

# HAL.KAJO.312 Institutions and Innovation in Urban and Regional Development

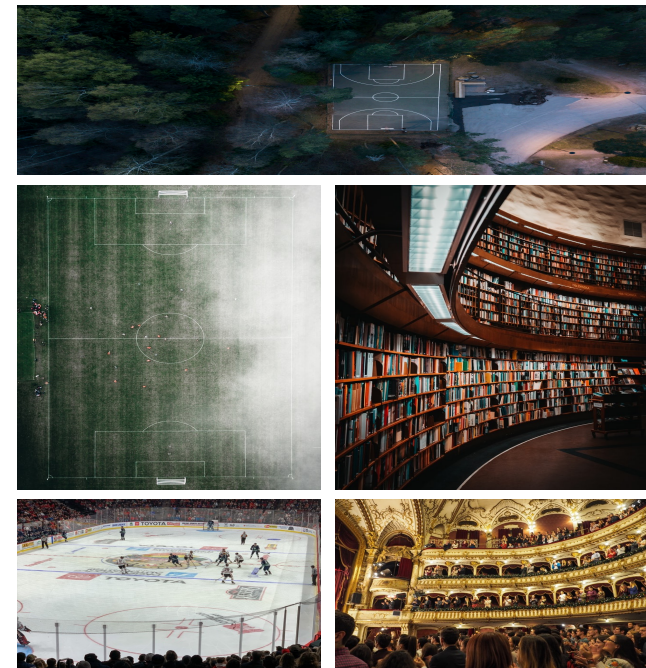
Markku Sotarauta



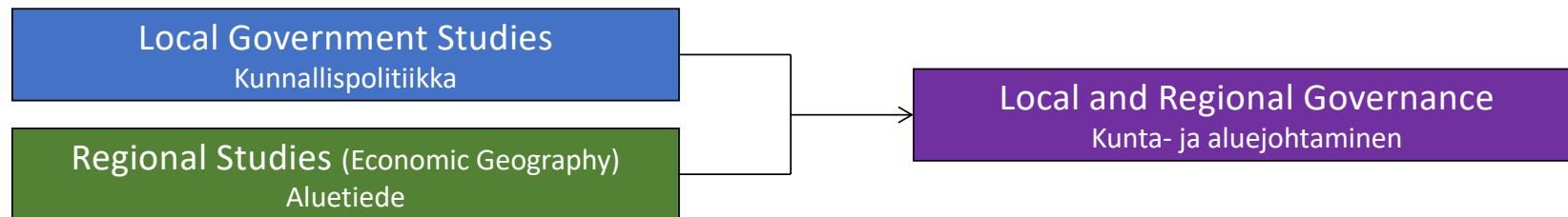
MDP in Administrative Studies  
Local and Regional Governance  
MDP in Leadership for Change (LFC)

# The Logic

- City and regional development is about institutional change
- To develop cities and regions:
  - we need to know what are the most important mechanisms boosting innovation
  - we need to identify the main frames of action and thinking to understand economic development in cities and regions
  - we need to understand local preconditions supporting innovation

