‘Enterprising’ and Local Growth in a Global Economy*

by

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SUMMARY STATEMENT

In a globalising world, a key question is; how can communities, cities and regions continue to cope and prosper given the constraints within which they must work?

The results from our theoretical and empirical research on local growth suggest that two sets of processes foster local growth: (1) ***'human capital'***; and (2) ***'enterprising'***. We interpret these terms in very specific ways.

Investment in ***'human capital'*** is about equipping people with an understanding of the economy and society they live in, as well as providing them with the technical 'where-with-all', to pick winners for themselves across the full spectrum of economic activities. It is not about shoe horning people into IT skills so they can work in subsidised Silicon Valley clones. ***'Enterprising'*** is part of this process of knowledge creation. It involves people coming together to form temporary coalitions to exploit the business opportunities ***they*** have identified. It is the culture that creates new businesses.

We see a clear role for the public sector in stimulating local growth through ***'facilitating'***, not through ***subsidy*** and ***'picking winners'***. The policies we envisage **support** ***'human capital'*** formation and ***'enterprising'*** by helping communities, cities and regions to realise their own potentials. The public sector is there to create architects, not bees. We suggest a range of facilitating mechanisms that might be considered: (1) community consultation committees; (2) facilitator programs; (3) local enterprise services; (4) fast-track review structures; and (5) business forums.

INTRODUCTION

A major question confronting communities, cities and regions throughout the developed and developing world is how to survive and thrive in the global economy. For policy makers the issues are pressing. How do you devise policies and programs to foster local growth that are more than buying a short-term palliative for unemployment and its associated social ills. Too often communities look to their elected representatives and say "**we** have a problem, what are **you** going to do about it". Too often the response is to see what seems to work elsewhere (the Silicon Valley syndrome) and try to re-create it through 'incentives' (subsidies). Almost universally, the results are politically and economically unsustainable.

What we want to suggest in this paper is another way of thinking about the problem of local economic development. Our perspective is based upon a detailed assessment and empirical testing of theories of local growth. What emerges from our econometric modelling (that we won't go into here) is a set of propositions around ***'human capital'*** and what we call ***'enterprising'***. We define ***'enterprising'*** as the process that draws people together into coalitions to exploit specific commercial opportunities to make money. It is all about realising local economic potentials and the latent capacities of communities, cities and regions. In particular, ***it is not about picking winners***, subsidising the setting up of new firms, and the buying in of 'big bucks' solutions. It is about the public sector ***facilitating*** local growth not creating it – that is the role of the private sector!

THE CHALLENGE

The processes of economic globalisation entail an increasing level of interconnectedness and interdependence of money, markets, management, technology, information and production. As economic globalisation extends its reach over communities, cities and regions, the positions of those places within the emerging global mosaic of regional economies is changing. Now, the argument has it, "only those regions and nations which can mobilise assets for local advantage are rewarded. Nations and regions with assets that are crushed or ignored by the forces of globalisation are likely to face punishing consequences as they fail to establish a foothold in the global economy" (Amin and Thrift, 1997, p. 155). Of necessity, such local mobilisation must achieve internationally competitive levels of productivity to be effective (Porter, 1998). As a consequence, localities have to cope with a broad range of pressures:

- the increasing ***power of internationalised finance*** over production;
- the increasing importance of ***international trade***;
- the increasing ***significance of knowledge*** as a factor of production, and the rise of the learning-based economy;
- the increasing ***internationalisation of technology*** and the increasing pace of

technological redundancy;

- the burgeoning *significance of* ***transnational corporations*** *(TNCs)*, as managers and information arbitrageurs;
- the rise of ***transnational regulatory organisations*** that seek to create economic stability by consensus, but principally in the interest of the powerful.

