



# Business and Development Strategies

Lessons from medium sized cities in the Baltic Sea Region

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Cities of the Baltic Sea  
Region at a Glance

**Front cover photo**

UPM group, Kaukas Paper Mill, Lappeenranta

**• Local response to change**

The economic and social bases of the MECIBS cities have shifted dramatically in recent decades, and they have faced profound changes in their regional settings – even national position – and perhaps most importantly, in terms of their self-concept. These changes are due to the economic restructuring processes resulting from the globalization of production and markets and the political reforms carried out in the Baltic Sea Region. The basis for subsistence has eroded in some cities, whereas other cities have been able to position themselves in new frames of reference, which in turn have opened up for the mobilization of local resources and assets hitherto »concealed« in the urban region.

Rather than simply waiting for solutions from governmental and other external initiatives, the MECIBS cities have engaged in projects and strategies often testing and widening the room for manoeuvre. Cities have demonstrated their capacity to examine trends and events affecting structural transition and to reconsider their role and identity as cities, if necessary. Local business policies have also shifted.

**• Problems versus opportunities**

The thorough analysis of structural trends and policy considerations regarding goals, options and visions for the future constitute the prerequisites for strategic action. This is the case when Nyköping decides to pursue development as a logistics hub, when Randers takes measures to adopt a new position in the region, or when Kokkola and Lappeenranta elect to re-define themselves as centres of regionally embedded expertise.

However, cities must also respond to events that occur quite suddenly. This was the case when national defence authorities closed the military barracks in Jüterbog, Norrtälje, Nyköping and Randers. Jüterbog and Randers are still handling the ensuing situation, whereas Norrtälje and Nyköping have transformed obsolete facilities into new assets for development. In Nakskov, the closure of the shipyard paralysed the city for more than 10 years; however, after a shift in the policy-administrative regime, Nakskov was able to make use of an incoming investor as a springboard for the laying out of a new industrial and environment park on the former premises of the ship-

yard and its environs. Rather than merely solving problems, the cities in such cases seize visionary chances – they transform problems into opportunities.

**• Role, identity and the outside world**

Questions concerning future roles and identity are often included in the visions and goals formed by such cities. The enlargement of the functional urban regions has necessitated the re-evaluation of their regional position.

**Metropolitan regions**

This is especially the case for the cities that are becoming part of enlarging metropolitan labour markets, such as Nyköping, Norrtälje and Randers. These cities are actively considering different options, including redefinition as metropolitan suburbs. This role includes the development of new housing policies as well as other urban policies focusing on the general attractiveness of the urban environment (sporting and cultural events, urban centre).

In Nyköping, interaction with the outside world has become distinct at the regional as well as international levels. Transforming Skavsta from a military to a commercial air-

port has thrust Nyköping into an international network of European airport cities. This has contributed to a new international outlook for the city: »We are now realising that we are a part of Europe«.

At the regional level, Nyköping has developed a pronounced and vivid strategy to become part of the Stockholm housing market.

Nyköping has been very active in branding a new image of the city. The branding activities include an advertising agreement with Ryan Air. However, the agreement has been brought to trial because it was set up without a public tender, although no one but Ryan Air was able to offer Nyköping the concept of the branding campaign. The trial is just one of several examples of »bottle-neck« problems that medium sized cities are facing when they actively involve in business and development policies and try to match decision making of private business life.

**Self-sustaining regions**

Regional cities in economically self-sustaining regions outside of the national core regions are usually forced to further develop the economic base of the region. Thus, industrial policies therefore focus on core-competencies complemented with innovative high-tech solutions.

*Nakskov Industry and Environment Park was established on the premises of the former shipyard and its environs. When the Danish windmill company Vestas showed interests in localising a new subsidiary in Nakskov, the city council decided to buy and totally renovate the site of the shipyard. Contrary to other cities developing new housing areas at quay areas and waterfronts, Nakskov decided to keep and even expand the former industrial areas, and hence to remain an industrial city. The municipality invested more than 100 million DKK in the area. Several public-public and public-private symbiotic relations have been developed at the initiative of the city. However, not all initiatives were carried through. An agreement between the local sugar factory and the public works on exchange of biogas and district heating at equivalent volumes of energy was cancelled by the taxation authorities, hence showing yet another example of bureaucratic bottle-necks meeting municipalities when they try to catch up with the challenges of restructuring.*



These cities have also reinforced their regional ties in order to maintain and increase their competitive potential.

Lappeenranta has created a vision of a new city concept that would render the region more prominent in the national context, a network-city referred to as the Saimaa City. This vision involves the creation of a competitive region based on the existing wood processing, but relying increasingly on ICT knowledge within the sector. In the Herning region, Herning, Ikast, Struer and Holstebro, have jointly ascribed their position as a »national centre«, referred to as Midt-Vest. Development policies in the region are focusing on modernizing regional clusters and competencies such as textiles, furniture and energy.

