INNOGROW
Interreg Europe

European Union
European Regional
Development Fund

A3.2: Input study for the organisation of the interregional workshop on supporting new business models for rural SMEs

PANOV

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1 Executive summary

This input study combines the key findings from INNOGROW deliverables A1.2 and A1.4 with additional research in order to facilitate the knowledge exchange of the INNOGROW interregional workshop on new business models (Activity 3.2). Both the summary of past deliverables (A1.2 and A1.4) and the additional research conducted in the frame of this input study lead to the identification of the most relevant and appropriate discussion topics for this interregional workshop, outlining all the relevant organisational details in the process.

The summary of key findings from deliverables A1.2 and A1.4 show that most rural SMEs in INNOGROW regions face financial barriers stemming from ineffective regional policies on innovation. For this reason, original research was conducted for this input study, focusing on providing recommendations to policy-makers on how to create an innovation-friendly business environment for rural SMEs. These recommendations aim to address innovation across the business cycle, emphasising the comprehensive character of policies that focus on improving the competitiveness and productivity of rural SMEs.

Rural SMEs, in their effort to overcome financial, market, and policy barriers, undertake product and market innovations. SMEs' involvement in new coalitions could be a crucial support element in those efforts. For this reason, desk research was used to research the factors that influence SMEs' involvement in new coalitions. Main research findings show that interpartner factors feature more prominently as decisive elements of building new coalitions, indicating that effective management of the partnership should be considered a key to successful SMEs coalitions.

2 Introduction

This document is the first deliverable of INNOGROW Activity A3.2, which stipulates the organisation of an interregional policy workshop on innovation and new business models for rural economy SMEs. The aim of the input paper is to be used as the primary source of knowledge for the capacity building and interregional learning processes of the policy workshop.

The input paper will define the most relevant issues to be discussed and addressed by regional authorities, provide guidelines and directions for the workshop topics and focal points, and present workshop delegates with the most relevant needs & challenges to be addressed through regional policies. It will also specify the organisational details of the workshop to be hosted by "Pannon Novum West-Transdanubian Regional Innovation Non-Profit Ltd" (PANOV) and provide guidelines on how to prepare the workshop summary report, so as to facilitate the integration of its results and findings into the INNOGROW action plans.

The report is structured as follows: section 2 outlines the key activities of the INNOGROW project and demonstrates the added value and strategic orientation of interregional workshops; section 4 defines the scope and objectives of the workshop, presenting organisational details such as date, duration, participants, and format. Section 5 presents the thematic background for the workshop, including the summary of the research conducted for the collection of cases of business model innovation (A1.2) and the summary of the research on the determinants of innovation in rural SMEs (A1.4). Additionally, it includes research on a) recommendations targeted to policy makers that facilitate business model innovation by rural SMEs, and b) factors that influence the involvement of SMEs in new coalitions. Section 6 recommends topics to be presented and discussed in the workshop. Finally, section 7 elaborates on how to build upon the conclusions of the workshop, namely the preparation of the summary report.

3 The INNOGROW project

INNOGROW – "Regional policies for innovation driven competitiveness and growth of rural SMEs" is an Interreg Europe project that aims to improve partners' policies on rural economy SMEs competitiveness regarding the integration of new production technologies and business models that lead to innovative products. The project promotes the adoption of innovation by rural economy SMEs through: a) sharing practices and experiences between regions and actors relevant to rural economy SMEs competitiveness, and b) integrating lessons learnt into regional policies and action plans.

Rural economy SMEs need to remain globally competitive by adopting innovative solutions, new business models and modernisation approaches that will lead to increases in productivity and access to new markets. Territorial capacity building and policy innovation involving all regional actors are critical factors for promoting the diffusion of innovations, to maintain and strengthen SMEs' competiveness and consequently regions' growth. Regions in rural areas can play an important role in the modernisation of existing SMEs and the proliferation of innovative start-ups, providing incentives to promote the adoption of technological innovations, such as organic farming, functional food, crop resistance systems, selective breeding and feeding processes to boost livestock resistance to local conditions. At the management level, incentives need to be provided for mixed production of crops and livestock products, and new business models and coalitions that lead to innovative business ideas.

3.1 INNOGROW activities

INNOGROW brings together 9 partners from 8 countries, involving the managing authorities & regional bodies influencing regional and national policy instruments, to promote the adoption of technology and business model innovations by rural economy SMEs. To boost SMEs' competitiveness and foster rural development, the project includes a wide range of activities, focusing on promoting the interregional learning process and the exchange of experience among regional authorities. The main activities of the project can be summarised as follows:

- Investigation of innovative technologies' impact on rural economy SMEs competitiveness and productivity.
- Identification of successful new business models for rural economy SMEs.

- Evaluation and analysis of existing policies and strategies related to the promotion of innovation in rural economy SMEs.
- Analysis of the factors (barriers and enablers) that influence rural economy SMEs to adopt innovation.
- Promoting public dialogue and consultation process to build consensus and ensure the successful implementation of regional action plans, through the support and participation of key regional stakeholders.
- Fostering interregional learning and capacity building through workshops, study visits, and policy learning events.
- Development of transferable tools & resources to promote benchmarking and policy learning, and transfer knowledge and lessons learnt beyond the partnership.
- Joint development of action plans to promote the improvement of the policy instruments addressed by the project.
- Increasing awareness, promoting and disseminating the project results and knowledge beyond the partnership.

3.2 INNOGROW expected results

INNOGROW will improve 8 policy instruments, relevant to the aforementioned policy areas, targeting to achieve:

- Enhanced innovation support services for over 5% of rural economy SMEs in partners' regions.
- Improved horizontal & vertical cooperation among SMEs in rural areas for products commercialisation.
- Increased capacity of 200 staff of public administrations to effectively implement policies, stimulating innovation adoption by rural economy SMEs.
- 10 million of Euros of investments unlocked to promote innovative technologies and new business models.

3.3 Added value and strategic orientation of INNOGROW workshops

Exchange of experience through workshops is an interregional learning process, which is considered the main catalyst for generating the expected policy change in the participating regions. The production of new knowledge at the regional level relies on multi-actor innovation

networks/communities, in which key stakeholders and policy makers come together to find solutions and answers to various social, economic and environmental problems, associated with policy development.

The INTERREG programme suggests that knowledge and expertise sharing should be an indispensable component of the efforts of regional authorities to build capacity and drive sustainable policy development. The rationale is that the co-production of knowledge and mutual understanding constitutes a co-created and sustained process; where various partners bring different knowledge, information and ideas to the table, and the consultation process ends up yielding added value for all parties involved; preventing inter alias the duplication of efforts and waste of resources.

During interregional workshops, partners will have the opportunity to gain insight and understanding of the political priorities and initiatives in the field, identify challenges and needs to be addressed at the action plans implementation phase (project phase 2) as well as to ensure the involvement of key stakeholders in the facilitation of action plans.

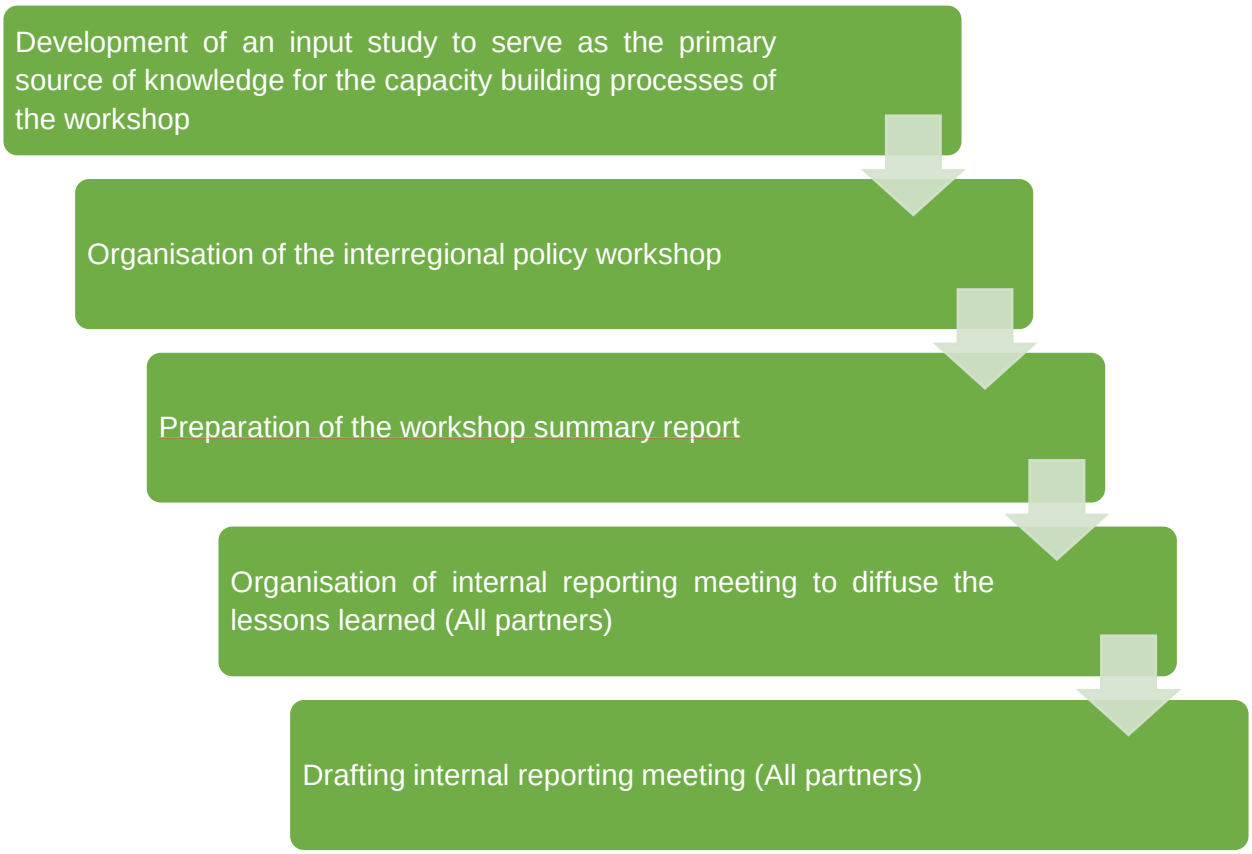
The interactions and discussion to take place during interregional workshops will enable project partners to a) discuss about the economic and environmental challenges faced by rural economy SMEs, b) comment and elaborate on policy measures, designed to foster innovation adoption, c) examine the scalability and transferability of measures into other geographical contexts and sectors, and d) contribute to policy development, taking into account regional specificities.

The INNOGROW project includes the organisation of three interregional workshops to promote interregional learning and capacity building, addressing all the levels of policy learning required to bring substantial policy improvements for innovation driven competitiveness and growth of rural economy SMEs.