However, economic globalisation is not some anonymous, external force that impacts indiscriminately on places, cities and regions. Globalisation is a composite. It comprises the very local and specific processes that operate in a host of localities. This set of local processes combines with the social, political and economic processes operating in a specific place to influence the economic outcomes in that place (Taylor and Conti, 1997). As a consequence, over a range of activities, control remains, at least partially, in local hands: that is, in the hands of the locality, the community or the region. Accordingly**,** there is still local autonomy in so far as individual places can exercise control over:

- ***corporate governance*** (the formal regulation of business and the informal 'way of doing business');
- a capacity for local invention, innovation and technological change supported by ***local processes of learning***; and
- ***control of local labour markets*** and industrial relations.

In this interplay between global and local processes, great emphasis is currently placed on the role of knowledge creation and dissemination at both spatial scales. To be internationally competitive, it is now widely suggested that places must be part of the 'knowledge economy'. Here, however, we must be clear, 'knowledge' ***is not*** synonymous with 'information'. 'Information' is everywhere – we are swamped with it on the Internet, for example. 'Knowledge' is more fundamental as an engine driving economic success and failure. It involves understanding, and the ability to produce commercial outcomes. It is frequently tacit and uncodified and is, fundamentally, the foundation of invention, innovation and technological leadership.

KNOWLEDGE AS THE FOUNDATION OF LOCAL GROWTH

A powerful interpretation of local growth, based on 'clustering' and the mobilisation of 'knowledge' within in the 'knowledge economy' (Porter, 1998; Maskell *et al.*, 1998), is now promoted not only by state and national governments but also by international bodies like the World Bank. At the heart of this view, ***the trust, reciprocity, and loyalty embedded in a place are identified as the mechanisms that bind firms together to create economic growth in localities*** confronting globalisation pressures (Braczyk *et al*., 1998). Firms' economic relationships are seen as intertwined in complex ways with the broader social structures and social relationships of a place. The processes in this economy are theorised as being highly complex and contingent. They involve place-based knowledge, collective local understandings of the way business is done, social as well as commercial ties between buyers and suppliers, and the support of local institutions (Grabher, 1993). Where these relationships exist and the mix is just right, it is claimed that tacit knowledge (from learning-by-doing) is mobilised, blended with codified knowledge, and spread through mechanisms of sharing (rather than appropriation). The outcome is seen as local invention and innovation that creates clusters of sustainable local business, that have high levels of productivity, are globally competitive, and are constantly tested, refined and improved.

In other words, this interpretation of local growth revolves around the complexities and contingencies of a ***local enterprise culture***. Orthodoxy would have it that the creation of such a local culture is essential for the economic survival of a community, city or region. And, the shortcut to creating this culture is all too frequently seen in hi-tech industry: now creating a measles-like rash of hi-tech industry parks - the Silicon Valley syndrome. Let us be very clear. We strongly disagree and take issue with this view of local growth. It involves bureaucrats, planners and strategists 'picking winners' – currently hi-tech industry, though nobody will admit to pushing 'dot-coms'. And it erroneously identifies proximity, information and the Internet as creators of 'knowledge'. It is now promoted as a universal economic panacea. But is it snake oil? Some think so.

Hard experience shows that not all regional economies succeed and grow. Precisely why is hard to explain. The explanation offered by the 'clustering/learning' view of a local enterprise culture, is now less convincing than it was. It is criticised as:

- ***a rhetoric at odds with reality*** – an over-socialised, unrealistic and romanticised view of economic relationships;
- an inappropriately universalised ***place-specific model***;
- blind to the capitalist imperatives of profitability and ***wealth creation***; and
- ***policy-driven theory*** that confuses development *in* a region with the development *of* that region.

For us, these 'clustering/learning' views have two basic problems that limit their usefulness:

(1) ***Indeterminacy***-they identify a wide range of processes that can promote or hold back local growth but they prioritise none of them;

(2) ***Reification***-they inappropriately stylise 'the firm' as an object somehow independent of local development processes rather than seeing them as one facet of a process of 'enterprising' that is at the heart of local growth.

