The Effect of Stakeholder Inclusion on Public Sector Project Innovation

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Abstract

The overarching aim of this paper is to analyse the influence of stakeholders on the creation and types of innovations that projects produce. More specifically, the paper analyses the effects of stakeholder inclusion in 272 EU funded regional development innovation projects in Finland during the 2007-2013 programming period. Project stakeholder involvement and participation is analysed as networks of relationships which help understand how project coalitions operate and stakeholder networks effect the creation of innovations. Our hypothesis is that inclusion of actors in project formal organization, networking activity of the project as well as project access to other projects plays a role in innovative behaviour. The paper thereby contributes to the understanding of the influence that project stakeholder networks have in the interactive governance debate.

Public policy is today implemented through a range of methods involving a multitude of actors. A growing interest in governance as a way to administer society has also given rise to an increasing use of projects in administering policy and service delivery. Projects are often viewed as mechanisms by which flexibility can be achieved and produce innovation solutions while presenting means of breaking with stability and bureaucracy within the public sector. Projects are even regarded as one of the most important structural developments in the public sector.

Projects are often perceived as being effective mechanisms that can provide unique, products, services or results on a just-in-time basis. Some even refer to projects as temporary knowledge organizations indicating that they are a fertile ground for where innovations can emerge. Projects, however, rarely operate on their own. The delivery of public services takes place in an agency networks and jointly with non-governmental actors (private enterprises, third sector organizations). A considerable amount of stakeholders are also present in regional development innovation projects. The collaboration between the included stakeholders and their effect on innovation types that emerge is, however, unclear.

Keywords: Projects, Knowledge management, Stakeholders, Innovation, Regional development

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# Contents

Abstract........................................................................................................................................................................................... 1
Introduction......................................................................................................................................................................................... 3
Aim, methods, material and structure .............................................................................................................................................................. 4
Projects in an interactive and networked society ........................................................................................................................................... 4
  Projects and stakeholder involvement......................................................................................................................................................... 5
  Projects as creators of innovation .............................................................................................................................................................. 7
Analysing projects from a network perspective........................................................................................................................................... 9
  Research setting and methods........................................................................................................................................................... 11
Innovations in ERDF context .................................................................................................................................................................. 12
  General information about ERDF projects .................................................................................................................................................. 12
  Project innovations, inclusion, activity and access characteristics ........................................................................................................................................ 13
  The effects of inclusion, access and activity on project innovation........................................................................................................... 18
Conclusion and discussion................................................................................................................................................................ 21
Acknowledgements ................................................................................................................................................................................. 22
References............................................................................................................................................................................................... 23
Introduction

The high cost structure of European industries makes it difficult to compete with price alone against Asian industrialising countries. Surviving in global markets seems to be more and more dependent on the constant production of new ideas and innovation. The belief that innovation will play an important part in the delivery of goods and services is further emphasized by the European Parliament and the Council of the European Union (2006) in their Competitiveness and Innovation Framework Programme for the period 2007-2013. The implementation of the programme objectives is almost exclusively handled through the funding of small, well-focused projects at the local level of governance.

A common notion seems to be that innovations represent the core renewal process in any organization (Bessant et al., 2005, 1366). Innovation is also largely regarded as the key driver in organizational success as well as the ultimate solution to welfare problems (Gripenberg et al., 2012). The need for innovation is thereby not something that is exclusive to the private sector and is amongst others something that the European Union strongly emphasizes in its Lisbon Strategy according to which EU should aim at being “the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment by 2000” (European Union, 2000).

The question of what innovations actually means in this context is not always clear. A common problem regarding innovations, especially among regulatory agencies involved in the funding and monitoring of resources allocated towards innovation, is lack of clarity (Ahvenharju et al., 2010). The word innovation itself stems from the Latin word innovare which means to make new. Innovation can, however, mean a lot of different things (Rowley et al., 2011). Other, more recent definitions of innovation for instance include innovations as new products, new processes, new positions where products or services are used, or as new paradigms signifying a radically new mental model that frames what an organisation does (Bessant & Tidd, 2007).

Projects can be regarded as being exceptionally well suited for the development of innovations, and innovations are also a major output of projects (Brady & Hobday, 2011). They are even often viewed as temporary knowledge organizations and are also seen as effective tools for achieving innovation, development and change. According to this view all projects should at least have the potential for creating or being innovative. However, innovation in governance and services are ambiguous and often requires changes in relationships between the actors involved (Hartley, 2005, 27). Innovations also require an environment where both the institutional environments, as well as the actors involved are able to learn and share knowledge (Bekkers et al., 2011, 3.)

In terms of knowledge creation a common notion seems to be that knowledge is created when heterogenic organizations or actors meet and share ideas. If one accepts this idea then it would be reasonable to assume that more connection points also would mean that more knowledge would be created. Project stakeholders are in this respect interesting as they present a natural connection not only between other more permanent organizations, but also between other projects as well as other stakeholders. But despite these assumptions all projects do not produce innovations and project participation and involvement remains unexplored. Although many advances in the analysis of knowledge sharing among organizations have been made, there are still many black box dimensions of our understanding (Foss, Husted & Michailova (2010). In addition, little research has been conducted on the possible causes or effects of project partnering, or information sharing in or between projects (Pinto & Nedovic-Budic, 2002).

Central questions relating to the projects’ pursuit of innovations are therefore who is included in the projects, what types of activities that projects use to gain new participants or advice, not to mention who has access to prior project knowledge either as a project staff member or as a stakeholder.
Aim, methods, material and structure

The overarching aim of this paper is to analyse if the involvement of external actors or stakeholder in projects has an effect on the creation of knowledge in the form of innovations? The basic hypothesis is illustrated in figure 1. Stakeholder involvement will be operationalized by analysing three aspects of involvement namely project inclusion, project activity and access to other projects.

**Figure 1. Basic illustration of the variables**

The *methods* used in this paper consist of combination of descriptive and statistical data analysis in the form of logistic regression analysis. Operationalization of the concept “innovation” has required content analysis performed by the assistants in coding the existence of novel ideas or practices within the projects. Further, we employ basic sociometric “network” data in our statistical models.

