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**The nature of publicly funded innovation and implications
for regional growth: Reflections from the Sheffield City
Region**

Journal:	<i>Competitiveness Review</i>
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Manuscript Type:	Empirical Research Paper
Keywords:	Business Model, Innovation, Regional Competitiveness, Regional Growth

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Competitiveness Review

The nature of publicly funded innovation and implications for regional growth: Reflections from the Sheffield City Region

Purpose

The aim of this paper is to unpack the nature of business innovation and understand the impact on regional innovation and competitiveness.

Design/methodology/approach

The article is based on a qualitative study of Advanced Manufacturing and Advanced Materials businesses in the Sheffield City Region (UK). Interviews were conducted with 23 firms in the exploring how innovation in the firm translates to innovation-led regional economic growth.

Findings

The paper demonstrates that there is a tendency of owner managers to focus on innovation in terms of the development of new products, processes and/or services. Many of the businesses interviewed were technologically innovative, yet there was little evidence of wider business model innovation. This, we conclude, stymies regional innovation and with it regional economic growth.

Research limitations/implications

This study is based on a case study of the Sheffield City Region (SCR henceforth) is not generalizable, but offers insights into the nature of business model innovation which are valuable in generating questions for further research.

Practical implications

The paper highlights the need to think of innovation in broader terms and the scope of business model innovation to not only improve the performance of firms but with it regional economic growth.

Originality/value

Business model innovation is a growing domain of the literature and this paper highlights how narrow interpretations of innovation may serve to limit growth business growth, and with it regional economic growth.

Keywords Business Model, Innovation, Regional Competitiveness, Regional Growth

Paper Research Paper

The nature of publicly funded innovation and implications for regional growth: Reflections from the Sheffield City Region

Introduction

Innovation has been always a word synonymous with economic growth. It has been argued by Mazzucato (2013), among others that innovation needs to become a central tenet of growth policy and vice versa. Much academic debate has focused on the institutional arrangements of national and regional innovation systems and more recently local innovation systems (Freeman, 1994; Cooke, 2001; De la Mothe and Paquet, 2012). In the UK the rescaling of regions has been important, although there is a danger that emphasising systems of innovation underplays the importance of the firms that inhabit them. In keeping with this special issue, this paper seeks to understand innovation at the regional scale by understanding innovation at the firm level.

Whilst acknowledging that regional innovation and competitiveness are determined by a number of different institutional factors, they are also the outcome of firm behaviour, characteristics and performance (Ferreira et al., 2015a). It is the competitiveness of firms which determines the competitiveness of regions (Cetindamar and Kilitcioglu, 2013), a link that Ferreira et al. (2015b) identify to be shaped by entrepreneurial business practices. Morris et al. (2005) find the business model, as opposed to the business plan, to provide a promising unit of analysis in exploring entrepreneurial activity, and we extend this logic to the examination of innovation. For many years innovation in businesses has been equated with the development of new products, processes and/or services. While such innovation is important, it only represents one dimension of the business model. Through a study of the SCR, this paper unpacks the focus of business model innovation and what this means for growth.

This paper examines the innovation priorities of businesses in the SCR, in an attempt to understand their (lack of) impact on the region. The goal is to contribute to the literature on regional innovation by highlighting the importance of business model innovation as the missing link in innovation-led growth (i.e. innovation as a means of generating regional economic growth). The remainder of the paper is structured as follows. After this short introduction, Section 2 presents a literature review on regional innovation, business models and business model innovation. Section 3 frames the empirical study and the method. Section 4 presents the findings and discussion as the story of innovation in the SCR to explain why innovative firms are not driving its growth as an innovative region. The final section of the paper is the core discussion and conclusions.