In the 'clustering/learning' view of local economic growth we have, in effect, a totalizing model that incorporates all conceivable contingencies – social, economic, cultural, and political – as affecting local growth potentials. None is seen as more important than another so that anything can be explained: competition is too weak (strong); institutions are not sufficiently supportive (overpowering); 'knowledge' is of the wrong type; the culture is unsympathetic; regulation is restrictive; the factor mix is inadequate, and so on. Before we sink into a morass of contingency in trying to say what creates and retards local economic growth in any given locality, ***we need to identify those factors that are important across a set of localities***. That is, we need to undertake rigorous empirical analyses to prioritise the myriad factors that have been identified. At the same time, some of the main components of the engine of growth of local economic success and failure are caricatured and stylised. 'Institutions' are described in terms of 'thickness', 'embedded firms' are said to create 'social capital', with vague allusions to money capital. But, most significantly, 'the firm' and the 'enterprise' are stylised as network members, sites of rules and routines, and bunches of competencies, for example, but rarely as anything to do with real people creating and running businesses to make money.

The mass of important, but convoluted, reasoning that lies behind the institutionalist model of local economic growth and the creation of a 'knowledge economy', leaves the policy maker with the conundrum of how to convert these ideas into workable policies. To achieve this end, it is our contention that the processes must first be prioritised to say what is most important. We have, in fact, gone through this exercise using empirical econometric modelling.

IDENTIFYING AND PRIORITISING PROCESSES

Let us be perfectly clear. Institutionally grounded theories of 'knowledge economies' and 'learning' offer powerful and rhetorically persuasive narratives that are appealing in so far as they appear to offer policy relevance based upon the comfortable notion that the engine of local growth is both complex and contingent. Indeed, it is difficult, if not impossible, to seriously challenge the validity of theoretical presuppositions that border on the tautological. However, if institutional theories of local growth are to provide more that just clever words, then is it essential that they go beyond the banality that the engine of local economic growth is both complex and contingent. In order to escape from the straightjacket of theoretical sophistication, we need to transcend the vaguely formulated presuppositions of institutional theory and look at the 'hard' facts of local economic growth. It is only when the factors driving the engine of local economic growth have been identified empirically and their inter-relationships have been correctly prioritised and empirically validated that we will be in a position to design effective local policy initiatives.

At the least, when engaged in empirical validation of our theoretical presuppositions we must be willing to address the question: "Under what conditions would I be prepared to abandon my theory?" We contend that much of what passes for state-of-the-art practice when confronting 'theory' with 'facts' is really nothing more than casual empiricism. On the one hand, support for the institutional theories of local economic growth tends to be derived from either anecdotal evidence or self-selected case studies, like Silicon Valley, Baden Württemberg and the 'Third Italy'. Clearly, this simply will not do. Attempts to introduce a degree of econometric rigor into the analysis of regional growth dynamics have not proved any more successful in identifying and prioritising a potential set of explanatory variables. Typically, factors that are identified as driving the engine of local economic growth have been selected from a set of variables that are conveniently available rather than being suggested by theory. At best, this has produces fragile empirical results derived from inefficient modelling strategies. At worst, this form of empirical analysis has degenerated into a data mining exercise, an uninformed look-see, followed by a rationalisation of the variables that are identified from a simple regression model. In order to address the issue of empirical validation more seriously we need explicit rules of engagement that allow us to discriminate empirically between the various factors that are hypothesised to drive actual processes of local economic growth. For all its potential pitfalls, we advocate a more theoretically informed general-to-specific econometric modelling methodology when confronting institutional theories with the evidence of contemporary local economic growth. This is exactly the approach that we have taken in our own research on the dynamics of local economic growth using Australia as a case study.