The *material* in this paper is based on data from 272 EU funded regional development projects (ERDF) in Finland. The data has been provided by the EURA 2007 database (Ministry of Employment and the Economy, 2013) and includes in-depth data about the funded projects including the final reports provided by the project managers. Additional data has been gathered by a survey conducted May 2013 which was sent to ERDF project managers within priority axes 2 (PA) that focuses on furthering innovation activity and networking as well as strengthening of knowledge clusters.

The paper is structured as follows. It begins by discussing how the increasing use of projects can be seen as a part interactive governance debate, and how projects have become part of the public policy service delivery process. It goes on to address how projects can be viewed as temporary knowledge organizations and discusses the link between projects, innovation and stakeholders as well as how innovation projects can be viewed from a network perspective. The paper then describes the research setting and methods and presents the analysis and main results of the research. The paper ends with a concluding discussion and suggestions for future research directions.

Projects in an interactive and networked society

This section begins by describing the general developments within the governance and the linkages between interactive governance and projects. It then discusses how projects and knowledge creation are linked and goes on to discuss what affect participation in projects has on knowledge creation and how the involvement of external stakeholder composition might affect knowledge creation. The section focuses particularly on stakeholder involvement in the public sector.
Public policy is today created and implemented through a range of different methods involving a multitude of different actors. A growing interest in governance as a way to administer society also seems to have given rise to the increasing use of interactive governance mechanisms as a way of administering policy and service delivery. The width of the current governance debate is extensive and suggestions have been made to focus more on processes within quasi-markets, public-private partnerships and governance networks than institutions.

Klijn (2007; 2008, 508) for instance describes the rise of networks as a governance concept deriving from a growing need for inter-organizational structures between governmental-, private-, and not-for-profit organizations. He also states that a network perspective provides a way to make sense of the world of complex interactions and can therefore also serve as alternative ways to manage complex interactions in the production of public goods and services.

According to Torfing and his colleagues (2012) the interactive governance paradigm helps to understand the prospects for collective action thereby showing how multilateral action is organized. Temporal and spatial horizons for strategic action have also become increasingly important in fields where problem-solving need to take into consideration who to involve, when, where and how. It is also in this respect that this paper argues that temporary organizational forms play a particularly important part.

Although a range of different suggestions for arenas where interactive governance could take place exists few studies point directly at the temporary organizations such as project organizations as an important arena where interactive governance takes place. This is somewhat surprising given that almost all reform activities today more or less seem to have been transformed into projects. Some even regard the increased use of projects as one of the most important structural developments in the public sector (Godenhjelm, Lundin & Sjöblom, 2011).

A commonly used definition of projects is that they are temporary endeavours that are expected to create a unique product, service or result (PMI, 2004). They are also often viewed as mechanisms by which greater flexibility can be achieved and innovative solutions can be produced while presenting means of breaking with stability and bureaucracy within the public sector (Sahlin-Andersson & Söderholm, 2002). Projects thereby incorporate many of the core elements within the interactive governance discussion.

Projects are also often believed to enhance input and output legitimacy and to enable coordinated policy implementation of EU-, National- and Local level strategies and objectives. If we accept this line of reasoning then projects should be ideal tools for coping with complex societal changes and demands that also foster collaborative innovations. The focus on project scope and its temporal limitation can be argued to have an effect on knowledge creation, mostly due to the value in solving a single particular problem or task, but also because of the project organizations composition.

**Projects and stakeholder involvement**

This section describes the importance of project organization staff, steering group and stakeholder inclusion, the activity associated with gathering these actors, as well as access to prior information from other projects.

As with any organization staff is of great importance. The *project organization staff* should consist of the optimal staff composition in order to successfully complete the project task (PMI, 2004, 21). Human resource planning is therefore of particular importance in both public and private sector projects. Projects naturally involve core actors such as the project manager, project employees, customers, sponsors and influencers. They are also often regarded as internal stakeholders within projects. Several issues therefore need to be considered such as which organizations will be involved, what disciplines and specialties are needed as well what the individual goals and agendas are among different staff members (PMI, 2004, 203).
Project participation or stakeholder inclusion and collaboration are of particular interest in public sector projects. Inclusiveness and the ability for project actors to operate in new environments is not only important given the increasing reliance on networks of governance in contemporary society (Smith, 2009, 24), but also given their link to the public as well as their funding being based on tax-payers money (Wirick, 2009). Despite this apparent connection between the project and its surroundings few studies have been conducted outside of the project organization itself (Packendorff, 2002).

In addition to project staff almost all public sector projects need to have a project steering group. In EU funded ERDF projects such a group is mandatory. The task of the steering group is to support the project’s day to day activity, and should consist of actors representing a broad range of expertise closely related to the project’s task or end users. The project steering group is also responsible for notifying the managing authorities or even for terminating the project if significant delineations to the projects goals are made (Ministry of Employment and the Economy, 2010).

Involvement is, however, not only limited to the immediate project organization and spans beyond the project organization or permanent organizations directly linked to them. These actors are often regarded as external stakeholders. Critically speaking one might even ask who is not a stakeholder in a public sector project. The objective of stakeholder participation is not to replace what Dahlberg and Vedung (2001, 15-16) refer to as traditional representative forms of participation, but to complement them, and in doing so create a legitimate representation of those affected (Vedung, 2009, 126).

Ideally, projects should involve any actor that can be considered as having a stake in the project. The project management literature defines project stakeholders as individuals or organizations that somehow are involved in the project, or more importantly, actors whose interests may be affected by the project (PMI, 2004, 24). Stakeholder identification is often regarded as an essential part of almost all projects, and failure to include key stakeholders might cause serious damage to the project especially if unexpected or unplanned events occur (Aaltonen & Sivonen, 2009). The Project Management Body of Knowledge for instance states the following.

The project management team must identify the stakeholders, determine their requirements and expectations, and, to the extent possible, manage their influence in relation to the requirements to ensure a successful project.

PMI, 2004, 24

Many public sector projects also engage a multitude of actors by including both private and public organizations that should be able to influence the project. Projects can in this case be regarded as an additional way to directly participate in public policy by for instance enabling citizens to participate in hearings and reviews or lobbying for or against a particular project (PMI, 2006, 14). The selection of additional project participants or stakeholders is often structured into pools of potential partners that, once selected, can be included in the project. This is also expected to reproduce potential for future project collaboration (Manning, 2010; Manning, 2005). The identification and selection of stakeholders therefore requires some sort of activity from the project organization such as the use of social media, participation in third sector organizations, client and user surveys etc.