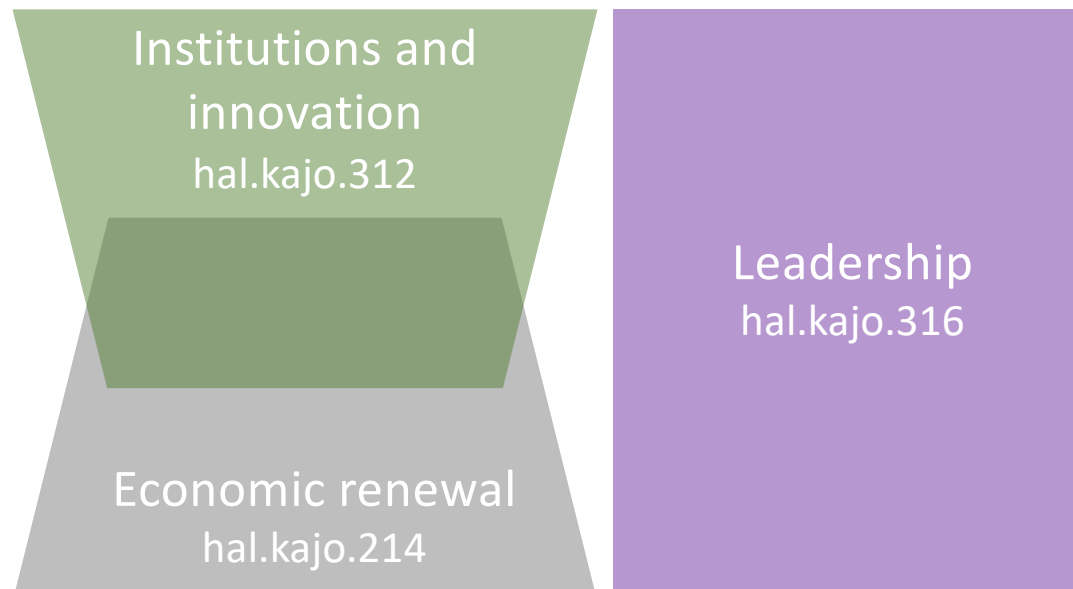


# Local and Regional Governance



# The three course package

Each can be done independently



The material is here:

- [www.sotarauta.info](http://www.sotarauta.info) -> teaching -> HAL.KAJO.312
- Please note! Moodle is NOT used



# Tuni-Exam Learning Diary

- The Tuni-Exam will be open for writing a learning diary as follows:
  - Diary: Feb. 17. – Feb. 28.
- Remember to book yourself a slot during the above opening period – perhaps already today
  - <https://sites.tuni.fi/exam/>
- In the system, there will be a broad thematic question for contemplation, writing an online diary
- Introduce the main arguments and other important points of a course through your observations and interpretations

# The theme to think is the whole course

- What are the conceptual and practical connections between institutions, innovation and path development?
  - This question on the Tuni-Exam is a prompt to ponder your learning. It is **NOT** an exam question - its function is to guide learning and writing
  - This is a comprehensive question, a difficult one. **BUT...**
    - It can be approached in many ways
    - It is advisable to contemplate it when listening to the lectures, reading the material, and so on, and thus have a framework in your mind when you enter TUNI-Exam



# Coffee Break With Researchers

In the lectures you will also meet some colleagues, the aim being to open the door to the academic discussion.



<https://coffeebreakwithresearchers.org>



Why is coffee a dangerous drink?



COFFEE HOUSE AT JERUSALEM.

*Hospital of St. John*

# Case Coffee

(Juma 2016)

## Why

- The story of coffee shows how new innovations coevolve with institutions, disrupting and recreating them
- Wherever the drink was introduced, upheavals followed

## Innovations

- Roasting, grinding, brewing, filtering and serving the beverage
- New manners and customs

## From where to where **From Ethiopia to the Middle East**

### **Ethiopia**

- Berries or leaves consumed, addictive but refreshing

### **Yemen qahva** (early 15<sup>th</sup> century)

- One of the earliest known instances of coffee cultivation
- From Yemeni monasteries to Islamic capitals

### **From Yemen to Mecca**

- Fears that coffee houses might become platforms of fomentation against the authorities

- All the coffee houses closed 1511
- Universal ban against coffee
- Beans were legal, the drink not
- To Cairo early 16<sup>th</sup> century
- Constantinople in 1555, by 1570, 600 coffee shops



Image credit: BBC

“...the coffeehouse served as a secular forum for conversation that drew people from all social strata, and in this capacity it was a true cultural innovation...

None of the existing social venues at the time allowed for the breadth of social discourse that occurred in the coffeehouses”

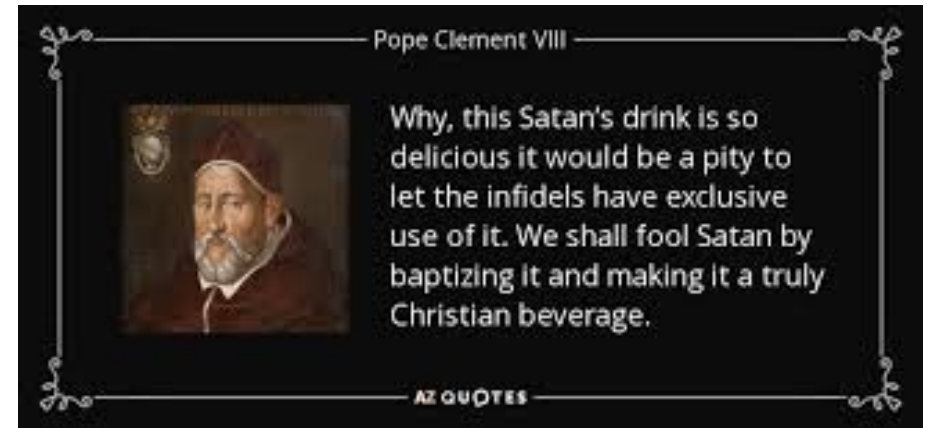
(Juma 2016)