Literature review

Innovation, entrepreneurs and regional growth

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3 The role of innovation in fostering regional economic growth has become an
4 important driver for competitiveness (Huggins and Pugh, 2015). In particular, innovation is
5 driven by entrepreneurialism and the pursuit of value creation through new ideas and
6 research. Entrepreneurial activities provide highly innovative firms whose new and disruptive
7 ideas can create opportunities and encourage job creation and instigate new ways of working
8 (Baptista et al., 2008; Mueller, Van Stel and Storey, 2008; Bjørnskov and Foss, 2013).
9 Innovation led by entrepreneurs and owner-managers contributes to growth on a regional
10 scale and develops diversity within an economy (Audretsch and Keilbach, 2004). As Wong et
11 al. (2005, p.337) argue, entrepreneurship is manifested not only by the ‘market entry of new
12 firms, but also by innovative and imitative entries into new markets by established firms’.
13 Regions that do not support or stimulate innovation amongst entrepreneurs and firms can
14 become uncompetitive and lack the development and presence of dynamic entrepreneurial
15 capabilities (North and Smallbone, 2000; Lagendijk and Lorentzen, 2007).
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20 At a policy level, stimulating innovation has typically been the preserve of
21 technology boards and government funded bodies. Within the UK this is the responsibility of
22 Innovate UK (formerly the Technology Strategy Board) to encourage the development of
23 new technologies and support entrepreneurial activity through consultancy, competitions and
24 funding. Considering the national construction of UK innovation policy, there are multiple
25 stakeholders who are implicated in the policy process, which also varies across spatial scales
26 (Flanagan et al., 2011; Mackinnon, 2015). Alongside Innovate UK these include the UK
27 government Department for Business, Innovation and Skills, local authorities, Local
28 Enterprise Partnerships (LEPs), small and medium sized businesses, and universities
29 (Morgan, 2007; Morgan, 2016; Kerry and Danson, 2016). Innovation has typically been
30 understood to emanate from these institutions, which produce incremental or radical
31 improvements in science and technology. However this has created a narrow definition of the
32 role of entrepreneurship and innovation in promoting regional competitiveness.
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37 Fast and high growth firms account for a large proportion of total entrepreneurial
38 activity (Wong et al., 2005) and the interaction between firms and their spatial domain has
39 become a heuristic for understanding innovation and regional competitiveness (Porter, 2000;
40 Vorley, 2008; Kohlbacher et al., 2013; Fernandes et al., 2015; Ferreira et al., 2015c). The
41 corollary of this is that economic competitiveness within regions can be influenced through
42 multiple avenues shaped by context, perceptions of opportunities, access to resources and
43 capital, and the willingness to innovate all aspects of a business model as well as the product
44 or service. Entrepreneurial activity and innovation potential are both enabled and constrained
45 by these forces (Welter, 2010). Innovation by definition provides new or improved ways of
46 framing, designing and approaching ideas with transferability into a range of economic and
47 social situations. The importance of innovation and regional performance cannot be
48 understated. While the role of innovation within research and development has retained a
49 prominent focus in the literature exploring the geography of economic performance (Guimón,
50 2015), innovation can be conceived in heterogeneous ways and not simply as R&D outputs or
51 the commercialisation of research.
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57 Whilst innovation can, and should, be studied at a policy level, the role that firms and
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3 entrepreneurs take is important to broadening our understanding of innovation as a route to
4 competitiveness. A failure to recognize alternative ways in which innovation can be
5 integrated into business performance can lead to misaligned policy making and stymied
6 regional growth (Desrochers and Sautet, 2008). For example, the role of entrepreneurial
7 business planning has become particularly central to understanding how innovation can occur
8 at different scales and spaces. Although entrepreneurship research has emphasised innovation
9 in management practices, product and service offerings and new technological innovations,
10 there has been little written on the ways in which competitiveness is shaped by new modes of
11 business planning and how this translates into the broader understanding of enterprises and
12 ventures in the context of regional growth and performance. This paper examines innovation
13 more broadly and takes into account how innovation within the performance of firms can lead
14 to great competitiveness beyond policy making. In the following section we outline the role
15 in which business planning and business models can be highly innovative (Philipson, 2016)
16 and create new opportunities to encourage growth and shape regional geographies.
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21 22 *Business planning*

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25 The impact of business planning on driving entrepreneurial growth has been subject to
26 much academic debate hitherto. Brinckmann et al. (2010) contend that business planning has
27 a positive impact on the performance of both new and established small firms, but the
28 business planning-performance relationship is mediated by context.
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31 Indeed, research on SME growth has shown that the influence of business planning on
32 performance varies between SMEs of different sizes and with different levels of growth
33 ambition. For examples, few micro-businesses (i.e. businesses with less than 10 employees)
34 engage in business planning at start-up and post start-up (Greenbank, 2000). While some
35 micro-businesses perceive business planning as a useful process for objective setting and
36 providing strategic direction, others view it merely as a “cosmetic document used to obtain
37 finance” (O’Dwyer and Ryan, 2000, p.350). It is often the case that small firms’ approach to
38 business planning is “informal, iterative, incremental, unstructured, and irregular”, whereas to
39 achieve a positive impact there is a need for formal and more sophisticated approaches
40 (Brinckmann et al., 2010, p.25). In growth-driven micro-businesses and in larger SMEs,
41 business planning is found to positively influence growth orientation and ambition and to be
42 an important tool that supports the achievement of growth (Greenbank, 2000; LeBrasseur et
43 al., 2003; Morrison et al., 2003; Richbell et al., 2006). Therefore, business planning can be a
44 key growth-driving activity and source of competitiveness. Nevertheless, as noted by
45 Brinckmann et al. (2010), a better understanding of its impact requires a contextual
46 understanding, less being known about the influence of context specific factors such as local
47 culture, the market environment and firm types. A corollary of this is the need to examine the
48 different ways in which business planning can have a positive impact on performance and
49 increase competitiveness in different contexts.
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55 56 *Business models*