The inclusion of stakeholders does not necessarily mean that all stakeholders need to agree with all decisions in the project. One could even argue that the inclusion of critical stakeholders could be regarded as assets to the project in terms of for instance risk management. Stakeholder views, however, need to be taken in confidence that their involvement can influence the processes within the project (El-Gohary, Osman & El-Diraby, 2006).

The relationship among project stakeholders is important in order to identify critical communication paths and needs (Wirick, 2009, 260). The paths can consist of connections in terms of access to lessons learned in previous projects not only by the project’s staff but also by
stakeholders that are included in the project. Some even state that the combined knowledge among both internal and external stakeholders represents the primary contribution to performance of work (Ibid., 2009, 170). The inclusion of stakeholders and the capturing stakeholder input is therefore a critical component of the development process and is believed to provide stability and alignment between the project and other programs at different levels. A lack of stakeholder involvement throughout the project has even been argued as being a central reason for project failure (Wirick, 2009; El-Gohary et al., 2006).

Although project collaboration is expected to build up relationships and is believed to increase trust and to establish a common ground that might become useful in future projects (DeFilippi & Arthur, 1998; Grabher, 2004) it is by no means unproblematic. Several reasons for including stakeholder might exist such as lack of rooting and anchoring of the project in its institutional environment (Aaltonen et al., 2009, 581). Guba and Lincoln (1989, 56-7) argue that it is not enough to identify and include stakeholders but also to deal with points of difference or conflict by for instance accommodating differences with meaningful arguments. Stakeholders might for instance be included as a response to unexpected events such as misunderstandings between the focal project organization and local stakeholders, or as a result of difficulties in establishing indirect relationships with salient external local stakeholders (Aaltonen et al., 2009).

Government projects often include multiple organizations and have an impact on multiple stakeholders which often requires a substantial amount of dialogue and negotiation, especially if stakeholders have different views (Wirick, 2009). Governmental actors in fact often require specialized communication and liaison that may result in increased project complexity and create more work for the project manager (Brunetto & Farr-Wharton, 2003). Stakeholders might even be included for purely symbolic reasons. But despite these potential complications Vedung (2000, 73) emphasizes the importance of what he calls the “knowledge argument” in terms of stakeholder inclusion. According to his argument it would be insane to dismiss stakeholder input as it can contain highly valuable insights in terms of for foolish potential side-effects, implementation barriers or connection with other interventions.

Naturally, the types of stakeholder that are involved depend on the scope of the project. It can be argued that a wide range of project stakeholder is of particular importance in projects aimed at developing innovative solutions. On the one hand Gulati (1995) and Uzzi (1997) argue that prior collaboration often helps to build trust and a common ground. Actors with prior knowledge of each other can also minimize project risk as new stakeholder might have diverging views. On the other hand new and heterogenic stakeholders can be regarded as creating a critical mass that could foster innovative developments.

Projects as creators of innovation

In an age were innovations are expected to produce large improvements projects seem to have become increasingly important. This paper argues that project stakeholder participation is central for the understanding of the effects of innovation creation especially in an EU-context. This section begins with a brief overview of existing innovation definitions. It then discusses the link between projects and innovation and ends with a discussion of knowledge creation in projects and the development of innovations.

Ideally, projects are regarded as a flexible organizational form that can take many different shapes depending on the task at hand. As discussed above they should include relevant stakeholders, thereby enabling a plurality of interconnected policy arenas that in turn should foster the exchange of knowledge. Projects have also widely been recognized as wellsprings of innovation and learning and are believed to bring about creativity and meet the requirements of innovation (Brady & Davies, 2004; Segercrantz, 2012, 188).
A commonly used definition for innovation is the following:

An innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organisation or external relations.

OECD, 2005, 46

As also indicated in the OECD definition innovations can take several different forms that produce different outputs. But although the above mentioned definition is widely used it is by no means the only one. The EU projects’ managing authorities for instance use a wider variety of innovation definitions. Some see innovations as the creation of new content, new implementation methods or collaborative structures within projects as well as new products, courses of action, new production processes or services developed within projects (Ministry of Employment and the Economy, 2011; European Union, 2007a; European Union, 2007b). Others go further and define innovations as a new combination of knowledge that changes habits, structures, practices, or improvements in operational preconditions or even quality of life in the region (European Union, 2007c; Ibid, 2007d).

A useful innovation definition is presented by Bessant and Tidd (2007, 4) according to which innovations can be categorised into four different innovation types. Innovations can be viewed as a product that represents changes in the things (products/services) that an organization offers. They can be viewed as a process that represents changes in the way in which things (products/services) are created and delivered. They can be viewed as a position that represents changes in the context in which the products or services are introduced. Finally, they can be viewed as a paradigm that represents changes in the underlying mental models which frame what the organization does. This definition will also be used in the following analysis.

Considering the multitude of different definitions that exists it is no wonder that all do not agree about the possibility of finding common definition(s) for innovations. Grippenberg and her colleagues (2012) for instance argue that the term innovation not only lacks specificity, but is also a fluid concept which cannot be specified in time as it is under constant transformation. This notion is also shared by Rowley and her colleagues (2011, 82-83) who argue that many of these new innovation type definitions to some extent overlap. Product innovations could for instance encompass hybrid forms of products that include both services and product innovations; process innovations could encompass technical process innovations that resemble products; position innovations that could encompass both administrative and marketing operations; and finally paradigm innovations that could produce all of the innovations mentioned above.

A predominant feature in almost all innovation definitions is that they are seen as technical tool by which increased competitiveness and commercialization can be achieved. Most of the above mentioned innovation types also seem to be better suited for business- than public sector environments. This does, however, not exclude the importance of innovations in the public sector, particularly innovations that enable increased collaboration among citizens (Smith, 2009).