From where to where **From Ethiopia to the Middle East to India to Europe**

To **Europe** via India and Indonesia

- Dutch East India Company
- Greeted with negative social responses, mostly inspired by local interests to protect wine, beer, ales, and other beverages
- Traders and consumers ignored bishops and priests arguing against coffee
- In Marseilles (1671) winemakers and doctors' alliance to weaken the consumption of coffee



*Image credit: AzQuotes*

- Pope eased the process
- Coffee subject to taxes, efforts to monopolize it, black markets

# Trivia with a message

(Juma 2016)

Café au lait was invented in France in the 1700s, representing a compromise between milk producers and coffee.

Dialogue and compromise within a society with respect to technological innovations remains crucial.

# England

First at Oxford University (17<sup>th</sup> century)  
Critics: coffee degraded academic discourse

The introduction of tea at home for the creation of new social institutions aimed at strengthening family ties.

- a response to the culture of taverns that kept drinking men from home

*“the decay of study, and consequently of learning due to coffeehouses ... to which most scholars retire and spend much of the day in hearing and speaking of news, [and] in speaking vily of their superiors.”*

(Anthony Wood)

Women’s petition against coffee:  
*“men spend their money, all for a little base, black, thick, nasty, bitter, stinking, nauseous puddle-water.”*

Coffee consumption should be prohibited for people under the age of 60 - beer and other spirits be consumed instead.

“It [coffee] has been the world’s most radical drink in that its function has been to make people think.

And when the people began to think, they became dangerous to tyrants and to foes of liberty of thought and action.”

(William H. Ukers 2015)



## Lessons according to Juma

- 1) Only after inventions have impacts on the economy and/or social life their implication becomes visible ([time](#))
- 2) Opponents and supporters of new products tend not to reveal the true socioeconomic roots of their position ([self-interests](#))
- 3) The balance between benefits and risks ([for whom and how](#))
- 4) The use of demonization and false analogies to amplify the perception of risks ([truth?](#))
- 5) Noneconomic factors play a key role in triggering tensions over new products ([social learning](#))

“Time and time again policymakers are taken by  
surprise when technological (or systemic)  
controversies emerge.

Yet they are horribly predictable”

(Calesteous Juma)

Controversies often arise from tensions between  
the need to innovate and the pressure to  
maintain continuity, social order, and stability  
(Juma 2016)

The quickest way to find out who  
your enemies are is to try doing something new  
(Calesteous Juma)

Try to change the playground or rules of the game

On institutions





City and regional development is about releasing  
the future potential beneath existing institutions and  
institutionalising the released potential.

(Sotarauta & Suvinen, 2018)

Institutions exert an influence on the character  
and evolutionary trajectory of regional  
economies that is often subtle, sometimes  
dominant, but undeniably pervasive

(Gertler 2010)



## Meric Gertler: Rules of the Game, The Place of Institutions



<https://www.youtube.com/watch?v=e9u9LJxdPEQ>



Institutions are  
carriers of history

(David 1994)

# Institutions

- The underlying determinant of the long-run performance of economies (North 1990)
- Specific local institutional arrangements enable localities and regions to embark on a sustainable and high-end road to economic development (Streeck 1991)

Institutionalists believe that *the greater* the density of combinations of...

- **intellectual capital** (knowledge resources)
- **social capital** (trust, reciprocity, cooperative spirit and other social relations)
- **political capital** (capacity for collective action)

*the greater the territorial capital* within any given region, and thus *the greater* the potential for economic development

(Rodriguez-Pose 2013)

# Institutions

- Recurrent patterns of behavior (habits, conventions, and routines) (Morgan 1997)
- Socially constructed rule systems or norms that produce routine-like behavior (Jepersson, 1991)
- Regulative, normative and cultural-cognitive institutional pillars (Scott 2001)
- Rules of the game (North 1990)

- In other words, institutionalized structures / operational environment / context
- All those things that influence **actors'** choices, actions and decisions



## Formal institutions (hard)

- Universal and transferable rules and generally include constitutions
- Laws, charters, bylaws and regulations
- Elements such as the rule of law and property rights and contract and competition monitoring systems

(Rodriguez-Pose 2013)