### Peripheral regions

The peripheral cities are usually left with the option of defending their current role as e.g. an industrial city. These cities are therefore working to transform core competencies into assets capable of attracting new investments.

### • Broadening business policies

Many local and regional business councils have broadened their activities, engaging in projects related to cultural and leisure activities, urban planning, and promotional campaigns. New joint ventures are formed in order to achieve development goals rather than merely protecting business interests. An important criterion is to cooperate with partners that properly match the key elements in the development strategies, universities, railway and road agencies, private investors etc.

In the Lappeenranta region, the regional Kareltek technology centre and SELMA and KEHY, the development corporations in the urban regions, are complementing the university as disseminators of knowledge. Similar networking is also found in the Kokkola region.

Nyköping has been a key actor in forming »Nyköping-Östgötälänken Ltd«, a development company for promoting the construction of a high-speed rail connection from Linköping to Stockholm via Nyköping. In Norrtälje, the municipal development agency »Norrtälje House of Craft and Industry Ltd, NIHAB«, was made responsible for the establishment of an education and business campus, »Campus Roslagen«, in the abandoned military barracks.

In Jüterbog, membership of the Work Team for Regional Development Centres of the urban regions in Brandenburg (ARGE REZ) means developing ideas common to cities in similar circumstances and similar position in relation to Berlin.

In Herning, a knowledge corridor for the benefit of local enterprises has been established between the Herning Institute of Business Administration and Technology (HIBAT) and Copenhagen Business School (CBS). A similar partnership was recently established in Randers. Knowledge corridors are also built as part of initiatives for enhancing the technological level in local competence clusters. This is the case in the wind energy knowledge centre in Herning (HIH Wind) and the know-how centre for chemistry in Kokkola (KETEK).

In Lappeenranta, the University of Technology (LUT) plays a key role in the Centre of Expertise Program in south-east Finland, where the focus areas are high technology metal constructions, key systems for the forest industry, and logistics and expertise in Russia. Located close to the Russian border, LUT also has excellent opportunities to co-operate with Russian research institutes, especially in the St. Petersburg region, as well as in larger cities in the Leningrad oblast, e.g. Vyborg. In return, Vyborg is investing in co-operation with the Lappeenranta region.

### • Concrete projects

#### Building knowledge corridors

Cities are employing various strategies to promote knowledge-led business and development policies. A triangle of knowledge has appeared:

- Mediating university education is path-breaking for educating young people. For the cities, this means picking the berries of the most suitable higher education. For universities, not only does this provide opportunity for expansion in the education market, it also represents means by which to establish more robust local ties and provide researchers with invaluable contacts to local enterprises.
- Vocational training following local investments provides a match between the workforce and the needs of local industries. The skilled segment of the labour force might have a significantly higher productivity than low-skilled or high-skilled employees. This stresses the role of vocational schools and their capacity to establish tailored programs for local enterprises.
- Competence centres for local business clusters are regarded as a primary means by which to enhance the operational environments for local firms, as well as boosting regional competitiveness.

Rather than establishing their own institutions for education and knowledge, the MECIBS cities co-operate with regional or national universities to establish knowledge corridors.

#### Business and industry parks

Business parks are relevant in two aspects when restructuring cities: to facilitate the establishment of new enterprises and to revitalize former industrial sites.

Industrial parks are usually a more land-use-oriented service concept; however, the most innovative concepts are based on several symbiotic relationships and facilitated by logistic services established by the municipality.



*Silmet, Sillamäe. During Soviet time, Sillamäe was a closed town and a centre of nuclear production for military purposes. After the fall of the Soviet Union, the Silmet company became an international important producer of rare metals. Also, the company established a business park in those parts of the premises that were left empty after the reconstruction.*

Facilitating the establishment of new enterprises is often regarded as an important issue for the cities when forming business parks.

In Herning, the physical domain of the business council, the *BIRC Estate*, brings business services, research and educational institutions and entrepreneurs together under one roof. Among the other operators in BIRC, a local branch (CAMS) of the Copenhagen Business School as well as a branch of the Danish Technological Institute, channel research-based knowledge into the milieu.

The Kareltek technology centre in Lappeenranta combines several functions: business park facilities currently hosting approximately 100 companies; a centre for developing business innovation, incubation and internationalisation; the Centre of Expertise, part of the national programme on regionalizing knowledge and information society policies; and finally, wide-ranging networks together with the neighbouring university of technology.

All weather terminal at Ykspihlaja port and industrial area in Kokkola. The terminal was opened in early 2005. In the area, a national cluster of chemistry is situated. As with other cities located in economic self-sustaining regions, the local business and development policy is focused upon the needs for modernising the existing industrial base. The companies in the area have established a number of symbiotic relations, and hence developed the strengths of business.