	Title	Host	Country	Date
A3.1	Interregional workshop on innovation support centres for rural SMEs	FLA	Italy	Semester 2
A3.2	Interregional workshop on supporting new business models for rural SMEs	PANOV	Hungary	Semester 5

A3.3	Interregional workshop on stimulating innovative products development	SZREDA	Bulgaria	Semester 3

The following diagram presents the structure of INNOGROW workshops:



4 Interregional workshop on new business models

4.1 Scope and objectives

INNOGROW Activity A3.2 includes the organisation of an interregional thematic workshop for regional authorities' officials on innovation and business models for rural economy SMEs. All partners will participate with members of their stakeholder groups and external experts to discuss regional strategies on how to implement and accelerate business model innovation, fostering interregional learning and capacity building.

During the workshop, regional authorities' representatives will have the opportunity to exchange views and ideas with their peers, familiarise themselves with policy measures and strategies implemented in other regions and co-shape a common approach for promoting business model innovation and forwarding rural SMEs involvement in new coalitions.

Regional administrations will benefit from the experience acquired (lessons learned) during the implementation of relevant policy measures and initiatives (at both national and regional level), targeting to facilitate business model innovation and stimulate SMEs' involvement in innovative coalitions.

The process of knowledge sharing and interaction is expected to have fruitful results for the participants, especially in the case where EU regions show very different levels of innovation performance and SMEs' competitiveness.

Overall, the mission of the workshop is to facilitate the exchange of ideas and experiences, acquisition of knowledge and inspiration on how to steer policy implementation in developing innovation support centres for rural economy SMEs. The interregional workshop will pursue the following four objectives:

1. Highlight the most relevant needs and challenges (associated with the adoption of innovation by rural economy SMEs) to be addressed through regional policies.
2. Inform regional authorities about the impact of innovation technologies on SMEs' competitiveness and productivity.
3. Gather experience form different regions and countries towards coordinated strategies in developing and running innovation support centres.

4. Bring together elected representatives of regional public administrations and members of stakeholders' groups, to enable them benefit from a structured interaction, revolving around a specific thematic area.

4.2 Organisational details

The interregional workshop on innovation support centres for rural economy SMEs will be hosted by the "Pannon Novum West-Transdanubian Regional Innovation Non-Profit Ltd" (PANOV) in the city of Gyor, Hungary. The interregional thematic workshop will last two days (from the 2nd until the 4th of July) and all project partners will participate, with members of their stakeholder groups and external experts. The working language of the workshop will be English, which means that participants must have a sufficient knowledge of the language to be able to fully participate in the activities.

INNOGROW - Interregional workshop on innovation and business models for rural economy SMEs	
Thematic focus	Innovation and business models for rural economy SMEs
Host organisation	PANOV
Date	02-04/07
Language	English
Number of participants	20 – 35 participants
Type of participants	Regional authorities' officials, stakeholders, external experts
Format	Oral presentations, roundtable discussions, interactive exercises
Contact details	Mr. Daniel Magyar, pannonnovum@pannonnovum.hu, +3694501-418 & +3694501-418

4.3 Participants

The INNOGROW Application Form foresees that up to two representatives from partners' organisations, possibly accompanied by 1 regional stakeholder / external expert, can participate in the first interregional thematic workshop, to be held in Gyor, Hungary.

ANNEX A provides a list of key regional stakeholders per project partner as they appear in the Application Form. This is only an indicative pool of regional stakeholders identified at an initial stage. Project partners are advised to send invitations to any other organisation or body, involved in the decision making process and/or interested in triggering policy and behavioural changes towards innovation-driven business development.

4.4 Type of session formats

There are a number of techniques from which the organisers of the interregional thematic workshops can choose to support the practical process of participants' participation in workshop activities. It is highly recommended that the format of the first policy workshop should include the following session types in order to facilitate knowledge sharing and capacity building:

- Oral presentations
- Round table discussions (panels)
- Interactive exercises

Oral presentations are brief discussions of a defined topic delivered to a group of listeners in order to impart knowledge and stimulate debate. There are four different types of oral presentations: a) the informative presentations, seeking to convey information and promote understanding of an idea, b) the demonstrative presentations, showing the process of how to accomplish a task or activity (e.g. how to conduct a SWOT analysis), c) the persuasive presentations, which aim to influence a change in the belief, attitude, or behaviour, stimulating the uptake of actions, and d) the motivational or inspirational presentations that are designed to create an emotional connection between the topic and listeners; while encouraging the latter to go after their personal objectives. Oral presentations will provide an opportunity for gaining an overview of the existing policy measures towards innovation-driven business development.

Roundtable discussions constitute a flexible form of discussion employed at workshops and conferences to facilitate participants' interaction and exchange of ideas. A small number of participants is seated around a table to discuss in-depth a particular topic of interest (e.g. key challenges associated with the adoption of innovation by SMEs), seeking to resolve issues of disagreement; extract useful conclusions and decide upon future actions. Roundtables are considered an excellent format for providing and receiving targeted feedback, engaging in in-depth discussions, and meeting colleagues with similar interests. The roundtable discussion format allows participants to interact with each other, promoting networking and equal participation/contribution, triggering spontaneous conversations and allowing for faster decisions. Roundtable discussions typically contain 15 minutes of presentation, followed by 30 minutes of discussion and feedback.

Interactive exercises can be defined as a structured set of facilitated activities for groups of participants to stimulate creativity and knowledge sharing through collaborative working. The purpose of interactive exercises is to facilitate the demonstration and application of skills and techniques, which will enable participants to find new ideas regarding potential policy measures in support of innovation support centres. Interactive exercises are a perfect way to realise the cooperating stage of the consultation process, and to a lesser extent the empowering stage. Participants will have the opportunity to work together on a particular task (e.g. the development of action plans), identifying the barriers to achieving the best results for all participants, deciding priorities, strategy and vision, and working towards common solutions. Project partners and key regional stakeholders will explore procedures that encourage involvement and cooperation, promoting knowledge sharing and capacity building, leading to useful outcomes for participants with common needs in the field of entrepreneurship and SMEs competitiveness.

The structure of interactive exercises will be as follows:

Stage 1: Brainstorming	•Generate ideas amongst participants as regards the potential measures to be adopted to support business model innovation in your own region.
Stage 2: Case study	•Have participants discuss a real case (e.g. Color-Chips KFT), seeking to draw lessons from actual implementation.
Stage 3: Action plan	•Ask participants to write down specific actions through which they will apply (at regional level) the key conclusions drawn from discussion.
Stage 4: Compare notes	•Have participants work in pairs or teams to compare their action plans and sharing what they thought was the most important aspects for achieving the best results.
Stage 5: Build consensus	•Encourage participants to formulate a common strategy for promoting the integration of innovative technologies in SMEs (through business model innovation and SMEs involvement in new coalitions).

The indicative agenda of the interregional workshop can be found in section 6.3.

5 Thematic background

This section summarises and elaborates key findings from INNOGROW deliverables A1.2 “Good Practice Guide on new business models” and A1.4 “Report on the factors that influence rural economy SMEs to adopt innovation, enabling partners to realize the policy obstacles concerned”. Additionally, it includes original desk research conducted for this input paper: a) recommendations for policy makers on business model innovation, and b) study on the relevant factors that influence SMEs’ involvement in new coalitions in INNOGROW regions. More specifically:

- Section 5.1 “Business models for rural economy SMEs” recapitulates and expands on the themes of INNOGROW deliverable A1.2 by demonstrating its key findings on the types of business models and business model innovation adopted by rural SMEs in partner regions, as well as presenting two indicative case studies of successful business models in INNOGROW regions.

- Section 5.2 “Recommendations for policy makers on business model innovation” includes original desk research conducted for the third INNOGROW workshop. This section suggests policy changes for fostering business model innovation in rural SMEs.

- Section 5.3 “Determinants of innovation in rural SMEs” summarises and elaborates on the themes of INNOGROW deliverable A1.4 by presenting the needs addressed through innovation, the constraints and barriers that rural SMEs face concerning innovation, as well as the key enablers and the expected impact of innovation in rural SMEs.

- Section 5.4 “Factors that influence SMEs’ involvement in new coalitions” outlines the need for SMEs’ involvement in new coalitions and demonstrates their value by identifying the most relevant factors that influence SMEs. Last, it provides an overview analysis of the most pronounced them (trust and co-governance design), and presents a classification of the possible types of strategic relations that rural SMEs could benefit from.

5.1 Business models for rural economy SMEs

5.1.1 Types of business models

This subsection (1) defines the term “business model”, (2) outlines the type of business models adopted by rural SMEs, (3) highlights key survey results concerning the business models implemented by rural SMEs in INNOGROW regions (from INNOGROW deliverable A1.2), (4) summarises principal reasons for business model change, and (5) proposes relevant factors for rural SMEs upon deciding on selecting a new business model.

The term “business model” can be defined as the set of strategies that a business employs to successfully achieve its operational goals and strategic objective, and includes all its components and functions. These strategies define the customer value proposition and the pricing mechanism, indicate how the company will organize itself and whom it will partner with to produce value, and specify how it will structure its supply chain. In essence, a business model embodies the organisational and financial ‘architecture’ of a business, and describes the rationale of how this business creates, delivers, and captures value in economic, social, cultural or other contexts.

Several types of business models have been adopted by rural economy SMEs. Business model implementation depends on each company’s particular characteristics and strategic focus. Single or mixed approaches can be employed, with more than one business models combined to achieve maximum operational efficiency and profitability.

Table 1 below provides an indicative list of business models that are currently being used and could prove useful for rural economy SMEs:

Table 1: Indicative list of business models relevant for rural SMEs

Business Model	Brief Explanation
Producer organisation/ Cooperative	➢ Formal group of enterprises (e.g. agricultural cooperative) ➢ Organising to receive external support, bulk purchase and distribution of inputs, aggregation and joint sale (or buying) of products, handling and storage, processing, transportation, mechanisation services, creating access to finance
Horizontal & vertical supply	➢ Inter-organizational relationship between two or more competitors and other supply chain actors

chain collaboration	➢ Plan and execute supply chain operations, share resources, establish mutual information channels, enhance decision making and contracting
R&D Co-operation	➢ Joint actions among different organisations (e.g. universities, R&D institutes, technology parks, clusters) in the innovation activities and processes ➢ Cost and revenue sharing, facilitate technology development and product innovation, enable specialisation.
Internal R&D	➢ Operation of an internal R&D department ➢ Enable development of own portfolio of technologies or/and products, complement external R&D
Trading relationship	➢ Trade agreement between two or more partners, usually with large companies and market leaders. ➢ Cost reduction, improve visibility and networking, gain access to quality products/services, diversify sales/supply channel
Product diversification	➢ Modification of existing product or appending new products to range ➢ Survive competition, explore market potential, regulate business cycle revenue, generate business growth
Market development	➢ Horizontal market development for current product (new users or new uses) ➢ Increase sales, target market change, increase market potential, generate new product use
Market penetration	➢ Vertical market development of existing product ➢ Increase market share, diversify supply/sale channels, cement or improve market position, expand customer base
Public-private partnership	➢ Long-term contract between two or more private parties and government entities ➢ Access to specific infrastructure, services or financial opportunities, reduce costs, strengthen market position, enhance knowledge and information capacity
Joint venture	➢ A business arrangement of two or more companies without actual partnership or incorporation (can take many legal forms)

	➢ Gain capacity and expertise, market development, product diversification, increase flexibility, reduced costs, network expansion
Value chain development	➢ A business arrangement of two or more companies without actual partnership or incorporation (can take many legal forms) ➢ Gain capacity and expertise, market development, product diversification, increase flexibility, reduced costs, network expansion

Generally, there are three primary causes for business model change. Large-scale external drivers (e.g. socio-economic trends, technological developments, and political and legal factors) could disrupt abruptly a business' functioning, causing business model changes. Market-related external drivers (e.g. change in competitive environment, customer needs, new market opportunities) could strain a company's competitive position, rendering its business model obsolete. Additionally, internal factors (e.g. managers' decisions, company evolution) can cause a shift in a business model. However, empirical cases of business model change involve an interrelation of these three factors, usually one featuring more prominently each time.