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3 A major focus of business planning is the business model employed by companies to
4 create, capture and deliver value, which is itself an area that opens up to innovation
5 opportunities (Mitchell and Coles, 2003; Teece, 2010, Zott and Amit, 2007). It is important to
6 first understand what a business model is, what it does and why it can be an important source
7 of innovation and competitiveness. Despite receiving significant attention from both
8 academics and practitioners in recent years, the understanding of the business model as a
9 concept remains fuzzy (Al-Debei and Avison, 2010; George and Bock, 2010; Headman and
10 Kalling, 2003; Morrison et al., 2005; Shafer et al., 2005; Osterwalder et al., 2005; Schneider
11 and Spieth, 2013; Spieth et al., 2014; Zott et al., 2011). In essence, a business model is “the
12 blueprint of how a company does business” (Osterwalder et al., 2005, p.4). It is the
13 “organizational and financial ‘architecture’ of the business”, a hypothesis about how an
14 enterprise can best meet customers’ needs to generate revenues and make a profit (Teece,
15 2010, p.173). It unifies customers, competitors, the offering, activities and organisation,
16 resources, supply of factor and production inputs, and the scope of management into a unique
17 configuration capable of creating value and generating competitive advantage (Headman and
18 Kalling, 2003). Thus, articulating a firm’s strategy, a business model crystallises how a
19 company creates, delivers and captures value (Demil and Lecocq, 2010; Magretta, 2002;
20 Richardson, 2008; Teece, 2010; Zott et al., 2011).

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27 In spite of pursuing market opportunities through revolutionary ideas and being able
28 to access the required resources, many enterprises may fail due to ineffective underlying
29 business models (Morris et al., 2005). Therefore, designing viable business models is a key
30 task for both new and established entrepreneurs, being critical to success (Magretta, 2002;
31 Teece, 2010; Zott and Amit, 2009). Effective business models lead to superior value creation
32 (Morris et al, 2005) and can therefore constitute a key source of competitive advantage
33 (Magretta, 2002; Markides and Charidou, 2004; Teece, 2010). Being closely aligned with
34 strategy, the business model represents a valuable strategic tool (Doz and Kossonen; 2010;
35 McGrath, 2010; Richardson, 2008; Shafer et al., 2005).

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39 Moreover, the business model is essential in capturing innovation and delivering
40 value to customers (Baden-Fuller and Haefliger, 2012; Chesbrough and Rosenbloom, 2002),
41 but it also represents a source of value creation and innovation in itself (Zott et al., 2011).
42 While the product, process and the organisation have hitherto been the main focus of
43 innovation efforts (Zott and Amit, 2007), little attention has been given to innovating the
44 business model (Zott et al., 2011). Hamel (2000, p.73) argues that a focus on product
45 innovation represents a “highly truncated view of innovation”, as the offering represents just
46 one of the many components of the business model. Business model innovation is different
47 from technological and product innovation, requiring a different approach and generating
48 different competitive effects (Markides, 2006). Highlighting interdependencies between
49 suppliers, partners and customers (Zott and Amit, 2009), business models create opportunities
50 for innovation in all business areas, not just the offering (Kindstrom, 2010). Therefore, to
51 generate sustainable competitive advantage, product and technological innovations need to be
52 matched by business model innovation (Teece, 2010).
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Business model innovation

Business model innovation spans the boundaries of the firm and of their innovation focus, being a form of innovation in itself (Zott and Amit, 2007) with significant disruptive potential (Markides, 2006). It harnesses the value creation potential of the different components of the business model grouped by Günzel and Holm (2013) into the front-end (i.e. key resources, activities, partners, and cost structure) and back-end (i.e. value proposition, customer segments, channels, customer relationship, and revenue structure) business model. There are various definitions of business model innovation but essentially the process involves “the search for new logics of the firm” (Casadesus-Masanell and Zhu, 2013, p.464) or “the discovery of a fundamentally different business model in an existing business” (Markides, 2006, p.20), redefining how value is created, captured, and delivered to customers. Taran et al. (2015) argue that innovation in any of the business model building blocks can be considered business model innovation, which varies with the degree of radicality (i.e. low, medium, high), reach (i.e. company, market, industry, world), and complexity (i.e. the number of building blocks changed).