Public sector innovation from a network governance perspective can, according to Hartley (2005, 30) also be viewed as policy-makers either enabling innovation through legislative reforms or providing resources for experiments that enable collaboration. A general lack of performance measures such as return on investment measurements, however, makes public sector project innovation impact difficult to measure and even though some projects innovation indicator data is gathered there are no guarantees of accuracy (Godenhjelm, 2013). The amount of new knowledge created, as well as the expected amount of interaction by which knowledge is presumed to be created is therefore unclear. Much of course depends on the nature of the project and its specific task. In some cases innovations might occur long after the project has ended (Ahvenharju et al., 2010, 13).
Grabher (2004) argues that both the creation and the sedimentation of knowledge arise at the interface between projects and other actors involved in the project. He goes on to argue that learning is rooted both in the repeated cycles of interaction between the project and the associated organizations or environment in which the projects operated, as well as in the reconfiguration of relationships. Knowledge creation is in other words not isolated to internal or external stakeholders within the project organization. It can for instance also occur within the epistemic community or within personal networks (Grabher, 2004, 1493). If we accept these arguments then not only which actors that are included in projects that could establish a potential intersection become interesting. To who project managers turn to for advice, as well as who has access to knowledge that could be beneficial for the project also becomes interesting.

An area that can be regarded as especially important in terms of both knowledge creation and sedimentation of knowledge is projects with the purpose of creating innovative solutions. Projects aimed at creating innovations, and involve a multitude of different stakeholders should therefore be ideally suited, not only for the development of the expected innovation, but also serve as collaborative forums where additional knowledge and information should be produced.

**Analysing projects from a network perspective**

There are several alternative ways by which one could analyze project involvement. One way would be to view projects as ecologies (Grabher, 2004). Another, perhaps more fruitful way, would be to analyze project participation as networks of relationships. It has for instance been argued that contemporary methods in scientific management theory lacks a clear understanding of the role that humans play in their interaction with wider social and business purposes. The contextual embeddedness and its network relations also seem to have been neglected in the scientific debate (Pryke, 2006; Manning, 2010). A persistent need for critical reflection on how different qualitative, and perhaps quantitative, methods can be used in studying interactive governance and how new methods can be developed thereby exists (Bogason & Zölner, 2007), not to mention the need to bridge the gulf between qualitative policy network analysis and quantitative social network analysis (Torfing et al., 2012, 239).

Projects can be viewed as a network of strategically coordinated inter-firm yet project based relationships (Manning, 2005). A network perspective would therefore help to understand how project coalitions operate and perhaps even enable distinguishing between effective network characteristics from less effective ones (Pryke, 2006). We now turn to a more detailed description of how networks can be analyzed.

In a purely formal sense, networks consist of points (nodes) reflecting the actors and lines (arcs, edges) depicting relationships among these actors (Wasserman & Faust, 1994). Actors can be individuals and their collective counterparts, such as organizations or nation states. The relationships can have diverse content, such as communication, flow of resources, sentiments, co-membership or mutual interests. In a relational sense, being an individual, organization or nation state is not about the actor’s attributes, such as gender, size of revenue or GDP, but rather about the accumulated contacts with other individuals, organizations and countries. In this line of thought, networks are a ubiquitous feature of social life existing in both deeply entrenched hierarchies, as well as in competitive markets.

Most discussions about networks in the context of public administration (and others) are related to networks as a metaphor. As a concept, “network” is one of those magic concepts which are used extensively, usually in a positive light, but not in a precise or consistent manner (Pollitt & Hupe, 2011). In a critical tone Dowding (2001) claims that descriptive policy network studies have not resulted in major empirical breakthroughs nor has the network analytic tradition given many novel findings in policy analysis, even though many real-life developments encourage taking networks seriously. Increasingly, the delivery of public services takes place in
agency networks and jointly with non-governmental actors (private enterprises, third sector organizations) in contractual relationships. In addition, international agreements and privatization further boost the development of networks (O’Toole, 1997).

Provan and Kenis (2007) argue that, in the public sector, the assessment of public sector networks is important, but at the same time the diverse interests of the stakeholder groups makes it a difficult task. Milward and Provan (2003) suggest that clear principal-agent relationships including some public service provision, infrequent contracting, matching resources with governance, and stability to foster cooperation help produce efficient performance and desired outcomes of outsourced service provision.

Recently, Provan and Kenis (2008) tried to combine inclusion of networks as a mode of governance with the social network analytic tradition. They pointed out that networks require guidance, and that the establishment of overseeing units within network structures improves their functioning. They also pointed out two important features of networks: 1) brokering, which has an impact on the number of ties (density) in a network, and 2) control in the network, ranging from participant governed networks to lead organization controlled networks. Similarly, Agranoff (2006) argues that networks need management as organizations do, but networks should be managed in a non-hierarchical, cooperative way.

In a theoretical sense networks have been viewed from three different perspectives (Thompson, 2003), as governance structures originating from the transaction cost analysis (Williamson, 1985), as open patterns of relationships originating from the actor-network theory (Latour, 2005) and as a compilation of nodes and relationships originating from the social network analysis tradition (Freeman, 2004). Probably the most common view is to see networks as “hybrids” in a transaction cost inspired framework and as governance structures situated between markets and hierarchies (Williamson, 1999). Figure 2 illustrates some alternative roles that project actors or stakeholders might have, as well as potential links that could be utilized in order to benefit from information generated by the project(s), actors or stakeholders.

**Figure 2. Example of links between projects and stakeholders**

<table>
<thead>
<tr>
<th>TYPE A</th>
<th>TYPE B</th>
<th>TYPE C</th>
<th>TYPE D</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image.png" alt="Diagram" /></td>
<td><img src="image.png" alt="Diagram" /></td>
<td><img src="image.png" alt="Diagram" /></td>
<td><img src="image.png" alt="Diagram" /></td>
</tr>
</tbody>
</table>

- **Example type A** illustrates projects that only consists of a single project organization and does not involve any additional stakeholders. Besides the mandatory information that should be provided to the managing authority no additional information is distributed outside the project organization.
- **Example type B** illustrates projects that consist of the project organization but also includes stakeholders. It is therefore reasonable to assume that information generated within the project at least to some extent would be distributed from the stakeholders to the project or from the project to the stakeholders both of whom can use the information in their respective permanent organizations.

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3 The black nodes illustrate an actor responsible for the project i.e. the project manager. The white nodes illustrate project stakeholders that have been included in the project. The edges represent knowledge integration or at least the identification of an actor as a stakeholder.
**Example type C** illustrates projects that consist of the project organization and stakeholders (as in type B), but also include project staff that is or has participated in another project as a staff member. It is therefore reasonable to assume that this particular project staff member can use the information gained in one project both in their respective permanent organization as well as in the other project that the actor is included in.