Michael Porter (1998) has been instrumental in promoting and popularising the notion of competitive advantage as the key to unlocking a local economy's economic potential. His approach is very much an eclectic theory of business enterprise and managerial decision-making that draws on an array of institutional theories of local economic performance. Based upon our reading of the literature, we have been able to identify a suite of theoretical frameworks that can be considered as more serious candidates that, at least potentially, provide explanations for why some localities succeed while others fails. This suite of institutional 'soft' models ranges from contemporary flexible production and flexible specialisation models and the closely related institutional approaches based on networks, embeddedness, innovative milieu and 'learning regions' to more conventional growth pole and product cycle models and the enterprise segmentation, unequal power relationships framework. Different as these 'soft' models appear, each involves different permutations and combinations of eight measurable dimensions that are thought likely to enhance local economic capacities to create growth and cope with change (Plummer & Taylor, 2001a):

- ***Technological Leadership at the Enterprise Level***
- ***Knowledge Creation and Access to Information***
- ***Local Integration of Small Firms***
- ***Infrastructure Support and Institutional Thickness***
- ***Local Human Resource Base***
- ***Power of Large Corporations affecting Structure and Strategy***
- ***Inter-regional Trade and the Extent and Nature of Local Demand***
- ***Local Sectoral Specialisation***

Although these eight dimensions cover the claims of the 'soft' models, it is important to realise that each model identifies a unique subset of these dimensions as generating local economic success, and those same dimensions are hypothesised to promote local growth in some theories and retard it in others. In Plummer & Taylor (2001a) we provide a comprehensive account of the potentials and pitfalls that are encountered in translating between the 'soft' models, the theoretically derived dimensions representing local economic capacities, and the surrogate variables that we use to measure these dimensions.

A general-to-specific modelling strategy involves specifying an empirical model that contains the complete set of potential dimensions that are hypothesised to drive local economic growth. Subsequently, our 'soft' models are specified as different nested permutations and combinations of dimensions of the general model specification. Similarly, in this instance, the 'soft' models that identify a relatively small set of dimensions can be nested within those 'soft' models that identify a relatively large set of dimensions as engines driving local growth. By testing-down from the more general model to a more specific model it is possible to identify the 'soft' model that encompasses the set of alternative 'soft' models in the sense that no competing empirical specification contains information that is capable of improving the encompassing model (Hendry & Mizon, 1990). In this way we can identify the best model.

Based upon these rules of engagement, our empirical results are clear and revealing (Plummer & Taylor, 2001b). The evidence from our Australian case study provides broad support for the 'learning regions' model relative to the competing 'soft' models of local economic growth. However, significant elements of the theory find little support in the Australian context. Specifically, our empirical research suggests that,

- ***sectoral specialization*** and the ***human resource base*** enhance local job growth,
- ***institutional thickness*** restricts rather than enhances local job growth,
- ***hi-tech industry*** and ***access to information*** enhance local growth, but only in a minor way,
- the ***local integratedness*** of enterprises is ambiguous in its impact and is no more than a minor force impacting on local job growth.

As a corollary, our empirical modelling suggests that no single dimension can be identified as the key with which to unlock the mysteries of local economic growth. Each of the dimensions identified by the 'learning regions' model is necessary to enhance the capacity of a local economy to generate growth. However, no one dimension is individually sufficient to generate local economic growth. This has important policy implications. To put is bluntly, ***there is no silver bullet*** that will guarantee that a local economy will succeed in the global economy. Accordingly, our empirical modelling exercise suggests that two sets of processes are the basis of local economic growth, at least in Australia:

1. the magnitude of ***local human resources***,
2. the local presence of an ***'enterprise culture'***.

Although we have assumed that the sets of processes revealed by the analysis operate independently of each other, they can be looked on as processes at two discrete stages in the value chain that creates new knowledge in a city, region or community.

HUMAN CAPITAL, THE 'ENTERPRISE CULTURE' AND 'ENTERPRISING'

A naïve interpretation of these processes would be to suggest that, to formulate policy interventions that encourage and kick-start local growth in any particular city or region, all that is needed are training programs and 'workfare' schemes, coupled with small firm development policies. This is precisely the approach that sees every community trying to grab a slice of the hi-tech pie, and the young and unemployed being pushed into IT training to equip them for the 'knowledge age'. Fundamentally, this approach to policy is all about 'picking winners'. Let us be clear. This is not the community and local economy doing the picking, it is the politicians and the planners imposing their decisions from above: the public sector giving the private sector lessons on how the private sector should move strategically. In our increasingly short-termist world, 'public sector strategy' is really nothing more than an oxymoron.