Many scholars have already suggested ways in which business model innovation can be achieved, from co-competition (Ritala and Sainio, 2014), co-development partnerships (Chesbrough and Schwartz, 2007), network-based (Lindgren et al., 2010) and cross-industry business model innovation (Enkel and Mezger, 2013), to customer-driven innovation (Pynnönen et al., 2012), experimentation (McGrath, 2010) and trial-and-error learning (Sosna et al., 2010). However, as “only few companies follow an end-to-end process to business model innovation” (Bucherer et al., 2012, p.195), there is a need to acknowledge and better understand the iterative and cyclical nature of business model development, especially in the context of commercialising innovations (Dmitriev et al., 2014).

Business model innovation has a positive impact on firm performance. Zott and Amit (2007) found that, by harnessing multiple components of the business model, boundary-spanning novelty-centred business models have a positive impact on the performance of entrepreneurial firms. Research by IBM shows that business models innovators experience operating margin growth in excess of five percent compared to product/service/market and operations innovators, enjoying benefits such as cost reduction, strategic flexibility and increased revenue generation opportunities (Pohle and Chapman, 2006). Moreover, Aspara et al. (2010) find that the impact business model innovation on financial performance is contingent on firm size, namely while large firms are better off by combining business model innovation with replication strategies, small firms which focus mainly on business model innovation with low emphasis on replication experience higher average profitable growth. Business model innovation is also critical for new firms, the degree of business model innovation being positively correlated with their survival time (Velu, 2015).

Thus often, business model innovation is more important than the product or technological innovation delivered through the business model (Chesbrough, 2007; Chesbrough, 2010). Consequently, not only can a better understanding of business models lead to more informed decision-making, hence increasing entrepreneurs’ chances of success (Trimi and Berbegal-Mirabent, 2012), but business model innovation is in itself a source of

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3 competitive advantage (Eurich et al., 2014) and can play a key role in stimulating regional
4 competitiveness and growth. As acknowledged by Eurich et al. (2014) the very nature of
5 business model innovation is iterative, and thus it is important for entrepreneurs to design
6 flexible business models (Trimi and Berbegal-Mirabent, 2012).
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9 Considering the multifaceted nature of innovation and the potential of business model
10 innovation to emanate from entrepreneurship and stimulate regional growth and
11 competitiveness, this paper examines the focus of innovation in innovative firms in a regional
12 context and the implications for innovation-led regional growth. It seeks to understand what
13 innovation means for entrepreneurs, whether they consider business model innovation as
14 distinct from business planning, and whether they view business model innovation as a
15 source of competitive advantage and growth.
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20 **Empirical Context & Methods**