## Informal institutions (soft)

- A series of features of group life; norms, traditions and social conventions as well as interpersonal contacts, relationships, and informal networks
  - Essential for generating trust
  - Context and geography specific

(Rodriguez-Pose 2013)

Very different institutional contexts may yield similar economic results

Similar institutional contexts may yield different economic results

Agency needs to be considered

# Institutions

- Laws
- Various standards
- Organization and industry specific rules
- Industry specialization and structure
- Governance structure
- Financial system
- The research and development structure
- R&D investment routines
- Training and competence building system



- Rigid institutions that are not adaptive to changes in the economy may be the cause of lock-in situations (Unruh, 2000)
- Actions deviating from what is framed as suitable by institutions are often sanctioned, one way or another (Battilana 2006; Battilana, Leca, and Boxenbaum 2009)
- Institutions shape actors' understandings of what is feasible and acceptable and what is not, and thus they reduce uncertainty by influencing expectations and providing incentives (Rafiqui 2009)

The institutional approach has been criticized for its inability to explain transformation and institutional change, and more generally for predicating compliance and conformity.



## Three pillars of institutional theory

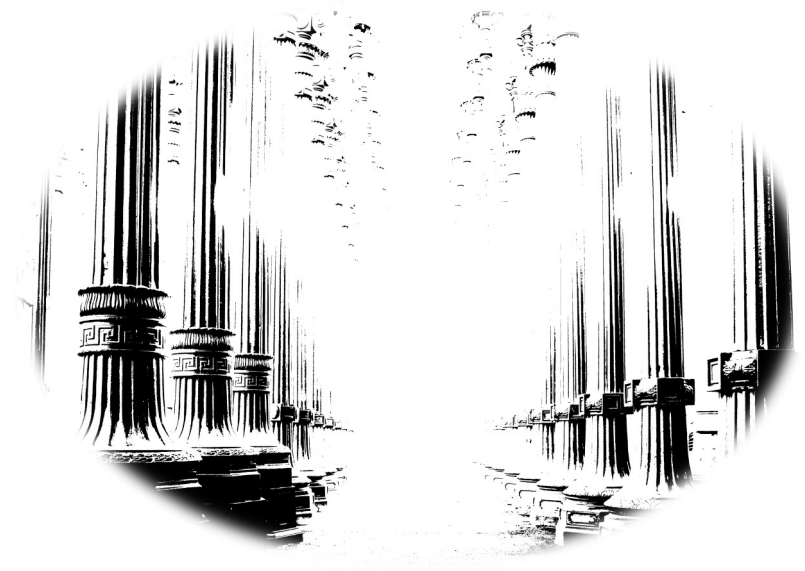
(Scott 2001; elaborated by Fünfschilling 2020)

	<b>Regulative pillar</b>	<b>Normative pillar</b>	<b>Cultural-cognitive pillar</b>
Basis of compliance	Expedience	Social obligation	Shared understanding
Indicators	Rules, laws, sanctions	Certification, accreditation	Common beliefs
Basis of legitimacy	Legally sanctioned, rule-based sanctions and rewards	Morally governed	Recognizable, culturally supported
Compliance	Avoid sanctions, obtain rewards	Meet societal and professional expectations	'Fish in water' – what else is there?
Sanctions	Jail, fines, etc.	Social exclusion	Social exclusion, being outsider
Institutional pressure	Coercive (we must comply)	Normative (we should comply)	Mimetic (we copy others)



## Two perspectives

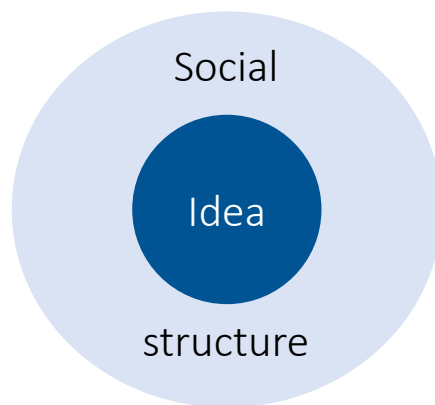
- Understanding city and regional development as processes of institutional change (deinstitutionalisation and institutionalisation)
- Understanding the role of institutions on city and regional development
  - Policies, laws, values, routines, standards, etc.