**Example type D** illustrates projects that consist of the project organization and include stakeholders (as in types B), but also include stakeholders that are linked to other projects. It is therefore reasonable to assume that this particular stakeholder can use the information gained in one project both in their respective permanent organization as well as relay information to the other project that the actor is included in.

**Research setting and methods**

The research setting in this paper consists of EU funded regional development projects (ERDF) in Finland during the 2007-2013 programming period. ERDF projects are of particular interest as one aim within priority axis (PA 2) is to fund projects that focus on the promotion of innovation activity and networking, and reinforcing knowledge structures (Suomen rakennerahastostrategia, 2007). The data used in this paper has been gathered in two stages.

The **first stage** consists of quantitative data that has been provided by the Finnish Ministry of Employment and the Economy, from the EURA2007 database (Ministry of Employment and the Economy, 2013). This stage involved a descriptive analysis of the projects including the projects’ goals, their definition of target group, description of implementation and cooperation, as well as their description of innovativeness. The stage included the mapping of companies and organizations linked to individual projects so that a network of actors can be created.

The **second stage** consists of survey data gathered during summer 2013. The survey was sent to 1750 project managers who had receives EU-fund in Finland out of which 272 projects were PA 2 projects. The response rate for PA 2 project managers was 32%.

The analysis used in this paper is logistic regression analysis on selected variables that are believed to predict the occurrence of innovation in ERDF projects, controlling for the combined number of project participants. The independent variables were project inclusion, project activity and project access controlling for numbers of stakeholder firms and stakeholder organizations.

**Inclusion** was analysed by studying project organization staff composition and steering group composition. Staff inclusion was studied by categorizing it’s actors as having belonged to or currently belonging to; Municipalities or Federations of Municipalities, Central government, Firms, Third sector, and/or Research and Education. The staff inclusion predictor scores ranged from 1 to 5 where one signified no presence and five indicated omnipresence of the group that is, all members of the project originating from one group. Steering group inclusion was studied by categorizing it’s actors as belonging to; Regional coordination groups (MYR), Regional administrative agencies (AVI), Regional Councils (ML), Regulatory Agencies (ELY), Municipal development corporations, Municipalities, Firms, Third sector, or Universities. The steering group inclusion predictors were coded as 1 for presence and 0 for absence in the project.

**Activity** was analysed by studying the means by with the project had tried to activate relevant stakeholders and how meaningful a particular forum had been for the success of the project, as well to whom the project organization had turned when it needed advise or support in matters relating to the project. The means to activate stakeholders was studied by categorizing different types of mediums used in the project namely; Social media, Participation in third sector organizations, Client- and user surveys, Newspaper articles, Contacts with politicians, Contacts with public officials. Useful means for success was coded from 1 to 5 where one pointed to no significance and five pointed to high significance of a particular activation method. *Ps..05. The
Useful contacts were studied by categorizing different contacts namely; Regional Councils (ML), Regulatory agencies (ELY), Municipalities, Firms, Third sector, or Universities. Useful contacts for success coded from 1 to 5 where one signified no significance and five signified high significance. *P≤.05.

**Access** was analysed by studying the inclusion of project staff members or project stakeholder members that had previous experience of project work. **Project staff inclusion** was studied by analysing overlapping memberships in other projects. The membership was limited to four key roles within the project as specified by the managing authority namely the roles as; Project Manager, Project economy manager, Project administrator, Person in charge of the project, Person in charge of the follow up of the project. **Project stakeholder inclusion** was studied by analysing overlapping stakeholder memberships in other projects. The stakeholders included all actors categorized as stakeholders by the individual projects. The requirement for being categorized as a stakeholder was in this case that the company stakeholder or the organization stakeholder had participated in the project’s activity in a concrete way, such as participation in the development of a process, service or result. The stakeholders should neither be part of the formal project organization nor as an actor selling services or products to the project in question. Both stakeholder and project staff access was coded 1 if two or more project shared at least project employee or at least one project stakeholder.

**The dependent variable: Innovation.** This variable was coded on a dichotomous scale measuring the occurrence or absence of the innovation. The selection was made by analysing the final reports provided by the project managers and categorising the project results as innovations if they correspond to at least one of the innovation types defined by Bessant and Tidd (2007). The variable scored 0 if the project report did not include any features of a particular innovation type and 1 if any of the innovation types were present. Research assistants were responsible for the coding.

**Innovations in ERDF context**

This section first presents a descriptive illustration of the selected projects based on data from the EURA database (Ministry of Employment and the Economy, 2013). This includes general information about the amount of ERDF projects as well as the funding directed towards the projects. The section then presents the descriptive data of the independent variables and concludes with the results of the logistic regression analysis.

**General information about ERDF projects**

Since its initiation the on-going programming period 2007-2013 had funded almost 6000 ERDF initiatives in Finland by December 31st 2012. As shown in figure 3. below most of these projects were direct investment projects or investment and development projects that focused on business development* (73 %). A considerable amount of projects aiming at promoting innovation activity and networking, and reinforcing knowledge structures* (16 %), as well as on the improvement of regional accessibility and operational environments* (10 %) were also funded. The remaining projects (1 %) concerned the development of larger urban areas*, the thematic development at regional level*, as well as technical assistance* projects.

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* Priority axes 1  
* Priority axes 2  
* Priority axes 3  
* Priority axes 4  
* Priority axes 5  
* Priority axes 6
Figure 3. Completed ERDF projects in Finland by the 31st of December 2012 (N=5979)

Source: Ministry of Employment and the Economy (2013)

The data in this paper is limited to ERDF development projects in Finland that focused on the development of innovation activity and networking, and the reinforcement of knowledge structures (PA 2) that were completed and that had written a final report of the project by the 30th June 2012. Altogether this selection comprised 272 projects.

Most of the project funding was applied for by companies (21 %), Universities (19 %), and Vocational High Schools (14 %). The total amount of public funding (i.e. combined EU, National or Municipal) directed towards these 272 projects was approximately 102 million euro. The amount of public funding granted to these projects ranged from 13 000€ to 2.1 million €. The average amount of funding granted per project was 365 000€. The most common beneficiaries were Universities (26 million €), Companies (18 million €) and Vocational High Schools (14 million €), who also were responsible for implementing most of the projects. All ERDF projects, however, also need other matching funding which means that the projects’ total budget was significantly higher.