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22 This section outlines the empirical focus of the paper and our approach to understanding the
23 regional innovation and entrepreneurial business practices. The paper takes the SCR as a case
24 study, a region which was defined and designated as a Local Enterprise Partnership (LEP)
25 following the abolition of the Regional Development Agencies in 2010 in an attempt by the
26 Government to approach economic development through functional geographies. Today the
27 SCR is a region comprising the urban centres of Sheffield and the towns of Doncaster,
28 Rotherham, Chesterfield and Barnsley.
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32 The SCR has been continually defined by its role as an internationally renowned
33 centre for coal, steel and manufacturing. However, the processes of deindustrialisation has
34 undermined the region's competitive position as a core industrial centre in the UK and
35 globally. This has led to a clear stagnation in the economy and an accompanying sense of
36 urban decay (Jones and Etherington, 2009). However the region has experienced growth
37 since the 2000s albeit public sector-led (Williams and Vorley 2014) and has begun to
38 consider alternative strategies to support cross-sector specialisms (Williams et al, 2016) and
39 to address the chronically underperforming economic situation of the SCR compared to other
40 LEPs in the UK, especially in terms of economic output, i.e. Gross Value Added (GVA).
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44 That said, using location quotient analysis the SCR has 23 highpoints (i.e. subsectors
45 with a presence above the national average) of which seven are more than 25% higher. This
46 indicates the basis of a critical mass within particular sectors. The Advanced Manufacturing
47 sector accounts for more than 11,400 jobs across the SCR (1.7% of all jobs) (Graves et al.,
48 2015) and is a key driver of the regional economy. The Advanced Manufacturing sector is
49 notably strong in those industries dealing with Materials (such as metals, composites and
50 plastics) where the location quotients for Firms (1.72), Employment (2.36) and GVA (3.22)
51 are also comparatively strong (Graves et al., 2015).
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55 Between 2010 and 2015 Innovate UK awarded 282 projects to 153 different
56 organisations based in the (now) SCR. As shown in Tables 1, of the 153 organisations in the
57 SCR who were the lead partner on Innovate UK funded projects the majority were micro
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3 businesses (60.8%) and small businesses (22.2%). However, of the 282 projects funded,
4 while the majority (42.9%) go to micro businesses most of these are in the form of innovation
5 vouchers worth up to £5000 intended to help businesses gain the knowledge they need to
6 innovate and grow. The two universities also led 44 projects between them over the 5 year
7 period, the majority of which (70%) were Knowledge Transfer Partnerships to promote issue
8 led university-business engagement.
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11 [Insert Table 1 here]
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13 Despite being the 7th largest recipient of Innovate UK grants per Full-Time Equivalent (FTE),
14 ranking 10th in terms of large grant income and 3rd in terms of responsive grant recipients, the
15 SCR ranks only 27th out of the 39 LEPs in the UK for the innovativeness of businesses (ERC,
16 2014). The majority of Innovate UK funding is absorbed by the High Value Manufacturing
17 (25%), Advanced Materials (21%) (BIS, 2015), which is consistent the findings of Graves et
18 al (2015) that these sectors are drivers of regional growth. While the strategy of the LEP has
19 sought to align itself with the ‘8 Great Technologies and Governments Key Industrial
20 Sectors’, the SCR has the second lowest innovation related investment across all 39 LEPs
21 with only 13% of EU development funding allocated to innovation (BIS, 2015). Secondary
22 data referred to in this paper is derived from the ‘Mapping local comparative advantages in
23 innovation: framework and indicators’ report published by BIS (2015).
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28 Moreover, when looking at taxation data on Research and Development Tax Credits
29 this reveals a different hierarchy of which the SCR is in the bottom quartile (BIS, 2015). This
30 poses a serious question of the SCR, as it does of other similar economies, to better leverage
31 innovation and reduce if not close what is a potentially dangerous productivity gap. It is this
32 question that this paper seeks to address, namely how can research-led innovation and
33 technological innovation be leveraged to deliver innovation-led growth of the businesses and
34 with it of the region.
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37 To this end the empirical focus of this study involved qualitative research with a
38 cross-section of 23 owner-managers or senior management in Advanced Manufacturing and
39 Advanced Materials businesses in the SCR. The decision to focus on these business is
40 premised on them being the main recipients of Innovate UK funding and acknowledge
41 drivers of economic growth in the region. Moreover, to reflect the award of businesses
42 receiving Innovate UK funding, the sample of firms interviewed were: 3 Large, 3 Medium; 7
43 Small and 10 Micro. The interviews were conducted between December 2015 and March
44 2016 with the aim to gain an appreciation of innovation in the businesses. Figure 1 sets out
45 the primary questions asked, emerging themes and some example responses that
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49 The use of in-depth interviews is particularly appropriate to understanding the focus
50 of innovation in the business. As Williams et al. (2016) note, a notable limitation of our
51 method is the risk of misrepresentation, with respondents offering stylised and selective
52 accounts, although the conversational nature of the interviews allowed interviewers to probe
53 responses to mitigate this bias. The interviews were analysed and coded using the emerging
54 themes from the interview to develop what Steyaert and Bouwen (1997) refer to as the ‘story
55 of entrepreneurship’ – which in this case is important in understanding our story of
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3 innovation. The remainder of this paper presents and discusses the findings to highlight the
4 nature of innovation and the importance of business model innovation.
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8 **Findings and Discussion**