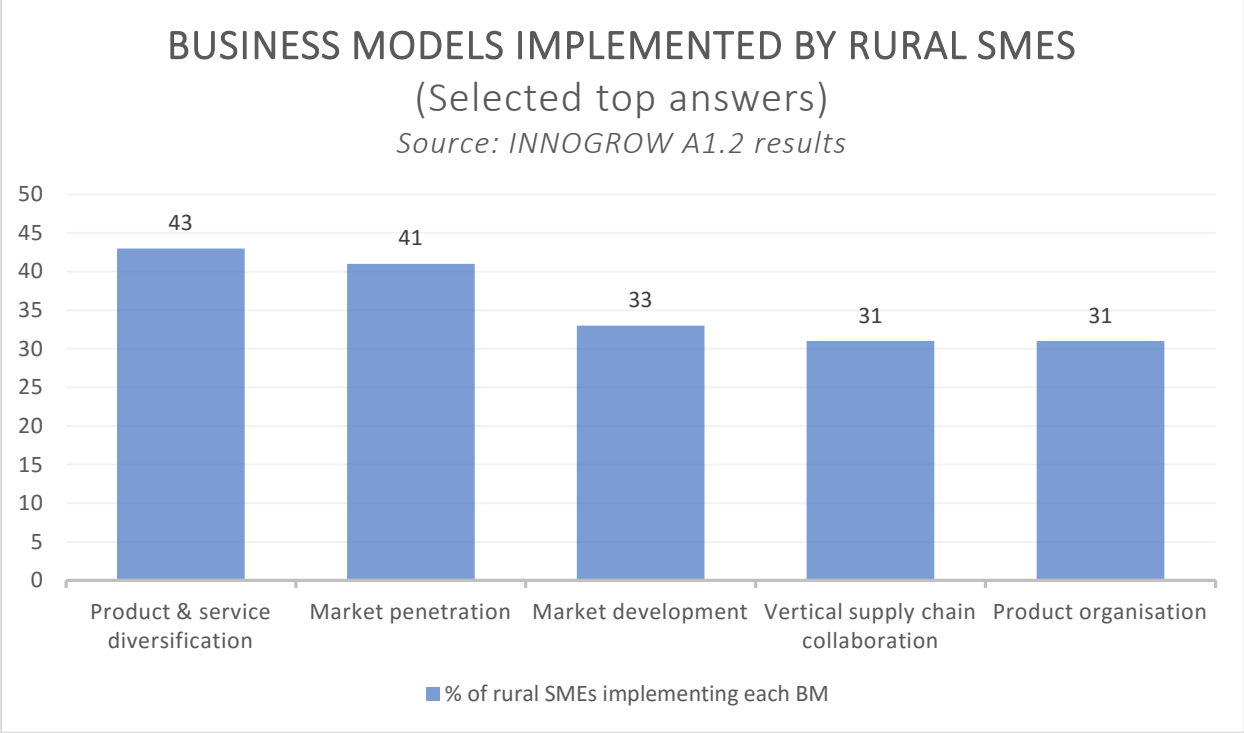
Considering the component(s) where business model change could take place could guide rural SMEs selection of a new business model:

a) Customer value proposition: Establishes the way a company creates value for its customers (the product).
b) Cost structure: Determines the value created for the enterprise (the form of profit generation).
c) Resources: Determines the assets and actors that deliver the value proposition to the customer and the company (people, technology, products, facilities, equipment, channels, and brand).
d) Processes: Determines the operational and managerial processes that deliver value to the company and the customer (training, development, manufacturing, budgeting, planning, governing).
e) Market potential: Describes the potential for value creation for the customer and the company (market penetration and market development).
f) Market environment: Describes the market relations that contribute to the value creation for the company (competitors, partnerships).

Redefining a business model necessitates that rural SMEs are able to apply these factors internally and externally. First, internally, rural SMEs should identify the weakness of the business model. For example, if the customer a business owner intents to create value for is not concerned with the product's use, it is the customer value proposition that does not resonate with the customers. A new business model should address directly such critical inconsistencies. Secondly, externally, rural SMEs should understand when the market environment may be conducive for a business model innovation. For example, a shifting customer basis coupled with emerging technologies may present yet unidentified business opportunities, calling for business model innovation.

Figure 1 presents principal survey results concerning the business models implemented by rural SMEs in INNOGROW regions (deliverable A1.2).

Figure 1: Top-4 business models implementation by rural SMEs



"Product and service diversification" and "market penetration", accounting for 43% and 41% respectively, are the dominant preferred business models among rural SMEs. In combination with the third most selected option, "market development" (33%), results suggest that, when selecting a business model, rural SMEs prioritise product-oriented models. Tied closely with the improvement of the customer value proposition, rural SMEs emphasise product development, as well as horizontal and vertical market product strategies. Specifically, second and third choices

("market penetration" and "market development") could be grouped together, indicating rural SMEs' strong focus on market-oriented business strategies.

The next two options ("vertical supply chain collaboration" and "producer organisation" respectively) illustrate rural SMEs' attention to various forms of business relationships, either alongside the supply chain or with similar businesses. These results complement rural SMEs' business model strategies by displaying a branching out to outward-looking business models next to the product-oriented ones that populate the leading choices. However, as both "vertical supply chain collaboration" and "producer organisation" reach 31%, results demonstrate rural SMEs' hesitation to examine business model strategies beyond the product-oriented ones. Therefore, a potential for innovation lies in facilitating relationships among businesses, relationships, on all levels of production (e.g. horizontal/vertical supply chain collaborations, external R&D, participation in innovative collaborative networks) and legal forms (e.g. organisation/cooperative, joint venture schemes).

5.1.2 Business model innovation

This subsection (1) defines the term "business model innovation" and clarifies its relevance for rural SMEs, (2) outlines the different types of business model innovation, and (3) highlights key survey results concerning the business model innovation implemented by rural SMEs in INNOGROW regions (taken from deliverable A1.2).

"Business model innovation" refers to the fundamental restructuring of a business model with the primary goal to realise new revenue channels. An innovation can be a new product or service, a new production process technology, a new structure or administrative system, or a new plan or program. It goes beyond single-function strategies, affecting the whole apparatus of business strategies, including the reorientation of business strategy and the incorporation of innovative processes within the business system architecture (e.g. flexible pricing scheme, co-branding, and participation in collaboration networks).

Rural areas typically face certain disadvantages for business development. Literature research suggests that relative isolation from markets, insufficient local demand and a lack of facilities and services can all restrict the growth potential for rural SMEs. Specifically, their entrant position in an industry combined with deficiency in internal resources and skills hinder their knowledge, administrative and network capacity. Deliberate consideration to business model strategies

increases the prospects of successfully meeting the ever-changing customer demand and preventing the firm from being outperformed by competitors.

For this reason, rural SMEs require support to take advantage of emerging opportunities and latent business possibilities. Innovating a business model is central for the survival and subsequent successful growth of any business. Consequently, assistance in business model innovation could be of decisive importance for achieving the viability of rural SMEs.

Drawing from deliverable A1.2 as well as additional literature resources, business model innovation includes different types of innovation. The list below presents an indicative classification of business model innovations according to type of innovation introduced within the business system architecture and provides a brief explanation for each one.

(1) Components: Customer Value Proposition and Market potential

a. *Product performance innovation*: Design of products/services that work better to deliver superior value to customers (e.g. superior product, ease of use, safety, customization, environmental sensitivity)
b. *Service innovation*: Adding value in how customers find, buy, pay, enjoy and dispose of a product (e.g. try before you buy, loyalty programs, personalized service, lease or loan)
c. *Customer engagement innovation*: Fostering compelling interactions (e.g. personalization, experience simplification, process automation, mastery)
d. *Product system innovation*: Creating complementary products and services that connect or bundle together to create more value (e.g. complements, extensions/plug-ins, modular systems, etc.)
e. *Product use innovation*: Develop additional uses for existing product without altering it (e.g. market product to unconventional users)
f. *Brand innovation*: Presenting your offerings and business in a distinctive, memorable, and likeable way (e.g. co-branding, private label, certification, brand leverage)

