that cluster development initiatives should embrace the pursuit of competitive advantage and specialization, by building on local sources of uniqueness. By identifying clusters, and understanding the specific needs (i.e., infrastructure, labour skills) of the industries within the clusters, planners can build on the existing strengths in the region and provide appropriate assistance to businesses.

The greatest obstacles to the development of business groupings and networks identified were the inability of entrepreneurs to outgrow their rivalries and the inability of the authorities to communicate the opportunities to entrepreneurs. One reason for this is the passive role of regional authorities and business support organizations and their limited knowledge and professional skills. The other is the lack of interaction between entrepreneurs and the public authorities. The empirical data also confirm that enterprises need an external push and/or incentives to cooperate more intensively.

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