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10 As is evident from the snapshot of Innovate UK funding awarded to organisation in the SCR,
11 there are very few large businesses receiving support from Innovate UK (3.9%), while
12 medium businesses only account for 11% of businesses supported in the SCR (BIS, 2015).
13 The SCR is not devoid of innovation, but there is a missing link in leveraging innovation for
14 economic growth. There are lots of micro firms supported, particularly with the Innovation
15 Vouchers, but these firms are not significantly contributing to regional growth. It is this
16 growth that is critical to the competitiveness of regions. Drawing on the interviews with
17 Advanced Manufacturing and Advanced Materials firms this section unpacks the nature of
18 innovative businesses and what that means for the creation and growth of innovative regions.
19 This section tells the story of innovation in the SCR to explain why innovative firms are not
20 driving its growth as an innovative region. Figure 1 shows the main questions, indicative
21 responses and emerging key findings that are discussed below.
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28 [Insert Figure 1 here]

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32 Despite two-thirds of the businesses interviewed engaged in a process of business
33 planning, for the majority it was ad hoc and only five had formal written plans - these were
34 also the larger businesses interviewed. As identified by (Brinckmann et al., 2010) it is
35 important for smaller businesses to consider the improvements to performance that can
36 accompany more sophisticated planning. As innovative businesses, the comparatively high
37 proportion engaged in formal business planning supports existing research that finds that
38 business planning positively influences growth orientation as would be expected of
39 innovative firms (LeBrasseur et al., 2003; Morrison et al., 2003; Richbell et al., 2006).
40 However, when asked about business models a number of firms conflated it with the business
41 plan. It is a well-rehearsed in the literature that a business plan describes what a company
42 does, while the business model describes how, where and why a company operates, although
43 this was not well understood among the interviewees.
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48 The implications of confusing and/or conflating business plans and business models
49 have important implications for innovation. Business model innovation has as much if not
50 more of an impact on firm performance than innovation related to a product, process or
51 service, especially where it relates to multiple components of the business model (Zott and
52 Amit, 2007). While the findings did not find evidence in the interviews of business model
53 innovation per se, as shown in Table 2 there were several examples where firms had engaged
54 in ad hoc practices which were tantamount to innovating the business model.
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[Insert Table 2 here]

While not intended to be exhaustive, the examples in Table 2 serve to highlight how different activities undertaken by the businesses interviewed map onto dimensions of business model innovation highlighted in the literature. While not to suggest that all businesses can or should implement such practices, there is merit in encouraging businesses to think about business models and business model innovation in a more systematic way. As Coles and Mitchell (2003) argue innovation across the business model can provide a strategic competitive advantage that can generate higher sales figures, profitability and cash flow. Such practices are not idiosyncratic to the businesses interviewed, but without considering whether there is scope to innovate in relation to the business model, different ways to create and capture innovation may be occluded through compartmentalised approaches to innovation by these businesses. Although the SCR has made the transition to being a post-industrial region, many communities are still influenced by legacies of the past and therefore, one way in which innovation can be stimulated in the SCR is through community-based entrepreneurship which, while adhering to the values of the community opens up new opportunities for creating social value and with it facilitating innovation and regional growth (Ratten and Welpel, 2011).

For the businesses interviewed, the re-configurability of their business model was not recognised, which detracted from potentially positive gains in business competitiveness. This thinking along *a priori* grooves of business planning can potentially stymie strands for innovative application and practice. Understandably the motives and pressures of everyday entrepreneurship can mean innovation is not captured in early decisions or when a firm attempts to stabilise its existence in its first few years. However, as these interviews and the literature have shown, connecting existing innovative modes with all aspects of the front-end and the back-end of business models (Günzel and Holm, 2013) has strategic benefits for both the firm and the region (Cetindamar and Kilitcioglu, 2013).

Another striking finding was articulating and understanding of the nature of innovation. For many of the interviewees there was not a clear sense that they were engaging in innovation, with larger businesses more able to identify and explain their innovative activities. During the interviews it emerged that innovation centred on the offering (i.e. product innovation). As Kindstrom (2010) has argued, business planning and the creation of a business model are integral to all aspects of a business. The interviewees were from established firms, although in contrast to Wong et al. (2005) their focus was not on the innovative and imitative entries into new markets but rather the development of their offering. This finding resonates with the perspective of Hamel (2000) who deems such interpretations of innovation as truncated, and highlights a substantial opportunity for growth in the sample of businesses interviewed given the narrow focus on innovation and innovative activities.