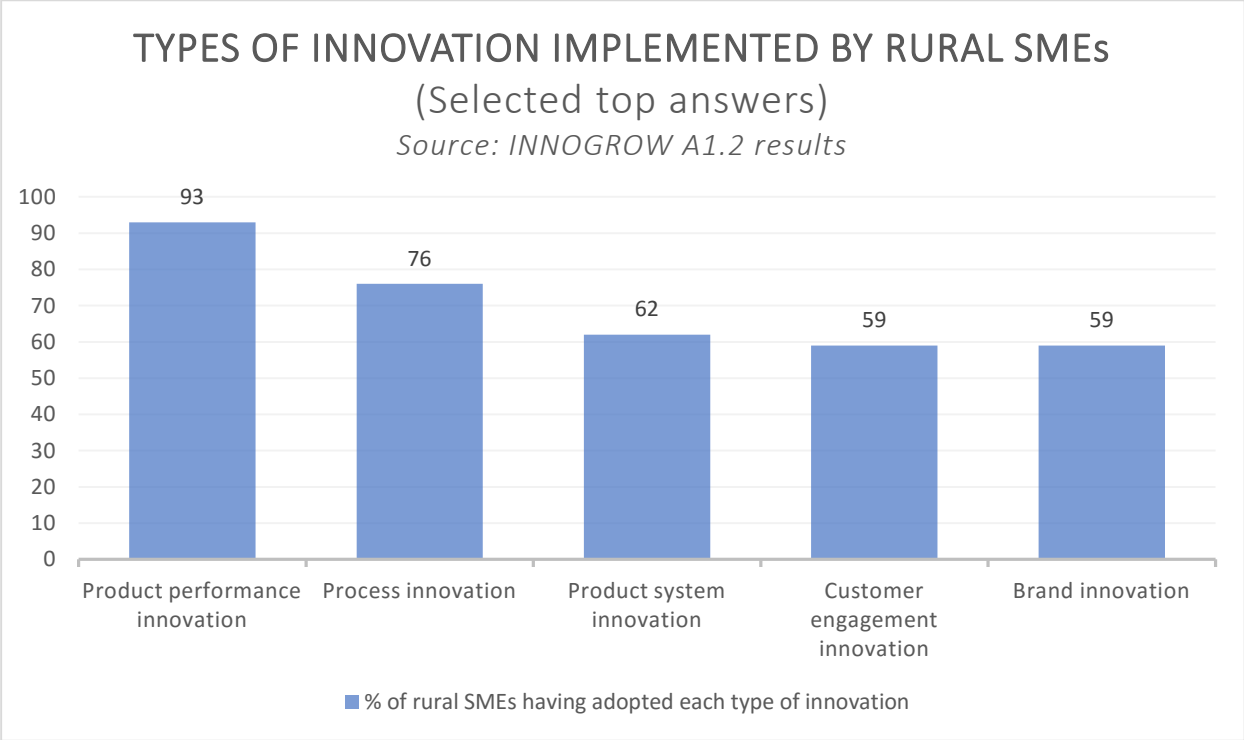
(2) Components: Cost structure, Resources, Processes, and Market Environment

a. *Profit formula innovation*: Introduction of innovative pricing strategies and models (e.g. bundled or flexible pricing, financing, advertising revenue, membership, metered or subscription models)
b. *Resources innovation*: Build on existing infrastructure to develop additional resources or diversify existing ones (e.g. use current IT infrastructure to offer web services)

c. *Structure innovation*: Reorientation of the organisational structure and aligning talents and assets to create more value (e.g. clustering of units or departments)
d. *Channel innovation*: Introduction of innovative ways to deliver offerings to customers and users (e.g. diversification, flagship store, pop-up presence, on-demand, context specific)
e. *Process innovation*: Adoption of a signature and superior method for creating value (e.g. on-demand production, flexible manufacturing, process standardization)
f. *Network innovation*: Participation in collaborative arrangements with other organisations and companies to foster rapid growth and increase business competitiveness (e.g. horizontal or vertical supply-chain integration)

Deliverable A1.2 conducted a study to find out the types of business model innovation rural SMEs in INNOGROW regions implement. Survey results analysis, as shown in Figure 2, demonstrate that these SMEs focus primarily in value proposition and market innovation, concentrating their creative efforts towards elements of the product and its marketing rather than the structure and

Figure 2: Top-5 types of innovation implemented by rural SMEs



the processes of their own firm. Even though 76% of them have reported implementing a process innovation, the other top four choices indicate rural SMEs combat completion focusing on

product-related innovations ("product performance innovation" 93%, product system innovation 62%, customer engagement innovation 59%, brand innovation 59%).

More specifically, four (4) out of five (5) rural SMEs have adopted a superior method or process for creating high value products. This is also indicated in the best practice cases presented in deliverable A1.2. Such an innovation may include the deployment of modern production processes (e.g. selective breeding), innovative manufacturing technologies (distillation process) and distribution systems (e.g. vending machines) or marketing tools (e-platform). For example, the Hungarian company "Color Chips KFT" uses unique varieties of potato species to produce coloured chips without preservatives and artificial dyes and the British company "Hexgreave Hall Estate", apart from leasing office space, offers a virtue of complementary services that include accommodation services for employees, in-house maintenance teams for technical support 24/7, as well as a coffee shop with breakfast and lunch menus.

5.1.3 Case studies: Successful business models adopted by SMEs in INNOGROW regions

This subsection summarises 2 successful business model innovation case studies adopted by SMEs in INNOGROW regions (taken from deliverable A1.2).

5.1.3.1 COLOR CHIPS KFT (Hungary)

KEY INFO		
Name	Color-Chips KFT	
Industry	Food products	
Region	West-Transdanubian Region, Keszthely, Hungary	
Product	Potato chips savoury delights	
Established	2013	
Innovation	Process Innovation:	Selective breeding process to produce colourful chips, cultivating the most appropriate seeds and optimising

		production and processing based on potato variety and territorial conditions.
	Product Performance Innovation:	Healthy colourful potato chips without preservatives and artificial dyes, retaining their flavour and taste.
Implementation	R&D co-operations (collaboration with the University of Pannonia, Potato Research Centre)	
The main impact achieved through the adoption of this technology was the significant improvement of the chips' quality, which increased the company's competitiveness and contributed to the improvement of consumers' health status due to the absence of additives and preservatives in the final product. The new technology improved the water efficiency and reduced the greenhouse gas emissions in the production process, improving the company' overall environmental impact. Overall, the company managed to introduce a new competitive product into the market (not available before) that deliver superior value to customers, developing a new market segment for natural snacks that are preservatives free.		

5.1.3.2 LATVIJAS PIENS (Latvia)

KEY INFO	
Name	Latvijas Piens
Industry	Food and beverage
Region	Jelgava, Zemgale Region, Latvia
Product	Dairy products
Established	2012

Innovation	Process Innovation	Using standardised processes and up-to-date machinery (for example, using MMS membrane systems to extract whey protein and for skimmed milk concentration)
	Product System Innovation	Offering, apart from "Trikata" cheese, a wide range of liquid industrial dairy products such as skimmed milk concentrate, whey concentrate and cream.
	Brand Innovation	Building upon the brand "Trikata", which is the town where the one of the oldest dairy plants in Latvia was born, relying on traditional recipes and local' expertise to produce a special cheese variety
Implementation	Joint venture by three milk cooperatives ("Trikata", "Dzēse" and "Latraps"), pooled in their resources and expertise.	
RESULTS		
The "joint venture" business model has allowed parent companies to grow faster, increase productivity and generate greater profits. The main benefits sought include increased cheese production, cost reduction, access to new markets and internationalisation, enhanced R&D capacity, smart specialisation, and risk sharing. The company's average production volume is 250 tons of milk daily. The annual turnover exceeds €40m while the company is present in 10 countries worldwide. At a regional level, "Latvijas Piens" is recognised as one of the largest employers, employing more than 100 persons from the local community. Contract farming generates further employment in the rural economy and provide stable income to farmers. In addition, the company's investments in technological equipment and R&D has helped to enhance regional research and innovation capacity, and upgrade infrastructures.		

5.2 Recommendations for policy makers on business model innovation

This subsection suggests policy changes for fostering business model innovation in rural SMEs.

SMEs structure the non-financial economy in the EU-28: they account approximately for the 99.8% of enterprises (around 23.3 million businesses), generate 57.4% of the value added and employ no less than two thirds (66.8%) of EU's total workforce. Innovation has been established as a critical driver for economic growth. Therefore, fostering innovation in SMEs should be an important policy target for relevant authorities. Specifically for rural areas, regional policy changes

targeted specifically to SMEs' ecosystem could enable rural SMEs to overcome their own structural disadvantages as well as transform themselves into key drivers for economic growth, innovation and employment.

Multiple surveys report the facilitating power innovation holds for a successful business. Due to their propensity to be affected by fast-changing market factors and their inability to reciprocate with their resources at hand, facilitating rural SMEs business model innovation could play a key role in fostering their viability. Therefore, policy makers should assist business model innovation in rural SMEs.

Flexible incubating ecosystems of incentives are better suited for facilitating innovation compared to single policy interventions. Policy makers should forward manifold changes across the value chain, including all relevant stakeholders, from direct financial to non-business incentives. For this reason, following policy recommendations touch all relevant actors needed for business model innovation:

Financial

- *Promote availability of public regional capital on early stages of financing innovative SMEs*. Rural SMEs face difficulties in accessing financial capital in the early stages of the idea. Concentrating public funds policies for promoting availability of capital to business model innovative SMEs mainly on early stages of the financing of the firm could be used to leverage private sector financing in order to reduce the financing gap.

- *Establish regional and local business model innovation equity initiatives (e.g. regional funds)*. Recognise the need for proximity between suppliers of funds and those who require finance, particularly for small-scale investment. Regional and local equity initiatives (e.g. regional funds) are appropriate for such types of investment.

- *Prioritise measures to ease innovative SMEs access to markets*.
  Whether international markets or public procurement there is a need for an institutional set-up based upon the use of non-discriminatory measures which seek to support efforts made by SMEs themselves. Policy in this area seeks to tackle the disadvantages experienced by rural SMEs due to their lack of access to human resources, to external markets and to technology essential for developing innovation practices.

Administrative

- *Develop business model consultation tools and services targeted specifically to SMEs.*
  The implementation of a regional SME development strategy should aim establishing a support ecosystem that accompanies innovative SMEs for a long period of time. Regional authorities and relevant institutional bodies should develop particular business model consultation tools and services in collaboration with relevant stakeholders and experts that guide and assist rural SMEs throughout the whole development and implication of their idea.

- *Develop clear and open policy reforms on innovation*.
  Clear and accessible information about the intended policy reforms as well as taking into account stakeholders' feedback would contribute to greater community engagement and improved policy results.

Knowledge transfer

- *Facilitate interregional and European transfer of institutional infrastructure, best practice policies, and expertise relating to innovation practices*.
  Strengthening international linkages between European, national and interregional hubs of relevant information flows (pooling of resources model) assists SMEs access to knowledge, networking opportunities, and encourages exchange of experiences. Co-operation among all stakeholders – including SME associations, public agencies and intermediary organisations – should correct deficiencies in existing sources of information.

- *Increase the participation of SMEs in research networks and technology markets (innovative clusters)*.
  European data on rural areas show that they lack resources in R&D. Interregional collaboration with thematically related R&D institutions could assist dissemination of innovative practices to rural SMEs.

Monitoring

- *Encourage SMEs to recognise, measure, and report intangible assets*.
  Reporting ICT skills, organisation, software and networks, intellectual property rights, new and small firm assets can be managed more effectively and more reliably both internally as well as by capital markets and investors.

- *Embed monitoring mechanisms to ensure that programmes in support of SMEs deliver measurable results*.
  Policies should be regularly monitored and evaluated to ensure implementation is efficient and effective. In particular, policy makers need to ensure that budgetary resources are available, that they are spent with care and that targets are being met. In this regard, a scheme to assess the level of implementation of the various actions should be updated regularly, identifying milestones, responsibilities, budget needs, deadlines, next steps and expected results for each practical action.