Also revitalization of former industrial sites is an important aspect of forming business and industry parks. Empty industrial sites and buildings are often suitable for conversion to alternative purposes and even attractively located close to the city centre or a logistics hub.

The Randers Development Park has been established in a former warehouse located close to the harbour areas and the city centre. The development park has not been as successful as other business parks. This is probably due to the fact that the Randers Development Park is not closely linked to other development milieus, such as e.g. a university.

In Norrtälje, a 250 million SEK investment in the reconstruction of the military barracks in the 1990s left them in good shape when the Municipality of Norrtälje took over in 2001, subsequently deciding to convert the military barracks into a campus for educational institutions and related businesses.

Vyborg Technopark is located in an area formerly occupied by a military plant producing various electronic instruments in the Soviet era. About 30 companies are now situated in the area on a tenancy basis.

### Approaches to cluster development

Cities situated in economically independent regions often depend economically on special competencies and types of production, hence on clusters. The fate of these cities is therefore closely connected with the development of the local cluster. Some MECIBS cities have experienced the total closing of a cluster, whereas other cities have succeeded in upgrading competencies within clusters in transformation.

Dependency on one-sided clusters creates a measure of vulnerability. It has therefore become more common to consider alternatives to developing and enhancing clusters. One such alternative involves the promotion of business development in areas outside of the cluster, hence a diversification of the economic base. Another alternative is to improve

the knowledge and competencies more generally in order to match the trends of increasing the knowledge base in most kinds of production and business.

In other MECIBS cities, several local clusters are evident. The Lappeenranta region hosts one of the world's largest wood production clusters. In Salo, the most recent electronics cluster has developed around Nokia's »mother factory«. Sillamäe has its rare metals-oriented industry, Randers continues to have a strong food processing industry, and the textile industry remains prevalent in Herning.

When cities address clusters, they usually do so in different ways. Besides clusters of specialized production, i.e. production clusters, they also address clusters of companies with functional characteristics. For example in the Herning region, the Midt-Vest established a special knowledge and competency centre to further develop as a functional cluster of subcontractors. Similarly, the Randers Business and Development Council has taken an initiative in further developing a local cluster of industrial assembly. Finally, some cities attempt to encourage new kinds of production based upon an idea or a concept. Nakskov developed

### Diversification

Kokkola region has engaged in wide-ranging actions to promote the local competitiveness and diversification of the chemical industries. The Regional Centre programme promotes four industrial spearheads (chemistry, laser coating, yacht manufacturing and ICT), pulled together by KETEK, the regional technology centre, backed by the Centre of Expertise programme, and made possible by financial support provided from the municipalities. As the flagship project, the regional partnership has financed the building of the Innovate premises, housing the OSKE laboratory for the chemistry branch R&D services, and a business incubator.

just such a concept, in the formation of an industry and environment park based upon the notion of industrial symbiosis. In Nyköping, the strategy of developing the city into a transport hub is accompanied by efforts to establish competencies within logistics and transport.

In Salo, part of the Green Valley Project concerns the promotion of a new industrial cluster linking electronics industries with environmental businesses.

The City of Herning owes much of its development to the textile industry. During the 1990s, manual production was outsourced to Poland and Lithuania; however, due to a close follow-up of management, design, export and branding, the textile cluster developed in new sectors of the textile industry. Much of this success was dedicated to the presence of the TEKO school and knowledge centre.

Situated in an economic region of its own, Kokkola has also experienced the outsourcing of the textile industry; however, rather than developing new functions, the textile industry disappeared entirely from the city and region. Other clusters have developed in the city, first and foremost a strong cluster within chemistry.

*Herning Institute of Business Administration and Technology HIBAT.*





Wind energy is an important industrial cluster in Denmark. Just recently the two largest Danish companies, NEG MICON and VESTAS merged. The headquarter (the photo) is located in Randers, a subsidiary in Naskov and a knowledge and competence centre of wind-energy is located in Herning.

## • Recommendations

### Different types of actions

Strategic analysis is crucial for the development of medium sized cities. Strategic analysis generally includes considerations on (1) the position of the city, (2) the outside world, (3) goals and visions and (4) which stakeholders and partners will join.

Medium sized cities situated in metropolitan regions, self-sustaining regions and peripheral regions are inclined to choose different development perspectives due to the different geographical contexts. In order to »make things happen«, cities must properly match the actions of actors in the private and voluntary sectors. Willingness to accept project failures is crucial, as is the capacity to correct and even substitute unsuccessful projects with new ones. This is only made possible by committed staff supported by unified city councils.