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3 A majority of the interviewees highlighted the importance of their customers as a part
4 of the innovation process. As noted by Connor (1999) there is likely to be a balance of
5 market-led and customer-led innovation in any businesses, with small businesses weighed
6 towards the latter. Grabher et al (2008) extend this, talking about the importance of user-led
7 innovation, to explain how co-production has become an important dynamic in the innovation
8 process. This was reflected in the interviews, with many of the small and micro businesses in
9 particular referring to developing or refining products to meet customer needs. As Baker and
10 Sinkula (2007) note, however, customer-led innovation tends to be more associated with
11 incremental innovation which has a lower impact of organisational and regional growth.
12 Although there was evidence of more future looking market orientated innovation, it was not
13 generally well integrated to the business plan in terms of leveraging the value.
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18 Moreover, much of the innovative activity of the firms interviewed was not core to
19 the revenue generating activities of the current business. Indeed many of the projects were
20 exploratory in nature, focusing on research-led innovation (i.e. producing new knowledge and
21 insights) or technology-led innovation (i.e. the novel application technologies). Such
22 innovative activity is by nature inherently risky because of the distance from the market
23 (Chesbrough, 2007), and as a result the pathways to market are often not established. A
24 number of micro business owners described their innovative activities in relation to
25 establishing and growing their businesses. However, while this highlights growth ambition
26 and intent of many of the businesses interviewed, there was little reference by the interviews
27 about how the innovation would be translated into business growth.
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31 Several interviewees, when discussing the innovative activities of their companies,
32 talked in terms of innovative projects as almost discreet and separate to the business. The
33 danger here is that innovation is not linked to, and does not produce, results for the business.
34 This resonates with Teece (2010) who identifies the need for businesses to capture the value
35 of innovation, however, given the focus on innovating the offering the ways in which the
36 value can be captured are limited. The views of one small business owner was telling as he
37 referred to the 'project plan' associated with a new composite material although when asked
38 could not immediately identify how the business would capture the value of this technology-
39 led innovation. This perspective was evident in a number of interviews where the
40 commercialisation plan for the innovations was fuzzy at best, and often only loosely linked
41 with the business plan of the company.
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48 **Conclusion & Reflections**

49 As the empirical context and discussion has shown to understand regional innovation there is
50 a need to better understand innovation at the firm level. In the case of the business base in the
51 SCR the evidence highlights that the businesses have been successful in leveraging public
52 sector funding for innovation from Innovate UK, although has not been as successful in
53 encouraging the same businesses to leverage private investment or in delivering innovation-
54 led growth. This paper contributes to the literature by highlighting how innovative businesses
55 need to be understood in relation to regional innovation and the competitiveness of locations.
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3 Moreover business model innovation has been argued to be the missing link in leveraging the
4 value of research-led and technology-led innovation.
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6 As the discussion has sought to draw out, there are four dimensions to the paradox
7 that sees innovative firms in the SCR not resulting in more innovative regional growth. First,
8 businesses, and especially smaller businesses, typically do not engage in formal business
9 planning and where it did occur it was generally ad hoc. Second, very few of the interviewees
10 articulated their business model clearly or as distinct to the business plan, and any attempts to
11 detail the business model were typically overly descriptive. Third, it is larger businesses that
12 tended to identify activities as innovative more than smaller businesses, and all businesses
13 primarily thought about innovation in terms of products. There was little evidence of
14 innovation being leveraged in terms of the wider business model. Fourth, and finally,
15 externally funded innovation projects were typically regarded as early stage and often did not
16 have a clear commercialisation model. Otherwise innovation was driven by customers and
17 framed in terms of product development, and not discussed in terms of growth.
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20 Finally, the paper beholds a number of lessons for businesses and policymakers in
21 supporting innovation-led growth. For firms there is a need to think about innovation beyond
22 the offering, that is to say the innovation of the product, process or service, and think about
23 innovation in terms of the business or business model. It is only by understanding (and
24 articulating) the business model can businesses meaningfully begin to think about how they
25 can engage in business model innovation as a means of capture value and deliver growth. For
26 policymakers and public sector funding bodies there is a need to encourage businesses to
27 think about how the business models as well as research-led and technology-led innovations.
28 This requires adopting a holistic view and understand the value of innovation emanating from
29 entrepreneurship and its significant potential to support regional growth and competitiveness.
30 Thus there is a role for policy and innovation agencies to stimulate and support business
31 model innovation by rethinking funding criteria to include an emphasis on business model
32 innovation, by facilitating education on business models and their potential, and by providing
33 funding for experimentation to encourage the development of new business models, with a
34 view of ensuring that innovation permeates regional economies and harnesses the innovation
35 potential of both SMEs and mature companies. For organisations such as Innovate UK this
36 should represent a win-win and increase the return on investment associated with public
37 spending. For (regional) organisations involved in business support, the findings suggest that
38 supporting firms develop their business model and subsequently engaging in business model
39 innovation as a means to unlock the growth potential of regional companies and with it
40 promote regional economic growth.
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49 One of the limitations of this paper is the generalizability of a case study of a single
50 regional economy, although as an 'ordinary region' the experiences of the SCR is one
51 encountered elsewhere in the UK and around the world. That said, the conceptual focus of the
52 paper poses questions, to examine the role and impact of business models and business model
53 innovation in different settings. These are issues that we are seeking to address through
54 further research looking at the geographies of innovation UK wide. Currently we are
55 extending the scope of the research in the UK and internationally to generate data for
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comparisons and benchmarking of business model innovation and its impact on regional economies. Finally, to stimulate entrepreneurial-led innovation in both new and established companies and assist businesses in the commercialisation of innovations, there is a need to develop an iterative business planning tool that facilitates business model innovation thinking and extends the role of entrepreneurship and innovation in promoting regional competitiveness – this is an impact challenge that we are working to develop.