5.3 Determinants of innovation in rural SMEs

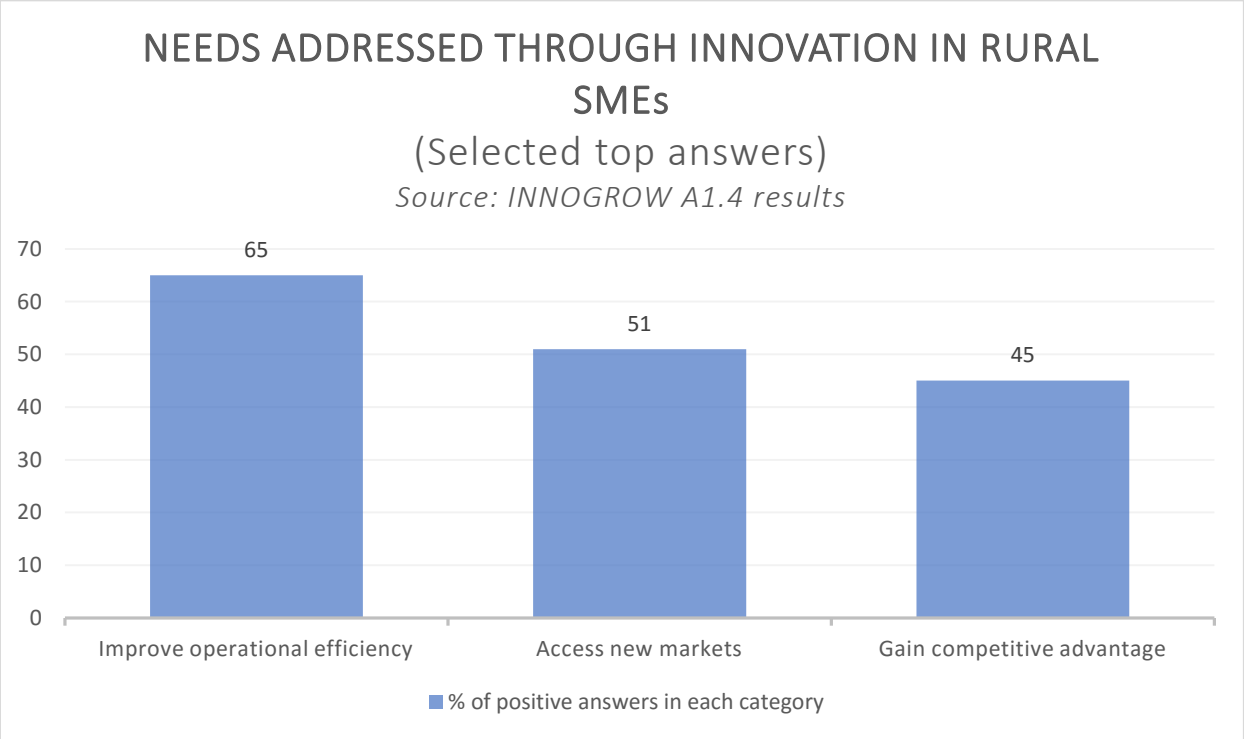
5.3.1 Needs addressed through innovation

This subsection summarises and evaluates primary survey results on rural SMEs' needs behind the adoption of innovation (deliverable A1.4).

Introduction of innovative solutions could tackle rural SMEs' critical strategic needs. Due to their various geographical, workforce, resource and infrastructural disadvantages, rural business survival and growth may necessitate investing in innovation. For this reason, encouraging innovation in SMEs remains at the heart of policy initiatives for stimulating economic development at the local, regional, national and European level.

Survey results from deliverable A1.4 outline that rural SMEs in INNOGROW regions seek to provide for functional needs through innovation, aiming to address financial benefits, productivity and competitiveness. These results are in line with relevant literature, which underlines that rural economy SMEs tend to invest in innovation for fulfilling their functional needs; motivations oscillate among the production of new products, reduced production costs and internationalisation.

Figure 3: Top-3 needs addressed through innovation in rural SMEs



There are three primary needs that drive rural SMEs' pursue of innovation according to the survey: a) improving operational efficiency, b) accessing new markets, c) gaining competitive advantage (Figure 3). In particular, the most important motivation behind the adoption of innovation for rural SMEs is the need to better their operational efficiency. "Improving operational efficiency" arises as the most popular need addressed though the adoption of innovation (with a percentage of 64.9%), followed by "Access new markets" (50.5%). "Gain competitive advantage" is found in the third place (45.4%).

These 3 statements (out of 10 available in the A1.4 deliverable survey) apart from being the most preferred, where those chosen by almost more than half of the respondents. Therefore, these

three options provide an indicative area where targeted innovation intervention for rural SMEs could focus on.

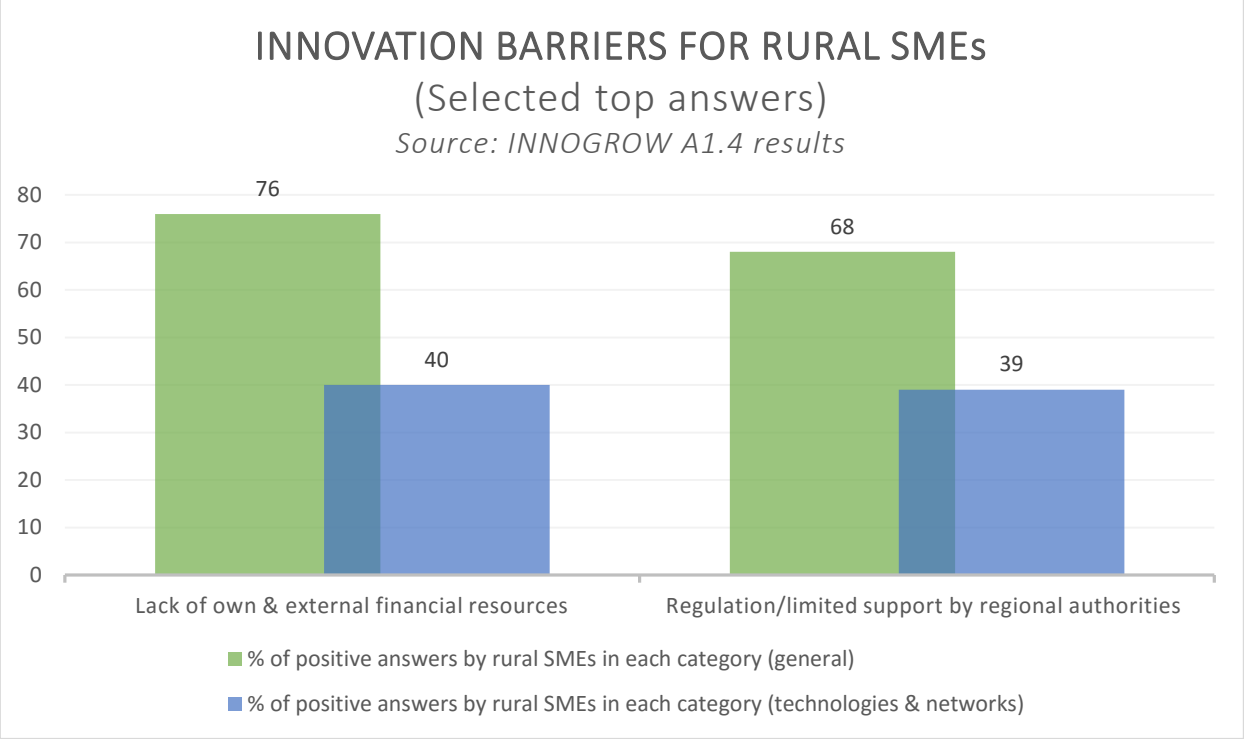
5.3.2 Constraints and barriers

This subsection examines the constraints and barriers rural SMEs face when engaging in innovation and breaks down most important survey result on this matter (taken from deliverable A1.4).

The survey conducted at deliverable A1.4 inquired into the perceived barriers to innovation for rural economy SMEs. The respondents were asked to select all the factors that may prohibit the adoption and diffusion of innovation within an organisation, among predefined possible factors, based on their actual experience (if available) or personal perceptions.

Top research results are summarised and further elaborated in this section. For analytical reasons, results drawn from two similar questions are presented together here (Figure 4). First question inquired into the perceived barriers to innovation for rural economy SMEs. Second question refined the first question by examining the degree by which the aforementioned factors constitute problems for an organisation wishing to invest in technologies or/and participate in

Figure 4: Top-2 innovation barriers for rural SMEs



innovative collaborative networks.

The two highest-scoring perceived factors from both questions rural SMEs experience as hindering innovation are: (1) funding and (2) regulatory framework. It is notable that the first two highest results from both questions yielded almost identical results. It is also notable that the two highest responses may be partially interrelated, since a more favourable regulatory framework for innovation could reduce the difficulty rural SMEs experience when striving to acquire financial capacity.

- "Lack of own financial resources and difficulty in accessing funding from external sources" concentrated 76.3% in the first question and 68% in the second. The majority of rural SMEs see limited availability of finance from both within the enterprise and external sources as a barrier to innovation. This clearly indicates that financial constraints remain one of the biggest barriers to SME innovation; the cost of innovation itself is high. SMEs lack the financial resources to implement innovation and access to finance from external financial institutions seems to be limited, creating further bottlenecks. Therefore, there is an urgent need to address this significant challenge by bringing down the cost of innovation and increasing the availability of innovation capital through funding programmes and support mechanisms.

- "Regulation / limited support by regional authorities" appears to be the second most pronounced factor hindering the adoption among rural economy SMEs (40.2% in the first question and 39% in the second). This is particularly true considering that policy making can affect the different dimensions/aspects underlying innovation adoption, including access to finance and technological equipment, capacity building and human resources, market linkages, availability of research facilities, and access to key information, among others, through regulations, interventions, and schemes.

IN DEPTH: BARRIERS FOR RURAL SMEs

The analysis of these determinants suggests that further research needs to be carried out to better understand the process of innovation and the related obstacles hindering the diffusion of new technologies.

To improve the innovation capacity/performance of rural economy SMEs, it is critical to understand the key barriers surrounding the innovation ecosystem. This issue has been

extensively investigated by researchers in the quest of answers as far as the determinants of the innovation adoption (at the firm level) are concerned. Comparing the findings from different studies/surveys, we came into the reasonable conclusion/assumption that most SMEs (no matter their country of origin or type of activity) face similar barriers to innovation, which fall in three main categories: a) technological, b) organisational, and c) environmental factors.

The technological dimension includes a number of technological related factors (such as technology readiness, compatibility, and availability of existing technology and tools) that affect an organisation's decision to develop new technologies or participate in a collaborative model. The organisational dimension describes the features of an organisation that might have a significant impact on the process of decision-making (towards an open innovation model) and relates directly to the availability and use of internal resources (such as financial capacity, human resources, and research capabilities); the environmental factors relate to the market structure, regulatory framework and competition pressures, determining the environmental and background elements that might affect an organisation's intent to invest in innovation.