It is therefore recommended that:

- cities explicitly deal with their relations to the outside world and, hence, regularly conduct strategic »outside-world-analyses«;
- the scope of local business policy is turned from the protection of business interests to local development policy;
- actors representing new options and ideas for urban, economic and cultural development are involved;
- local decision-making processes are simplified and accelerated in order to match decision making in private enterprises and to stimulate entrepreneurship and commitment, e.g. by decentralising decision competencies.
- follow-up and correction structures should be elaborated in order to prepare for project failures and required substitutions.

### Developing knowledge corridors

There is a growing awareness that a competitive position is related to the regional knowledge base. Knowledge creation and acquisition has therefore become a factor of great importance.

Many medium sized cities are not large enough to develop a university of their own; instead, they co-operate with regional or national universities on the establishment of knowledge corridors, offering a variety of educational programmes in the cities, some of which focus on the local labour market, whereas others are more general introductory platforms for university education.

Educational programmes oriented towards the local labour market often involve co-operation with the local business community, not only financially, but also by providing knowledge and human capital. The match between



*Campus Roslagen, Norrtälje. When the Swedish Air Defence 3<sup>rd</sup> garrison left Norrtälje, the municipality took over the empty premises in 2001 and decided to establish a university and business campus, Campus Roslagen, on the area. The municipal development agency, NIHAB was handed over the project. NIHAB is organised as an independent joint stock company. A strong motive of appointing NIHAB responsible for the campus project was to make the project financially independent of the tax-payers budgets and to give the project as much operational freedom as possible. The way of organising the project is just one of several examples from the MECIBS cities showing that municipalities have to find new ways of organising operational freedom when they step away from the former role as a public authority and service provider to the new role as a strategic development agent.*

labour market and education is crucial. A high share of skilled labour can therefore be more profitable for a local economy than a higher educated population.

For the cities, it is recommended that:

- they should take advantage of the growing interest among universities to expand their markets for education and conduct experimental education offers, therefore
- medium sized cities ought to play the role as brokers or mediators of educational programmes by establishing local arenas for universities located elsewhere rather than aspiring to host a full-scale university;
- university satellites should be established in co-operation with existing educational institutions;
- developing polytechnics and vocational education should be considered as a supplement or alternative to university-level educational initiatives.

#### Local framework for business development

Local and regional cluster strategies provide positive economic impulses for the urban regions of the MECIBS cities. These strategies include the facilitation of existing regional and local clusters, as well as initiatives taking advantage of specific opportunities and local assets ripe for forming new kinds of production.

In concrete terms, the provision of frameworks enabling positive economic development has, in the MECIBS cities, meant investing in local and regional business parks, knowledge and competency centres, incubators, infrastructure and logistics services. These necessary frameworks for business development are relevant to all medium sized cities.

For cities, it is recommended that:

- Cities depending on one or a few production clusters should carefully examine the risks and development potentials inherent to the cluster: on the one hand, the potentials of further enhancing the cluster, and on the other hand, the risks arising from future crises within the cluster.
- Especially cities situated in *in-sourcing regions* should carefully consider the risks of being dominated by one large company or by a special branch of production. It is particularly important to avoid industrial mono-structure and enclave industries with few or no linkages within the local area. Furthermore, *in-sourcing regions* ought to
  - avoid dependency on one or few partners if possible, and
  - expand the level of competencies in the local area.
- If transition of a dominating cluster involves the outsourcing of manual production, then the remaining local functions in the value-

chain of production ought to be upgraded, i.e. by supporting upstream and downstream functions rather than manual production. Design, production logistics and marketing and distribution management are key competencies for development.

- Potentials for developing alternatives to an existing production cluster should be considered in order to widen and diversify the economic base. This might include the facilitation of functional clusters and conceptual clusters and the building up of new educational facilities.
- Business development policy ought to grant priority to companies founded in the local community rather than subsidiaries and »screwdriver plans«. It should also be acknowledged that the future potential appears to be better for companies marketing their products under their own brand rather than subcontractors, unless they are highly specialised.
- It is recommended that in transition strategies, cities ought to include considerations and policies for their functional role and identity. Cities in metropolitan regions ought to take notice of the changes in regional labour and housing markets, whereas cities in independent regions and cities in peripheral regions ought to emphasise the need for modernizing their economic base in the light of globalisation.

## MECIBS

This folder summarizes the findings of a case study carried out as part of the Interreg IIB project *Medium Sized Cities in Dialogue Around the Baltic Sea (MECIBS)*.

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**Aim:** Within the overall objective to foster balanced spatial development by sustaining the development of medium sized cities the project aims at: (1) understanding urban restructuring based on comparative and concrete examples, (2) forming recommendations for the interplay between local and national strategies based upon a bottom up process, (3) forming recommendations within an integrated perspective on economic, environmental and social development and (4) forming a network of medium sized cities to facilitate exchange of experiences and mutual learning.

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**More information:** [www.MECIBS.dk](http://www.MECIBS.dk)



Medium Sized Cities in Dialogue  
around the Baltic Sea

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