Project innovations, inclusion, activity and access characteristics

The data revealed that the vast majority of all projects stated that innovations had emerged in their projects. An analysis of the projects final reports, however, showed that only 34 of the 272 projects selected could be defined innovations following Bessant’s and Tidd’s (2007) innovation type definition. The 34 project reports where innovations were found indicated that three different types of innovations were produced.

Most of the innovations could be defined as process innovations (71 %) such as the development of new operational models within for instance elderly care, public administration or international marketing. The projects also produced product innovations (23 %) such as the development of a new type of laser that can be used in both laboratory conditions as well as in welding, or automation safety products designed for production facilities where robotics and humans interact. A few position innovations (6 %) were also produced such as video games that had been adapted to educational environments in either medicine or business fields. All projects emphasized the benefits of networking between various different actors, which also was seen as a significant reason for emergence of the innovations.

The results of the survey showed that a wide variety of actors with different occupational backgrounds (i.e. public sector, private sector and third sector) participated in the PA 2 projects.
as staff members. As shown in figure 4 over 80 % of all projects had at least some staff member(s) that either currently worked or had previously worked within research and education. Similarly almost 70 % of all projects indicated that they had a staff member that either currently worked or had previously worked within a privately held firm.

**Figure 4. Project organization staff inclusion (N=75)**

The results of the survey also showed that a wide variety actors from different types of organizations participated in the projects’ steering groups (See figure 5.). According to the respondents the most common steering group members were categorized as belonging to Regional councils (94 %), Universities (85 %) and/or Firms (75 %).

**Figure 5. Project steering group inclusion (N=81)**

If we accept the idea that actors from different backgrounds contribute to innovation by for instance sharing their experience from their previous or current occupation either as project staff members or project steering group members then it is reasonable to assume that projects enable the merging of different types of knowledge. The survey also indicated that projects include actors with a variety of different competence areas. Most of the project managers also stated that actors representing special competence areas (i.e. technical, environmental or social fields), or actors representing lay knowledge (i.e. knowledge of local issues) were widely included in the projects. The analysis also showed that the majority (54 %) of project managers felt that projects are a good way for inhabitants to increase participation concerning regional and local issues.
As shown in figure 6 the projects used a wide variety of mediums to activate stakeholders. The three mediums that were perceived as being either useful or very useful in terms project success were the writing of newspaper articles (37 %), the use of client and user surveys (35 %), and direct contacts to public officials (34 %). Contrary to what one might believe the vast majority of respondents (78 %) stated that social media was not very useful or not useful at all.

Figure 6. Project activity means to activate stakeholders and their usefulness (N=85)

The results of the analysis of to whom the project organization had turned when it needed advise or support in matters relating to the project showed that projects turn to a variety of different types of organizations. Regional councils and Firms where, however, the organizational types that the projects mostly turned to. In terms of how useful the information was the results showed that out of the projects who had turned to Regional councils, Firms or Universities most respondents felt that Regional councils (64 %), Firms (61 %), and Universities (60 %) provided either useful or very useful information (See figure 7). All three of these were also the actors that were most common as steering group members. Whether the project turned to other Regional councils, firms or universities than the ones present in their steering groups is, however, unknown.

Figure 7. Project activity and useful contacts for advice in project matters (N=81)
As shown in the network diagram below (Figure 8.) many of the project staff members also had connections to other projects. By analysing overlapping staff memberships in other projects the data revealed that 151 projects had links to other ERDF innovation projects by having at least one actor also acting or having acted in other projects. Two clusters in this case stand out as being particularly large, both with links between 7 project staff members.

One cluster\(^{10}\) together involved project staff members that were categorised as having been or currently were involved in research and development projects, projects related to welfare services, public sector research projects, or projects related to the fostering of social cohesion or services provided by a combination of public, private and third sector service providers. These categories included projects ranging from building computer network laboratories to projects aimed at combining knowledge of actors operating in the cultural heritage and the restoration sectors.

The other cluster\(^{11}\) together involved project staff members that were categorised as having been or currently were involved in research and development projects, projects related to welfare services, public sector research projects, logistic and environmentally friendly projects, or communal projects. These categories included projects ranging from the development of competitiveness and operational preconditions of companies in changing environments to building a laboratory focusing on developing state of the art electrolyte coating mechanisms. The results indicate that project staff members from different backgrounds do come together in new projects and that projects therefore can serve as innovative spaces given that some knowledge would be exchanged.

Figure 8. Project staff access to other innovation projects (N=151)

The data also showed that a significant amount of stakeholders in one way or another were involved in projects. All in all the 272 projects involved 10 471 stakeholders. The data indicated that 2843 of these actors were categorized as stakeholders from organizations, and 7628 as stakeholders from companies. The amount of stakeholder involved ranged from 1 to 475 stakeholders per project. The average amount of stakeholders per project was 44 (See table 1).

Projects with few stakeholders (\(\leq 1\)) mostly revolved around projects that aimed at developing new networking among actors within a specific field in order to develop new teaching or research methods. One project, however, stood out as it focused on the development of new

\(^{10}\) Situated on the left side in figure 8.

\(^{11}\) Situated on the right side in figure 8.
measuring equipment for the measuring of cosmic radiation. Considering the special character of the project scope it is no wonder that it did not include many stakeholders. Project with many stakeholders (≥ 300) aimed at developing business clusters or think tanks, cooperation and development networks or activating internationalization processes of SME:s within a specific field.

The three most inclusive project applicants were; projects headed by an Organization or an association that on average involved 57 stakeholders, projects headed by a Company that on average involved 54 stakeholders, and projects headed by a Foundation that on average involved 41 stakeholders. Big budget projects also tended to involve more stakeholder than small budget projects, but big budget projects were also longer in terms of duration which to some extent explains the increased amount of stakeholders involved.