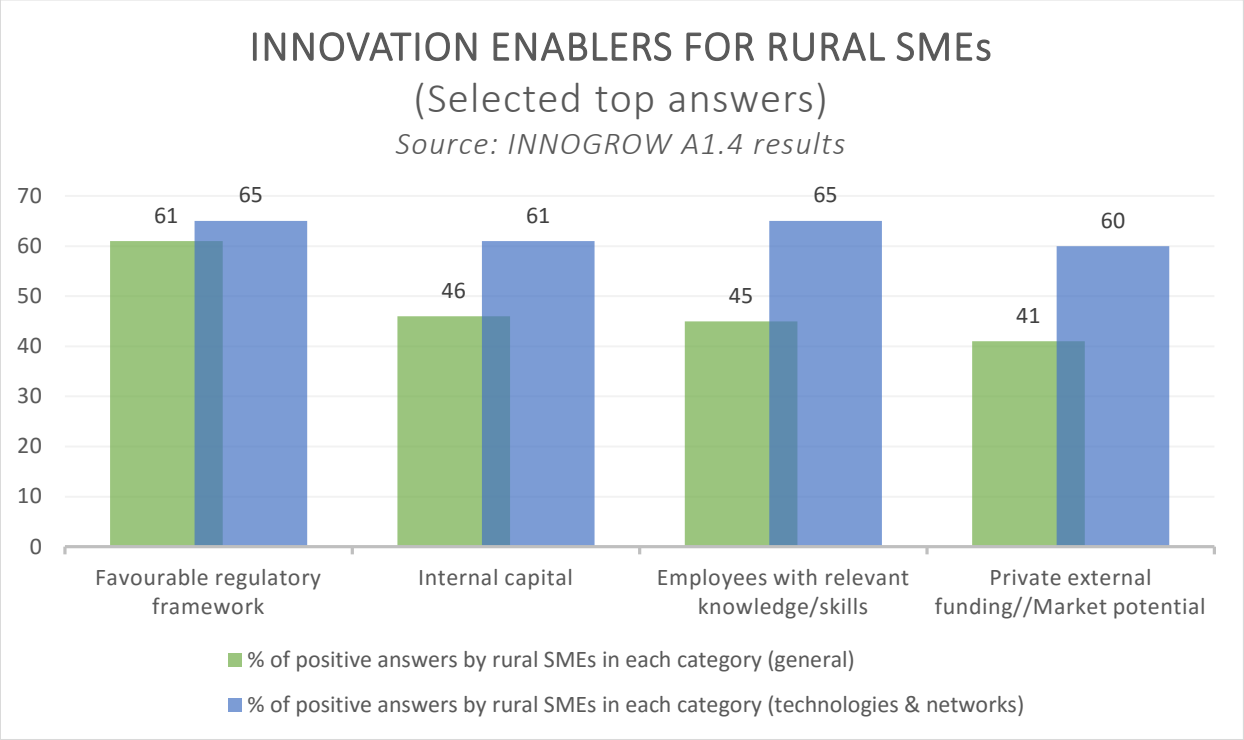
5.3.3 Key enablers and expected impact

This subsection outlines (1) perceived key enablers and (2) perceived expected impact by survey results drawn from deliverable A1.4.

Innovation capacity benefits regional growth across the EU. In an increasingly complex and intensive competitive business environment, innovation becomes a reliable way to improve companies' competitiveness and foster sustainable development and growth. Considering evidence suggests that SMEs in rural areas are innovating less than their urban counterparts, it is of paramount importance for rural SMEs to explore new products and processes.

The survey conducted in deliverable A1.4 inquired into perceived key enablers for innovation in INNOGROW regions SMEs (1) on a general level as well as (2) specifically on the drivers that enable an organisation to invest in technologies and/or participate in innovative collaborative networks. Results from both survey questions can be grouped together, because the two questions revolve around the same subject.

Figure 5: Top-4 innovation enablers for rural SMEs



Perceived key enablers of business innovation can be grouped into three clusters: a) internal capacity and capability (e.g. availability of existing technological infrastructures, internal capital, employees with relevant skills), b) market structure (e.g. market potential, collaboration with other business actors across the supply chain, availability of business support) and c) the external environment (e.g. favourable regulatory framework, external funding).

Although all examined factors were found to be perceived enablers of innovation to some extent, *the regulatory framework was found the most pronounced driver of innovation*, followed by the availability of internal capital, market potential and employees with relevant skills (Figure 5).

The most pronounced driver for innovation is related to the establishment of a favourable regulatory framework, which can provide rural SMEs with a number of incentives for investing in innovations. Good regulatory conditions stimulate SMEs to engage in innovation and R&D activities, accelerating the reallocation of resources to innovation-driven firms and industries. In contrast, a poor institutional environment (widespread corruption, weak rule of law, lack of funding programmes and excessive bureaucracy) can substantially increase the cost of introducing new products and make returns to investment in new products and technologies more uncertain. In both question results, more than 60% of rural SMEs consider the regulatory environment as a key determinant for innovation adoption.

Financing ("internal capital" and "private external funding") is found to be the next most pronounced factor supporting the diffusion of innovation within rural economy SMEs. This was expected, since respondents assume that financial constraints constitute a major problem that prevents SMEs from investing in innovative technologies (see also previous subsection). Taking into account that private enterprises find it difficult to attract external financing, the availability of internal capital allows covering the funding requirements of experimental-innovative projects and R&D activities.

The results also indicate that a suitably skilled workforce (including strong management skills) is one of the key prerequisites for successful innovation – both innovation at the technological frontier and the adoption of existing technology – as workers are required to develop and learn new production techniques. Employees with relevant knowledge, skills and capacities affect the probability of investing in R&D and thus constitute a significant driver for introducing new production technologies and getting involved in innovative collaborative networks.

INNOVATION FOR RURAL SMES: Expected Impact

Perceived key enablers for innovation are closely connected with its perceived potential benefits. The survey conducted in deliverable A1.4 inquired into: (1) the advantages from investing in innovative technologies or/and participating in innovative collaboration networks, and (2) the potential benefits to be drawn from the adoption of innovation within business operations.

(1) Survey results from the first question show that respondents expect benefits concerning the market when adopting innovation: "Greater customer base" (69.1%) and "Access to new markets/internationalisation" (61.9%) are found to be the most popular expected benefits. "Increased operational efficiency" (53.6%) comes next, complementing the top choices for expected benefits when investing in innovative technologies or/and participating in innovative collaboration networks.
(2) Survey results concerning the second question, potential benefits to be drawn from the adoption of innovation within business operations, showed that examined statements echoed well, found to be particularly important in high levels. The most pronounced choices were those related to productivity, service quality and operational efficiency In particular, the main three choices the respondents rated as the most important are "Higher

productivity" (94.8%), "Better service quality" (86.6%), and "Increased operational efficiency" (80.4%).

Even though both questions inquired into the expected benefits from investing in innovation, the top answers in each question varied considerably in scope. While benefits related to innovative R&D (first question) show that respondents consider market-related factors the most beneficial ones ("greater customer base", "access to new markets/internationalisation"), second question results show that internal benefits, like "higher productivity" and "better service quality" are considered more beneficial. Apart from structural survey issues (e.g. small sample rate), This discrepancy between two questions on benefits could be explained by the fact that R&D (1) and BMI (2) benefits are two different types of mode of innovation (one more external, the other more internal), so difference in results is to be expected.

Another possible interpretation for such discrepancy could be that SMEs do not see the connection between external and internal operations so much. The concept of open innovation could be relevant here, one that bridges collaborative innovation with internal innovation. Open innovation is described as the process with which a firm mobilises both internal and external resources and ideas, by pooling them together, in order to create innovative technologies and services. It is a distributed, more participatory, decentralized approach to innovation, one that takes business model as its starting point as well as its target. Open innovation is a more profitable way to innovate, because it can reduce costs, accelerate access to market, increase differentiation in the market, and create new revenue streams for the company.

5.4 Factors that influence SMEs' involvement in new coalitions

This subsection (1) outlines the need for SMEs' involvement in new coalitions and (2) their value, (3) identifies the most relevant factors that influence SMEs on that front and (4) provides an overview analysis of the most pronounced one of them, and (5) provides a classification of the possible types of strategic relations that rural SMEs could benefit from.

SMEs structure the non-financial economy in the EU-28: they account approximately for the 99.8% of enterprises (around 23.3 million businesses), generate 57.4% of the value added and employ no less than two thirds (66.8%) of EU's workforce. Therefore, SMEs become key drivers for economic growth, innovation, and employment.

Traditionally, SMEs face structural disadvantages in capacities and resources. In today's globalised and highly competitive business environment, rural SMEs, in particular, come up against further impediments. Investing in innovative forms of *strategic relations* can prove a crucial resource for overcoming geographical, workforce, resource and infrastructural business problems.

For the purposes of this study, the term "strategic coalitions" serves as an overarching term, denoting any form of business collaboration, alliance or partnership among enterprises and/or public sector as well as any form of legal agreement among them (from very loose to very tight, ranging from trust-based agreements to joint venture). This term is useful due to its very broad and inclusive nature.

Statistical data across EU regions demonstrate that SMEs innovate less than large enterprises (LEs). Between 2012-2014, almost 8 in 10 LEs (78.1%) introduced some type of innovation, while SMEs' percentage was considerably lower, barely making up to 50%. Additionally, relevant literature indicates that SMEs' intention to cooperate is lower than LEs, although there is an ongoing shift the last 20 years. This shift, however, does not always lead to quality results. Studies find that SMEs' business alliances suffer from serious flaws. Therefore, decreased inclination for innovation and strategic coalition building could seriously hinder rural SMEs' survival and economic growth.

Rural SMEs involvement in new strategic coalitions could serve as a channel for introducing innovative solutions to a business model. Literature confirms that strategic coalitions with other businesses or/and other relevant stakeholders are a driver for innovation, serving as a basis for the development of improvements in products, services or processes. More specifically, strategic coalitions:

a) Offer resources that rural SMEs could not obtain otherwise.
b) Offer cost-effective operational solutions.
c) Increase market power and strengthen market position.
d) Develop knowledge and network capacity.
e) Exchange valuable technology.
f) Manage and distribute risk.

Research literature devoted specifically to factors influencing SMEs strategic coalitions is still underdeveloped and fragmented in theoretical, methodological, and geographical terms.

Additionally, difficulties pertaining to data gathering on SMEs' collaboration obstructs available results on a large-scale level.

However, there are certain perceived influential factors common to all different literature approaches. These can be grouped under three categories:

a) Internal

Enterprises facing difficulties, pursuing financial growth or simply looking to cover their functional needs in an economical way, may inquire into strategic collaborations. Such reasons pertain to the *internal structure of a business*. If an enterprise is looking to diversify its primary resources, for example, a form of strategic coalition (e.g. joint venture, horizontal supply chain collaboration) may match suitably such a business strategy objective. For this reason, the absence of a clear strategic objective has a significant influence on the failure of an alliance. Companies with no clearly formulated strategy were more likely to fail in their collaborative efforts than companies that had implemented one.