Competitiveness Review

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Research Questions	Example Responses	Key Findings
Does your business engage in any form of formal business planning?	<ul style="list-style-type: none"> I could only guess the difference between a business plan and a business model – and I'm to focused on doing business to care (MICRO2) Our model is to make money by doing what we can, and this means making what customers want so they buy more (MICRO4) We don't have a formal business plan but with the co-owner we agree on what we are going to do. (SMALL3) Our business plan is developed by the management team and agreed by the board (LARGE1) 	Businesses, and especially smaller businesses, typically do not engage in formal business planning. Business planning was ad hoc generally.
Does your business have a formal business model?	<ul style="list-style-type: none"> We are a manufacturing business, so its more product development than innovation (MICRO1) We have been involved as a partner in a couple of innovation projects funded by Innovate UK (MICRO4) Innovation is not core to the business, but we have engaged in some projects that have attracted funding (SMALL2) I suppose we are innovative in developing new products (MEDIUM1) Some of our employees are involved in innovation projects but it is not the day job (MEDIUM2) There are incentives to innovate and so we do where we can but it has to add value to the business (LARGE2). 	Very few of the interviewees articulated their business model clearly or as distinct to the business plan – any attempts to detail the business model were typically convoluted and overly descriptive
Does your business engage in any innovation related activities	<ul style="list-style-type: none"> Our innovative project are too early-stage to make money (MICRO3) Our staff are central to what we do but a lot of the time it is about responding to customers (SMALL3) We don't have a full plan about how to make money from the technology yet, but we know this is the future (SMALL5) Our customers are the main stimulus for our innovative activity as that is how we make money... we respond to demand and work with them (MEDIUM1) We innovate to make sure we continue to be the market leader... some of our activity is early stage but we hope to commercialise it (LARGE3). 	Larger businesses tended to identify activities as innovative more than smaller businesses. There was a tendency for all businesses to think about innovation in terms of products. There was little evidence of innovation in terms of the wider business model.
What is the nature of the innovative activities your business is engaged in?		Externally funded innovation projects were typically regarded as early stage and did not have a clear commercialisation model. Innovation driven by customers was often framed as product development and not linked to growth.
Do you regard innovation as an integral dimension of your business growth strategy?		
Do you have a plan to monetise innovation those activities your business is engaged in?		
What drives innovation in your business?		

Summary of the main questions, indicative responses and emerging key findings from the interviews

451x254mm (72 x 72 DPI)

Competitiveness Review

Table 1: Lead recipients of Innovate UK funding by organisation type in the SCR (2010-2015)

Organisation Type	Number of Organisations	Percentage of Organisations	Number of Projects	Percentage of Projects	Average Project per Organisation
Micro firms	93	60.8%	121	42.9%	1.30
Small firms	34	22.2%	61	21.6%	1.79
Medium firms	17	11.1%	42	14.9%	2.47
Large firms	6	3.9%	13	4.6%	2.17
Academic	2	1.3%	44	15.6%	22
Public Service Organizations (PSO)	1	0.7%	1	0.4%	1
Total	153	100%	282	100%	-

Source: Innovate UK (2016)

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Table 2: Examples of activities which can serve as a focus for business model innovation

Example of practice	Domain of Business Model Innovation
Develop customised product solutions	Offering
Engaging with the customer differently	Channel
Different ways of selling the product	Transactive
Developing a new customer base	Interaction
Reducing costs of production	Revenue Model

Competitiveness Review