### Table 1. Project stakeholder characteristics (N=272)

<table>
<thead>
<tr>
<th>Project budget</th>
<th>Amount of projects</th>
<th>Organizational stakeholders</th>
<th>Company stakeholders</th>
<th>Total amount of stakeholders</th>
<th>Stakeholders on average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 100 000€</td>
<td>39</td>
<td>196</td>
<td>294</td>
<td>490</td>
<td>13</td>
</tr>
<tr>
<td>100 000€ - 200 000€</td>
<td>47</td>
<td>355</td>
<td>789</td>
<td>1144</td>
<td>24</td>
</tr>
<tr>
<td>200 000€ - 300 000€</td>
<td>52</td>
<td>357</td>
<td>1350</td>
<td>1707</td>
<td>33</td>
</tr>
<tr>
<td>300 000€ - 400 000€</td>
<td>40</td>
<td>416</td>
<td>1225</td>
<td>1641</td>
<td>41</td>
</tr>
<tr>
<td>400 000€ - 500 000€</td>
<td>18</td>
<td>254</td>
<td>437</td>
<td>691</td>
<td>38</td>
</tr>
<tr>
<td>500 000€ - 600 000€</td>
<td>21</td>
<td>321</td>
<td>821</td>
<td>1142</td>
<td>57</td>
</tr>
<tr>
<td>600 000€ - 700 000€</td>
<td>18</td>
<td>307</td>
<td>597</td>
<td>904</td>
<td>48</td>
</tr>
<tr>
<td>700 000€ - 1 000 000€</td>
<td>17</td>
<td>164</td>
<td>671</td>
<td>835</td>
<td>49</td>
</tr>
<tr>
<td>Over 1 000 000€</td>
<td>20</td>
<td>473</td>
<td>1444</td>
<td>1917</td>
<td>96</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>272</strong></td>
<td><strong>2843</strong></td>
<td><strong>7628</strong></td>
<td><strong>10471</strong></td>
<td><strong>44</strong></td>
</tr>
</tbody>
</table>

*Source: Ministry of Employment and the Economy (2013)*

The project application types that involved most stakeholders were; Companies (2165 companies and 358 organisations), Vocational High Schools (1171 companies and 493 organisations) and Universities (683 companies and 621 organisations). (See figure 9. below) Further analysis also showed that a considerable overlap between stakeholders in different projects existed. In fact, over 40 % of the stakeholders had been involved in other projects either as a stakeholder or as a project manager.
**Figure 9. Project applicant type and project stakeholder involvement (N=10471)**

![Graph showing project applicant type and project stakeholder involvement](image)

*Source: Ministry of Employment and the Economy (2013)*

### The effects of inclusion, access and activity on project innovation

The variables represent networking in two different perspectives. On the one hand inclusion and activity variables share bottom-up character. That is, project leaders can decide who to include among their project staff and steering bodies, and they can use variety of means and contacts to achieve goals of the project by their own decisions. The access variables are different in this respect because the funding bodies decide which projects get financial support. In this respect the results indicate that top down oriented networking has no role in achieving innovation. This resonates well with the ideas put forward in previous research (Provan & Kenis, 2008; Agranoff, 2006). It might be the case that the projects funders have not been able to detect the proper linkages fruitful in achieving innovations.

The results of the regression analysis are represented in tables 2 to 4. In analysing the results the exponentiated regression coefficients (odds) are more fruitful measure than regression coefficients as they give an idea of relative increase in the probability of innovation occurring when there is a unit change in the independent variable (see DeMaris, 1995). In our case the small sample size and the interrelations between dependent variables made it necessary to include variables as a separate set of blocks in the analysis. This is why the model fit indicator (Nagelkerke Pseudo R²) measuring the difference between hypothesized model and model with intercept alone appears below every set of variables (Inclusion, activity and access).
Table 2. Inclusion variables. Summary of Logistic regression analysis for variables predicting the occurrence of innovation in European regional fund projects (N=172), Controlling for the combined number of project participants.

<table>
<thead>
<tr>
<th>Predictor</th>
<th>Staff inclusion B</th>
<th>e^B</th>
<th>Steering group inclusion B</th>
<th>e^B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipality</td>
<td>.58 (.32)</td>
<td>1.79</td>
<td>1.61 (1.51)</td>
<td>5.00</td>
</tr>
<tr>
<td>Central government</td>
<td>.09(.62)</td>
<td>1.10</td>
<td>1.37 (1.53)</td>
<td>3.93</td>
</tr>
<tr>
<td>Firms</td>
<td>.39(.41)</td>
<td>1.47</td>
<td>.45 (1.20)</td>
<td>1.57</td>
</tr>
<tr>
<td>Third sector</td>
<td>-29(.46)</td>
<td>.75</td>
<td>Regulatory agency (ELY)</td>
<td>-4.24* (1.80)</td>
</tr>
<tr>
<td>Research and education</td>
<td>.70* (.36)</td>
<td>2.00</td>
<td>Municipal development corporations</td>
<td>-6.2 (1.19)</td>
</tr>
<tr>
<td>Municipalities</td>
<td></td>
<td></td>
<td>-2.45* (1.24)</td>
<td>.09</td>
</tr>
<tr>
<td>Constant</td>
<td>-5.44</td>
<td></td>
<td>Firms</td>
<td>-3.18* (1.35)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Third sector</td>
<td>-77 (1.14)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Universities</td>
<td>1.47 (1.30)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Constant</td>
<td>-62</td>
</tr>
</tbody>
</table>

Nagelkerke
R^2=.25

Nagelkerke
R^2=.46

Note: The number of firms and other organizations is used as control variable (omitted from the table). Standard error of B in parenthesis. e^B = exponentiated B.

Firstly, in terms of project staff inclusion and the occurrence of innovation the results of the logistic regression analysis showed that the inclusion of staff members from research and education had a positive effect on the occurrence of innovation. This result is not surprising considering the obvious linkage between innovation and research and the fact that many of the projects included staff members from that particular sector.

Secondly, in terms of project steering group inclusion and the occurrence of innovation the results of the logistic regression analysis showed that the inclusion of regulatory agencies (ELYs), Municipalities as well as Firms had a negative effect on the occurrence of innovation. This result is somewhat surprising considering that 61% of the respondents found firms as usefulness sources when seeking advice in matters relating to the project. A significant amount of projects also had actors representing both firms and municipalities in their steering group.
The results, however, does not show what the nature of the information was. It is for instance plausible that firms contributed with information not associated with innovation, but with practical project management tools.