Literature indicates two core internal factors that influence SMEs decision to collaborate:

- Addressing needs following immediately from business strategy (e.g. exploring market opportunities, market diversification)
- Pursuing new or additional resources (internal capabilities, technological and commercial resources).

However, there are two additional internal factors that do not follow immediately from business needs, yet weight in crucially in the decision process:

- Network ties with external R&D institutions and stakeholders
- Previous experience with collaboration.

b) Interpartner

Factors reflecting the quality of partnership design are crucial for the viability of strategic collaborations. Many literature surveys indicate that collaborations materialise or fall apart due to poor *interpartner arrangements*. Mistrust, lack of clear common objectives or unequal risk sharing may endanger gravelly an otherwise promising strategic collaboration.

The primacy of psychological and governance factors among partner collaboration feature prominently in the literature, considered to be at least as important as business drivers. The

next two factors are mentioned virtually in every literature source as the most influential factors affecting SMEs propensity to collaborate:

- Trust
- Co-governance design (time requirements, clear design of rights and duties, objectives and review process, equality of contributions and risk sharing)

Additionally, literature indicates two another crucial factors:

- The business potential of a partnership (strategic compatibility, goal congruence, promise for joint value creation, asset sharing)
- Independence, showing that businesses want to protect their core competences within a strategic collaboration.

c) Contextual

The *institutional, socioeconomic and technological environment* influences SMEs' intends to form strategic coalitions. Such factors are contextual and range from local market structure to global socioeconomic trends. Literature as well as results from INNOGROW A1.4 activity indicate that SMEs perceive the following factor as the most distinct contextual factor influencing their intention to collaborate:

- The regulatory framework (regional, national, international). A favourable business environment acts as enabler for strategic coalitions. SMEs strategic coalition support programmes, especially, could accelerate rural SMEs internationalization as well as bolster their market position.

Furthermore, another decisive factor influences SMEs strategic coalition efforts:

- Uncertainty. Literature shows that SMEs, as higher uncertainty is perceived, attach more importance to strategic coalitions as a way to overcome that uncertainty and acquire the necessary information about their environment.

To summarise, desk research illustrates clearly that interpartner factors are perceived as the most critical ones by SMEs. It is noticeable that the two most important factors according to literature fall within the "soft" (trust) and "hard" (co-governance design) factors, complementing each other.

- Trust, a psychological factor, is consistently highly-rated in almost every literature source, becoming therefore the most pronounced factor influencing strategic coalition efforts by SMEs. This can be explained (1) by the nature of this factor and (2) by the nature of innovation environment. First, concerning the nature of the factor, trust operates on a meta-rational level, allowing mutual relationship building that, in turn, reduces uncalculated financial or other risks in rational operations. For this reason, many businesses consider trust-building a decidedly valuable intangible asset. Second, concerning the nature of innovation today, as more firms enter into networks of coalitions, and open innovation becomes a more established practice, many businesses choose informal mode of governance of coalitions. In this regard, relational governance and trust become increasingly important. However, further research is needed in identifying economic, political and cultural precursors of trust. It should be also noted that good personal relations and trust function as a prerequisite for co-operation, only supplementing the strategic coalition.

- Co-governance design among partners also features prominently in the literature among factors influencing strategic coalition collaboration by SMEs. Clear design and implementation of strategic coalitions provide SMEs with the capability to effectively attain common goals. Frequent disputes pertaining to co-governance cause high costs for conflict resolution, hindering possible benefits from the coalition and risking collaboration termination.

The most important form of strategic collaborations classification is according to the structure of collaboration among partners. Drawing from relevant literature, below follows a non-exhaustive list of various types of strategic collaboration and their descriptions that rural SMEs could benefit from exploring.

The following types of strategic coalitions range in legal formality as well as in value chain direction. Concerning legal formality, strategic collaborations vary from the most formal agreements (e.g. joint venture) to the intermediate contractual forms (e.g. long-term contracts, licenses, franchises), to the most informal ones (e.g. trust-based agreements). Regarding value chain direction, strategic coalitions can be vertical (between purchasers and/or suppliers), horizontal (between competitors) or diagonal (between firms in different sectors). Here we classify them according to integration level of partner objectives identification, from divergent goals (network) to identical ones (joint venture), and all of them can be applied in *horizontal, vertical and/or diagonal* terms across the supply chain:

Network

Network is an informal, trust-based form of strategic coalition in which multiple, uneven, and autonomous actors collaborate through communication and information exchange based on a common vision. Actors collaborate in an open and decentralised manner, benefiting from the information shared. No common value creation takes place, and there is not a mutual goal or structure influencing the form and timing of individual contributions.

Relevance for rural SMEs: Collaborative Innovation Networks (CN or COIN) comprises of a variety of autonomous, heterogeneous, and geographically distributed entities (enterprises, people, institutions) with a collective vision, enabled by the Web in collaboration by information exchange. Rural SMEs participation to COIN can help them bypass rural problems through digital tools, enhancing their knowledge capacity to access to information

Alliance

Alliance is a formal agreement among two or more enterprises involving, apart from information exchange, coordination of previously distinct activities so that companies can accelerate their individual value creation. Partners remain autonomous but coordinated knowledge and resources lead to more efficient results.

Relevance for rural SMEs: Alliances along the supply chain enhance collaborations, vertical and/or horizontal, can reduce costs and are regarded the key element for rural SMEs internationalization.

Cooperative

Cooperative is a formal agreement among two or more partners with compatible objectives who apply a limited division of labour among themselves so that individual companies profit from aggregated value creation. Partners become quasi-autonomous under a cooperative, since they realise a more integrated plan of coordinated activities by pooling in resources and knowledge.

Relevance for rural SMEs: A traditional supply chain based on client-supplier relationships and pre-defined roles in the value chain, is an example of a cooperative process among its constituents. Producer organisations/cooperatives are popular among rural SMEs because they enhance bargaining power with larger producers, as well as generate more steady flow of profits.

Collaboration (incl. R&D)

Collaboration is a formal agreement among two or more partners, with one partner coming from the R&D sector (e.g. university, institute). In this form of strategic coalition actors jointly create value by working along the same objectives, while otherwise retaining their distinct identities. They pool in resources, information and knowledge and share responsibilities and risk.

Relevance for rural SMEs: A collaboration process happens for instance in concurrent engineering, when a team of experts jointly develop a new product R&D collaboration can greatly aid rural SMEs by bringing in expert knowledge, leading to innovative products and increased profits.

Joint venture

Joint venture is a new business enterprise created by the joint formal agreement among two or more partners. Objectives among partners become identical to jointly create new value, yet they continue to act autonomously in other endeavours. Partners share ownership, governance, resources, profits, and risk, the new enterprise, however, attains a distinct identity from the partners and acts autonomously.

Relevance for rural SMEs: Although rural SMEs avoid this type of collaboration, joint ventures can unlock emerging markets, help SMEs gain scale efficiencies, diversify their services, as well as mitigate risk from sharing capabilities and knowledge.

6 Topics to be discussed in the workshop

6.1 Selection criteria

The following criteria will be taken into consideration for choosing the most suitable, up-to-date and relevant topics to be presented during the INNOGROW interregional thematic workshop on innovation and business models for rural economy SMEs.

- Relevance with INNOGROW general scope
- Responsiveness to the needs, barriers, and challenges of the rural SMEs in INNOGROW regions as identified in the Activities 1.2 and 1.4.
- Practical outlook of topics so that the consultation process will mobilise regional authorities' representatives to support the integration of key conclusions into regional policies
- Trends and developments in the field of innovation technology and business model innovation
- Avoid overlap with relevant past events and activities about innovation-driven regional development, as well as with subsequent project interregional activities

6.2 Suggested topics

This section provides an initial suggestion on the topics to be presented and discussed during the workshop, based on a) the results of Activity A1.2 and A1.4, and b) the additional desk research conducted for this input study. This list is not final and is subject to changes or updates (if necessary), following the review and feedback from the host organisation (PANOV).

- **Topics and thematic areas:** The suggested topics for the interregional workshop fall under 'pools' of topics, i.e. thematic areas. The suggested topics which will be discussed in the workshop can come from some identified thematic areas. However, it is advised that each thematic area is represented at least once in the final selection of topics.
- **Nine possible topics** have been identified for the third workshop, falling under three distinct thematic areas. Each thematic area is divided into a number of topics, around which the presentations and discussions of the workshops will revolve. Guest speakers are expected to build upon the findings of INNOGROW deliverables A1.2 and A1.4, and of the research conducted for the input paper by extending the scope of analysis and providing new perspectives for the topics under examination.

The following table outlines the suggested topics and speakers, their thematic areas, and provides a short description of them.

Thematic area A: The challenge of business model innovation for rural SMEs
Description
The topics of this thematic area will make explicit mention on the value of business model innovation as a key driver for sustainable rural development, providing insights into how the adoption of innovation (in the form of new or improved business models) can lead to increases in productivity, enhancing SMEs' competiveness and access to new markets. Representatives from SMEs (members of stakeholder groups) will be encouraged to participate in the discussion, presenting their experience from the integration of innovative technologies, services, and/or products into business models (e.g. production, quality control, distribution) and discussing about the problems encountered, drawing from Activity 1.2. The purpose of this thematic area is to highlight the success factors, new developments, and recommendations relevant to the adoption of business model innovation by SMEs in rural areas.
Topics & suggested speakers
➢ Success factors of business model innovation with cases. (*Suggested speaker: CEO of local successful SME*) ➢ EU & international developments in the field of innovation (e.g. open innovation) relevant for rural SMEs. (*Suggested speaker: EU representative relevant with innovation policies*) ➢ Policy recommendations for public authorities regarding the regulatory framework on innovation for rural SMEs (*Suggested speaker: Public official relevant with innovation policies*)
Description

This session will present an overview of the most pronounced constraints and barriers which hinder the employment of innovation in rural SMEs, as well as the key enablers for business model innovation. Building upon the findings of INNOGROW Activity 1.4, this session will address the internal and external barriers, updating regional authorities about the needs and challenges encountered by SMEs (e.g. regulatory conditions, skills, financial resources, lack of information and business/innovation support); and paving the way for relevant initiatives and policy measures. What is more, business model innovation enablers will be discussed, emphasising the elements that can be taken advantage by rural economy SMEs to capture value from technological innovation and economies of scale will be discussed, leading to increased competitiveness and productivity.