Our experience in the regional development policy field, as practitioners and critics, suggests that this might give politicians a warm inner glow for having 'done something', but that warm glow lasts only as long as the subsidies they hand out. We maintain that 'human resources' and 'enterprise culture' need to be defined in substantially different ways. We will deal with them in turn.

Human resources, and the creation of ***'human capital', is about education and not training***. It is about providing individuals with an understanding of facets of the economy and society they live in, and the processes of change that run through them. It is about equipping *them* to pick winners. Training only equips people for what is known now. It is about conforming to and supporting winners that other people have picked. Obviously, not everyone is an innovator, but in the so-called 'knowledge economy', where new knowledge is seen as being created through 'learning-by-doing' and 'learning-by-interacting', the expectation is that firms' workforces, as well as their owners and managers, have a role to play in innovation processes. To fulfil this role, they need to be educated and not just trained. In this way, individuals in a community, city and region are empowered to add to the local stock of tacit knowledge that might lead to the improvement of a product or service offered by an existing firm, or it might encourage someone to set up an altogether new business. Let's face it, not every small centre in Wisconsin is going to become a hub in the IT industry. But, it is just possible that a local person might come up with a new twist on a local resource: like the fishermen in Esperance in Western Australia that started a business selling sushi to Japan, or the Australian graziers in Victoria who started a business selling pelletised lucerne as animal feed to Japan.

This interpretation of 'human capital' also fits closely with our particular interpretation of what constitutes a local 'enterprise culture'. The usual interpretation of a local enterprise culture revolves around processes of new firm formation, and the creation of new jobs. And, the creation of such a culture is seen in policies to help and encourage people to set up their own businesses. Too often, these policies and programs are aimed at specific types of venture, especially in the hi-tech and electronics fields – all part of a process of picking winners.

Our interpretation is that ***a local 'enterprise culture' is about people being 'enterprising'***. The distinction we make between '*setting up a new enterprise*' and being '*enterprising*' is non-trivial. First, from our existing research, we regard firms as being *temporary coalitions of individuals who come together to exploit a business opportunity for personal wealth creation*. This is 'enterprising'. The coalitions stay together for as long as the opportunities exist. Coalitions break up and re-form. Coalition members may be involved in more than one coalition. Indeed, there is evidence to suggest that, in the small firms sector, the most successful people are 'multiple-entrepreneurs' or 'portfolio-entrepreneurs'. Second, coalitions are not the basis of just small firms. They are also at the core of large enterprises and corporations – as corporate boards and strategic management teams. The coalitions running and managing large corporations constantly dissolve and re-form as board members are recruited, fired, co-opted and imposed by external interests. 'Enterprising' is not the sole preserve of entrepreneurs. It has important corporate dimensions too. The processes that create the large firm and small firm coalitions of individuals are at the very heart of a local enterprise culture.

Our point is that it is not the setting up of businesses that is the 'enterprise culture'. Rather, *the 'culture' is what brings people together in the first place to create, re-create, mould and extend the coalitions that seek to exploit business opportunities*. As a result, policies and programs to create an enterprise culture in a city, region or community need to create the circumstances that will encourage and facilitate coalition formation. When they are aimed only at helping new firms to set up, they are subsidising coalitions *after* the event. Indeed, the policies and programs themselves might be the very opportunity that such coalitions are seeking to exploit - the opportunity to leverage funds out of the public purse!

The key to fostering an 'enterprise culture' is *facilitation* – creating the circumstances that allow 'coalitions' to form to exploit the opportunities that *they* identify. It is not picking winners and subsidising them. It's about creating forums where potential coalition members might meet and generate ideas – people from the small firms sector, the corporate sector, the public sector, and the local community. It's about easing the passage of new coalitions through the red tape of regulation. And, standing with them as they present the business plans they have devised (and paid for themselves) to commercial sources of finance and potential buyers and suppliers. *Most of all, it is about* *public sector policy makers* ***not*** *imposing their preconceived ideas on local communities*.