Thirdly, in terms of project activity and the occurrence of innovation the results of the logistic regression analysis showed that contacts to politicians had a negative effect on the occurrence of innovation. This result does not come at a surprise considering that over half (59%) of the respondents did not find contacts to politicians as useful at all.

Table 3. Activity variables. Summary of Logistic regression analysis for variables predicting the occurrence of innovation in European regional fund projects (N=172), Controlling for the combined number of project participants.

<table>
<thead>
<tr>
<th>Predictor</th>
<th>Useful means for success</th>
<th>Useful contacts for success</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>$e^B$</td>
</tr>
<tr>
<td>Social media</td>
<td>.18</td>
<td>1.20</td>
</tr>
<tr>
<td>Participation in third sector orgs’</td>
<td>.11</td>
<td>1.12</td>
</tr>
<tr>
<td>Client and user surveys</td>
<td>-.23</td>
<td>.80</td>
</tr>
<tr>
<td>Newspaper articles</td>
<td>.09</td>
<td>1.09</td>
</tr>
<tr>
<td>Contacts to politicians</td>
<td>-1.49*</td>
<td>.23</td>
</tr>
<tr>
<td>Contacts to public officials</td>
<td>-.05</td>
<td>.95</td>
</tr>
<tr>
<td>Constant</td>
<td>-2.91</td>
<td></td>
</tr>
</tbody>
</table>

Nagelkerke R²=.35 Nagelkerke R²=.33

Note: The number of firms and other organizations is used as control variable (omitted from the table). Standard error of B in parenthesis. $e^B$ = exponentianted B.

Fourthly, in terms of useful contacts when seeking advice in matters related to the project and the occurrence of innovation the results of the logistic regression analysis showed that contacts with municipalities had a negative effect on the occurrence of innovation. The results are also in line with the results presented above where only approximately half (47%) of all respondents found municipalities as a useful source of advice.
Table 4. Access variables. Summary of Logistic regression analysis for variables predicting the occurrence of innovation in European regional fund projects (N=172), Controlling for the combined number of project participants.

<table>
<thead>
<tr>
<th>Predictor</th>
<th>B</th>
<th>e^B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholder access</td>
<td>.63</td>
<td>1.88</td>
</tr>
<tr>
<td>(.53)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project staff access</td>
<td>-.14</td>
<td>.87</td>
</tr>
<tr>
<td>(41)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-2.14</td>
<td></td>
</tr>
</tbody>
</table>

Nagelkerke
R^2 = .01

Note: The number of firms and other organizations is used as control variable (omitted from the table). Standard error of B in parenthesis. e^B = exponentiated B.

Finally, in terms of access to prior project knowledge gained from either prior involvement as a project staff member or as a stakeholder and the occurrence of innovation the results of the logistic regression analysis showed no significant effect on the occurrence of innovation.

Conclusion and discussion

The overarching aim of this paper was to analyse if the involvement of external actors or stakeholder in projects has an effect on the creation of knowledge in the form of innovations or best practices. We have analysed the networks not as metaphor, but as an empirical subject of analysis. Even though the results suggest that networks play a role in predicting innovations in ERDF projects there is clear indication that networks include both positive and negative aspects. Some contacts are useful, many relationships do not appear to have any influence in innovative behaviour and some networking features are simply detrimental in achieving project goals. For one thing, this emphasises that networks are not simple remedies for solving the problems of hierarchies, but that network create their own anomalies.

One of our findings relate to the role of the funder. In our results the access to other projects either through common staff or common stakeholders played no role in achieving innovation. Two interpretations might be inferred from this finding. It might be the case that overlapping memberships puts too much strain for fruitful participation for project staff, but it is also likely that not all stakeholders are active members in the project as in some instances there are hundreds of stakeholders in a single project. However, the funder has the final say which projects get resources and which ones are left without financial support. This brings a top down character to the linkages among the projects. It is up to the funding bodies to detect the possible fruitful project-project contacts that lead to the emergence of new ideas and practices. In this sense, it might be that funding bodies are unable to detect those linkages among projects that would be able to bring the extra spark to bring about genuinely novel ideas and practices.

The limitations of the findings are evident in this study. Although, the survey data consists of variables for the empirical examination of the networking character of the project activity, the small number of respondents makes it difficult to build a complete empirical statistical model. Fortunately, the on-going data gathering procedure enables to validate finding achieved so far with a more saturated empirical dataset. There is also another aspect of the regional funding that requires further empirical validation. In our coding only one fifth of the projects categorized as innovative did actually provide some novel ideas or practices. In one sense, the project plans are offers for innovations that cannot be broken. The project reporting
bureaucracy makes it extremely difficult to deviate in hindsight from the foresight of the innovation even if the initial idea proved to be faulty. Moreover, it is plausible that the mastery of written language makes a difference in reporting project achievements. To put it otherwise, we are dependent on the insight of the project staff in evaluating the genuine innovative ability of the projects.

The findings of our data have obvious practical guidelines. First, if innovation is the first priority of the regional funding project it pays off to include representatives of research and education facilities among the project staff as it seems to predict the possibilities to achieve genuine innovations. It is also the case that many of the empirical findings gave indication for the practices to avoid. In the first place including regulative agency, local government or private enterprises in the steering group of the project decreases the likelihood of project being innovative. Further, even though project leaders indicated that contacts to politicians and municipalities were among the prevalent features of the project success, contacts to these political decision making bodies were detrimental to achieving innovative results. This gives some plausible insight into the idea of innovativeness. It makes sense to get some distance from the well-established democratic power regime as well as from the equally well-established corporate governance regime. Drastic and sudden changes are not welcome among the political or corporate interests, because sudden drastic changes in the status quo might endanger their position in the local power game. The inclusion of research and educations establishments does not suffer from the same defects as scholarly debate is ideally attuned to finding new and better realities. In conclusion, the results of the paper therefore show stakeholder inclusion does have an effect on public sector project innovation.

Although this paper contributes to the understanding of how innovations emerge in projects it leaves several questions unanswered such as why particular stakeholders are included, the extent to which the projects included new stakeholders that create the necessary critical mass, as well as what an optimal number of stakeholders for projects could be. More research should therefore be addressed towards what actual participatory forms that projects engage in as well as how governance mechanisms influences motivation to share knowledge. For this case studies are needed. Serious efforts should also be made to increase the response rate, which also would enable a significantly wider array of analysis to be made.

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23


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