- A process of a new practice, activity, norm, belief, or some other institution, becoming established part of an existing system, organization or culture

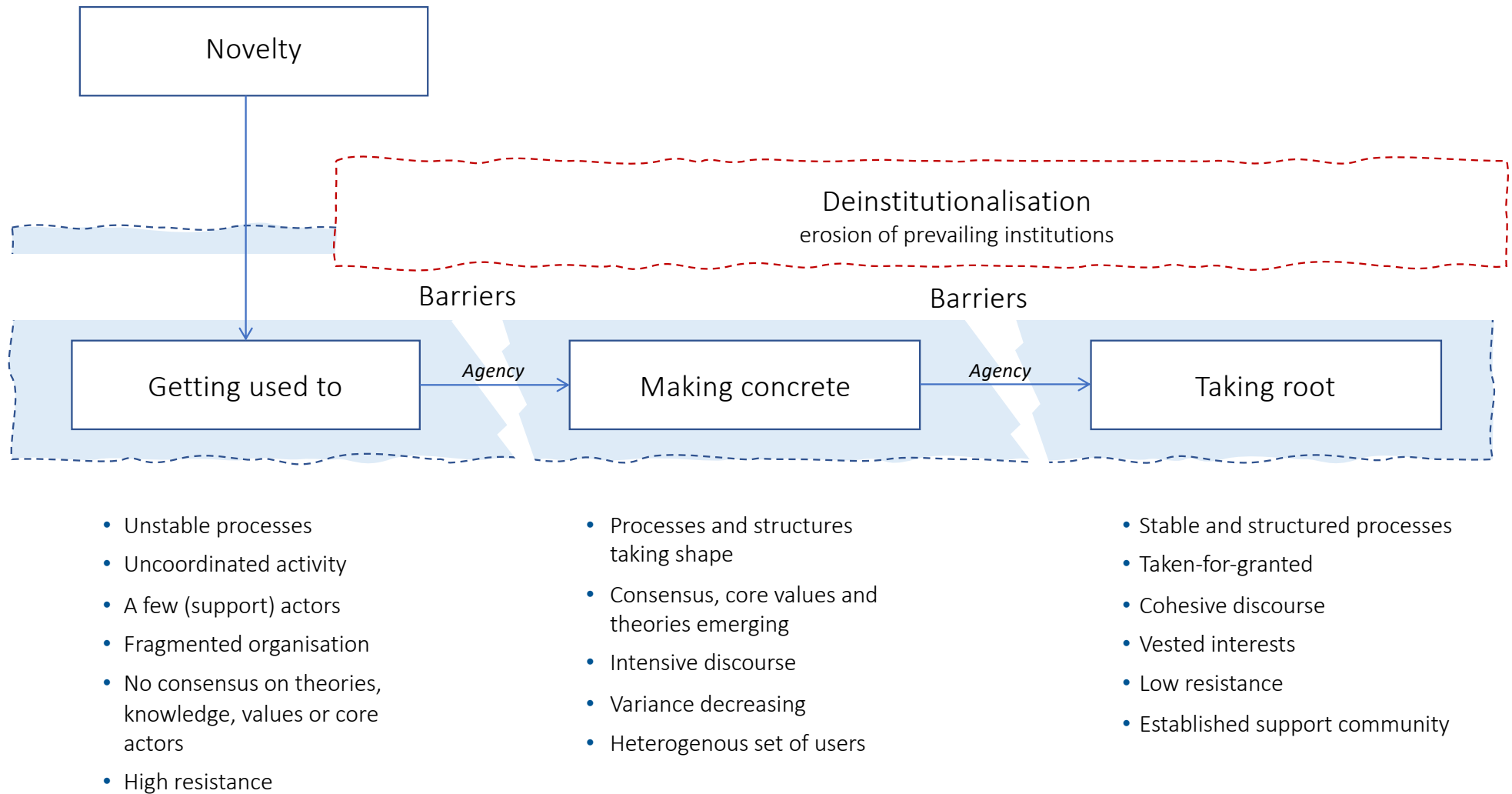
(Sotarauta & Mustikkamäki, 2015)

## Institutionalisation



- Institutionalised practice has attained a high degree of resilience (Scott 2001)
- ...like a rule in collective thought and social action (Scott 2001)
- The formation of such collective actors who defend the emergence of a new institution are an essential part of the institutionalization process (d'Ovidio & Pradel 2012)

## Process of institutionalisation



(Applying Fünfschilling 2020)

# Institutional change

(Streeck & Thelen 2005)

Process of change	Results of change	
	Continuity	Discontinuity
Incremental	Reproduction by adaptation	<b>Gradual transformation</b>
Abrupt	Survival and return	Breakdown and replacement