HOW MIGHT IT BE DONE?

The question now arises, if 'education' and 'enterprising' are the keys to local economic success in places confronting globalisation, what should a local development policy look like based on these principles? We take it as axiomatic that the local community, the public sector and the private sector have active roles to play in enhancing local economic potential. Based on our experiences as academic researchers and policy analysts, we recommend the following rules of thumb as a guide when designing effective local policy initiatives:

- ***Don't pick winners*** - existing technologies and technological opportunities are not a very good guide to future growth.
- ***'Innovative bureaucracy' is an oxymoron*** - the public sector cannot make choices for the private sector.
- ***Public sector as facilitator*** – the public sector should only set the stage on which others perform and make decisions.

To put the matter quite bluntly, the public sector and its policies should be there to assist in creating architects, not bees! The public sector's role in promoting economic success in a locality should be to encourage people to design and build an economy. The public sector should not encourage policy initiatives that envisage people as 'skilled' drones in some Orwellian economic drama run by Big Brother: a sort of economic Truman Show! It should be there, in effect, to facilitate economic choice and ensure that the citizens it represents do not get hurt. A local public policy initiative should, therefore, have two components:

- ***An Education Component.***
- ***An Economic Facilitation Component***.

The education component should be designed to open people's eyes to the dynamics of the world we live in: to give them the 'where-with-all' to see opportunities. But to see opportunities not in the narrow sense of business plans or get-rich-quick pyramid selling schemes. It is ***not a clarion call for more business and commerce educators***. That only produces the "lemon/lime pie syndrome" in the US: the ability to predict exactly the earnings from a new consumer product, but the inability to appreciate the earnings potential of radical innovations in materials, technologies and products like machine tools, for example. Similarly, it is ***not a call for more training***. More training simply ossifies a locality's skill base and creates social blinkers, or worse still, economic tunnel vision. Yes, we need business and commerce education. Yes, we need training. But, these should be in addition to broadly based scientific, technological, and liberal arts education that encourages people to see the blue skies of future possibilities, and to dream the dreams that have brought us the life style benefits of the last one hundred years.

The facilitation component is about policy supporting the process of ‘enterprising’, but not, we stress again “picking winners”. The potentials for public policy to support private wealth creation can be particularly fruitful. In particular the public sector can act as a facilitator in:

- Setting up ***local committees***- local forums to give individuals, and the institutions they belong to, a voice to identify what communities think are local strengths, weaknesses, opportunities, and threats.
- Put ***‘facilitators’*** into local communities to help identify and assist in promoting locally generated commercial ideas.
- Offer ***local services*** to support people in preparing business plans.
- Press all local public sector services, especially planners, producer services (like banks/accountants etc.) to establish ***fast-track review structure***s to expedite business development and expansion.
- Establish ***business forums*** and/or regular seminars to foster links and social ties in the business community. That is, facilitate knowledge transfers.

There is a significant number of mechanisms like these that can be used to foster ‘enterprising’. Significantly, they are not expensive in money terms, but they are challenging in that they remove the public sector from the role of local economic driver.

We do not pretend to have all the answers. That is not the intention of our project. We are concerned to begin a dialogue about what might be appropriate policies for local growth in the circumstances of globalisation. We feel that the processes shaping local growth need to be revisited and reconceptualised. That way, we can develop new policy approaches and blueprints rather than wheeling out the same old tried but not very successful policies. To use our own terms, we need to be ‘enterprising’ about policy formulation. We need to build temporary coalitions to identify policy opportunities to facilitate local growth. Here we agree with Roosevelt’s sentiments. “Its is common sense to take a method and try it. If it fails, admit it frankly and try another. But above all, try something.”

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