Topics & suggested speakers

- Innovation constrains and barriers for rural economy SMEs
  (*Suggested speaker: Researcher on innovation*)
- Rural SMEs needs addressed through innovation
  (*Suggested speaker: Local SMEs representative*)
- Key enablers facilitating the adoption of innovative business models
  (*Suggested speaker: Head of Innovation Centre for rural SMEs*)

Description

This thematic session is expected to provide practical insights into how involvement into new coalitions can establish a coherent and enabling environment for SMEs to fully exploit their innovation potential. Participants will have the opportunity to discuss about the type of coalitions existing in the market that can enhance their efforts to support SMEs' activities/operations and promote innovation knowledge sharing. This session will also present best practices from successful coalitions across the EU, drawing from the deliverable of Activity 1.2. An open discussion will follow in which participants will share their own experiences from actual implementation of coalitions. The exchange of views among the representatives of regional

authorities will enable to reach a common approach on how to develop, organise and operate successful innovative coalitions, contributing to sustainable rural development.
Topics & suggested speakers
➢ The role of coalitions in supporting the sustainable development of rural economy SMEs. (*Suggested speaker: Cooperative/producer organisation representative*) ➢ European success stories: Practical examples from successful coalitions across the EU. (*Suggested speaker: EU representative relevant to SMEs policies*) ➢ Sharing experiences in supporting the establishment of coalitions to foster sustainable rural development. (*Suggested speaker: Rural SMEs representative*)

6.3 Indicative agenda

"Interregional workshop on supporting new business models for rural SMEs"

Gyor, Hungary

2nd – 4th July 2018

DAY 1

Time/ Duration	Description
09:30 – 10:00	*Arrivals and registration*
10:00 – 10:15	**Opening speech**
10:15 – 10:30	**Objectives of the workshop / Overview of the agenda**
10:30 – 12:30	**Topic 1*:**
	– Oral presentation of topic 1 (30 minutes) – Questions of attendees on speaker's speech (10 minutes) – Answering the attendees' questions (10 minutes) – Interactive session (roundtable discussion or interactive exercises): Participants will be split into small groups to discuss specific topics or issues raised during the presentation (45 minutes)

	– Wrap up: The main conclusions and findings from the interactive session will be presented (25 minutes)
12:30 – 14:00	*Networking launch*
14:00 – 16:00	**Topic 2*:**
	– Oral presentation of topic 1 (30 minutes) – Questions of attendees on speaker's speech (10 minutes) – Answering the attendees' questions (10 minutes) – Interactive session (roundtable discussion or interactive exercises): Participants will be split into small groups to discuss specific topics or issues raised during the presentation (45 minutes) – Wrap up: The main conclusions and findings from the interactive session will be presented (25 minutes)
16:00 – 16:30	*Coffee break*
16:30 – 17:30	**Discussion on project activities / Wrap - up**

DAY 2

Time/ Duration	Description
09:30 – 11:30	**Topic 3*:**
	– Oral presentation of topic 1 (30 minutes) – Questions of attendees on speaker's speech (10 minutes) – Answering the attendees' questions (10 minutes) – Interactive session (roundtable discussion or interactive exercises): Participants will be split into small groups to discuss specific topics or issues raised during the presentation (45 minutes) – Wrap up: The main conclusions and findings from the interactive session will be presented (25 minutes)
11:30 – 12:00	*Coffee Break*
12:00 – 14:00	**Topic 4*:**
	– Oral presentation of topic 1 (30 minutes) – Questions of attendees on speaker's speech (10 minutes) – Answering the attendees' questions (10 minutes)

	– Interactive session (roundtable discussion or interactive exercises): Participants will be split into small groups to discuss specific topics or issues raised during the presentation (45 minutes) – Wrap up: The main conclusions and findings from the interactive session will be presented (25 minutes)
14:00 – 14:30	**Evaluation**
14:30 – 15:00	*Networking launch*

**The topics to be discussed during the workshop are presented (in the form of recommendations) in the previous section. The host organisation may choose more than one topics from each thematic area to present in the workshop*.

7 Preparing the summary report

The final stage of the conduction of the third interregional thematic workshop includes the preparation of a summary report by the hosting partner. The summary report is considered the key output of activity A3.2. This document will present the final outcomes of the workshop and will be used by project partners as the main input for diffusing the lessons learned within their organisations.

Summary reports are short written communication documents, which aim to convey information related to the discussions and activities carried out during workshop activities. The summary report should include the following aspects:

- Document the interventions of participants and the overall discussion within each session of the interregional thematic workshop.
- Draw conclusions from debate and interactive exercises in each session of the workshop.
- Briefly present policy recommendations for the development of action plans based on the interventions of the participants and the conclusions drawn from the discussion.
- Present an evaluation of the workshop based on the comments and feedback from participants (evaluation questionnaire).
- Present the metrics of the workshop (number of registered participants, number of completed evaluation questionnaires, and number of participants from each category of the target groups).

The following guidelines have been developed to provide assistance and guidance to the host organisation (PANOV) on how to summarise and present the main conclusions drawn from the workshop (in the format of a summary paper), in order to facilitate the integration of key policy recommendations into regional action plans. In particular, the summary report should be drafted as follows:

Step 1: Develop short summaries for each session of the workshop. The summaries should include a) the context and objectives of the session, b) the main points from oral presentations/keynote speeches, c) key argumentation from the interventions of participants, and d) conclusions and findings extracted from the overall discussion and interactive exercises.

Step 2: Review the evaluation forms (if available). The author should summarise the key itches and ideas (as drawn from the forms completed by workshop participants), with regards to the

themes / topics of the workshop. It is highly recommended that any idea (i.e. policy advice) that could contribute to the improvement of regional policies in the field (i.e. business model innovation for rural economy SMEs) should be integrated into regional action plans.

Step 3: Present the main conclusions with regards to the following themes:

- Evaluating the impact of business model innovation on SMEs competitiveness and productivity.
- Recognising the challenges/barriers hindering the adoption of new, disruptive business models by rural SMEs.
- Identifying the advantages of new coalitions that help rural economy SMEs turn innovative ideas into viable products and create new business opportunities.
- Planning a common strategy to support the initiation of business model innovation through new coalitions towards sustainable rural development.

Step 4: Juxtapose the key arguments / conclusions drawn from the workshop with any relevant results and findings from INNOGROW thematic studies and guides on similar policy aspects. Identify convergences and divergences between findings.

Step 5: Provide guidelines (in the form of policy recommendations) on how to utilise the key conclusions drawn to design policy measures and action plans to promote innovation driven competitiveness and growth of rural SMEs. The guidelines on how to integrate the lessons learnt in the INNOGROW action plans should be described in a way that is simple, brief, and easy to follow.

Step 6: Draft the summary report. The workshop summary report should be drafted in a clear and concise way, focusing on the conclusions drawn from knowledge sharing and consultation processes that took place during the workshop sessions.

Indicatively, the workshop summary report can have the following structure:

a) Introduction
b) Background and objectives of the workshop
c) Summary of sessions
d) Key discussion points
e) Main conclusions
f) Juxtaposition with key findings from project activities

g) Policy recommendations
h) ANNEX A: Agenda
i) ANNEX B: List of participants

8 References

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Eurostat (2011). *Key Figures on European Business with a Special Feature on SMEs*. Publications Office of the European Union.

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Hoffmann, W. H. & Schlosser, R. (2001). Success Factors of Strategic Alliances in Small and Medium-sized Enterprises—An Empirical Survey. *Long Range Planning* 34: 357-381.

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Noh, H. & Lee, S. (2015). Perceptual Factors Affecting the Tendency to Collaboration in SMEs: Perceived Importance of Collaboration Modes and Partners. Journal of Technology Management & Innovation 10(3): 18-31.

9 ANNEX A: Regional stakeholders per project partner

PARTNER	COUNTRY	KEY REGIONAL STAKEHOLDERS
RoT		- Ministry of Economy, Infrastructure, Maritime Affairs and Tourism - Regional Association of Municipalities of Thessaly - University of Thessaly, Department of Regional Development - University of Applied Sciences of Thessaly - Association of Thessalian Enterprises and Industries - Technical Chamber of Central and Western Greece
FLA		- Lombardy Region - Sondrio Province - ISPRA Institute - ERSAF – Regional Agency for Agricultural and Forest Services - Politecnico di Milano - Università degli Studi di Milano - Università degli Studi di Milano Bicocca - Università Cattolica del Sacro Cuore - CRASL – Centro di Ricerca sull'Ambiente, l'energia e lo sviluppo sostenibile - CNR, JRC, ARPA - Milan Chamber of Commerce - A.R.I.B.L - AIEL – The Italian Agroenergy Association
ZPR		- Ministry of Economics of the Republic of Latvia - Latvia University of Agriculture - Union Farmers Parliament - Rural consulting and education centre of Latvia - Rural support service
SZREDA		- Ministry of Economy Economic - Promotion Policies Directorate - Stara Zagora Regional Administration - Municipality of Stara Zagora - Municipality of Kazanlak - Municipality of Gurkovo - Municipality of Nikolaevo - Municipality of Gurkovo - Municipality of Opan - Municipality of Radnevo - Municipality of Bratya Daskalovi - Faculty of Economics, Trakia University - Faculty of Agriculture, Trakia University - Chamber of commerce and industry – Stara Zagora - Bulagro Group Holding Agroconsult Ltd. - First Investment Bank - United Bulgarian Bank - Somoni Financial Group

RRAPK		- Ministry of Industry and Trade of the Czech Republic - Pardubice Region - University Pardubice - Regional Chamber of Commerce of the Pardubice Region - Agrarian Chamber of the Pardubice Region - Energy Technical - Innovation Cluster
CoC-Molise		- Molise region - Unioncamere - Università degli Studi del Molise - Sviluppo Italia Molise - Finmolise - 360° Olive Cluster, Compagnia del Molise Cluster - Pignatelli Oil, Valerio Wines, Di Nucci Dairy, Cheese factory, Le IFE Truffle
BSC Kranj		- Ministry of Economic Development and Technology, Directorate for Entrepreneurship, Competitiveness and Technology - Slovenian Centre for Competitiveness and Innovation (SCCI) - The Slovenian Rural Network, national support unit (NSU) - Competence Center for Biotechnological Development and Innovation (CCBDI) - Biotechnical centre Naklo - Intercompany education and training centre (MIC) - Centre for Sustainable Rural Development Kranj - Initiative Start:up Slovenia - Agro Biznis - Agro Gorenjska - Datalab - The Slovene Enterprise Fund - The Slovenian Regional Development fund - SID Bank Inc.
PANOV		- Ministry for National Economy / Deputy State Secretariat - of Economic Development Programmes - The National Research, Development and Innovation Office (NRDI Office) - Local Government of County Vas, and Győr MosonSopron - University of West Hungary, - Faculty of Agricultural and Food Sciences - University of Pannonia Georgikon Faculty - Pannon Novum Regional Innovation Agency - Chamber of Commerce and Industry of County - Chamber of Commerce and Industry of County Vas - Zala County Foundation for Enterprise Promotion