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# Governance and Territorial Development

## Policy, Politics and Polity in Local Economic Development

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**Abstract**

There is an imbalance in the discussion around local economic development. The predominant focus in the literature is around policy. To some extent, the issue of polity is addressed in the literature, especially with respect to Local or Regional Development Agencies. Politics appear predominantly as an unpleasant framework condition that is complicating the important work of LED practitioners; otherwise, politics are ignored. This imbalance generates inappropriate, unrealistic policies and recommendations when it comes to organising a knowledge transfer on LED between industrialised countries and developing and transformation countries.

Successful territorial development is based on policy networks that consist of various government agencies, the private sector, trade unions, NGOs, and other players. Policy networks have emerged in industrialised countries as a response to the implementation crisis, i.e. the failure of top-down, government-driven, hierarchical planning and policy-making. Policy networks emerged in a context of states that are oriented towards problem-solving. Even if political power plays are a relevant factor, they do not overwhelm the ability of political actors to address issues, to agree on a problem definition, to formulate policies and to implement them successfully.

We cannot readily assume that the state in developing and transformation countries is predominantly of the problem-solving-oriented variety. States in these countries, while formally democratic, are often of the patrimonial, nepotist, clientelist or paternalist variety. For quite a while, the discussion on the state in these countries has highlighted the need for "good governance". The extent to which these states have made progress towards "good governance" since the 1990s is being questioned in the academic literature. There is no question that state reforms have been going on, often including massive decentralisation processes. Decentralisation is one of the main reasons why LED has come onto the agenda in developing and transformation countries in the first place. However, decentralisation has not necessarily led to the creation of truly democratic, participatory bottom-up decision making processes. Often, the result has rather been the decentralisation of patrimonialism, nepotism, clientelism and paternalism.

This creates a local context where politics affect LED efforts in a different way than they do in industrialised countries. Local governance for LED is frequently not of the network variety, involving various actors, but rather dominated by government, in particular elected officials in executive positions who leverage LED to further their political ambitions and careers. Thus, LED is not driven by a problem-solving orientation but rather follows a political logic of power accumulation. Thus, the problem for LED initiatives is not only, as some authors would point out, the lack of social capital. The problem lies deeper, rooted in a political structure that is oriented towards specific interests and does not care much about the common good.

Under these conditions, external support for LED cannot be based on the simple transfer of a proven model from industrialised countries to developing and transformation countries. In order to create conditions for successful LED in these countries, we need an approach that takes their political ideosyncracies explicitly into account. One such approach is the PACA

methodology, which has been designed for use in an environment where stakeholders in- and outside the state need to learn a problem-solving approach to a policy issue such as LED.

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## Introduction

Local economic development (LED) has become one of the highly fashionable issues of international development cooperation. Bi- and multilateral technical assistance organisations are pursuing a variety of approaches.[1] There are various factors that explain this phenomenon:

- Many developing countries have gone through decentralisation processes since the 1980s. This created a latitude of action of local governments. In some cases, local government was explicitly allocated a developmental role.

- Economic crises and more or less successful structural adjustment policies resulted in massive job losses and impoverishment, which are immediately visible at the local level, thus creating a pressure on local politicians to act.

- Territorial policy and LED in industrialised countries changed profoundly. Traditional activities (subsidies and incentives, development of business estates, locational marketing) were complemented by a variety of new instruments. This was linked to a paradigm change which emphasised endogenous potentials and bottom-up strategies. These experiences were observed and adopted by development cooperation.

There is a striking tension between the popularity of LED and the serious doubts about its effectiveness. There is little evidence that LED as such has made a major difference anywhere, anytime, neither in industrialised nor in developing countries. There are a number of exciting stories, but few systematic evaluations and impact assessments, and the available evidence draws a dim picture of LED and territorial policies:

- Regional policy has a limited impact. For instance, despite the efforts of the German “Gemeinschaftsaufgabe” the income gap between rich and poor regions has increased (Deutscher Bundestag 1999, 26). Likewise, European regional policy at best makes a very moderate contribution to the reduction of regional disparities (Fagerberg & Verspagen 1995, Moucque 2000, Ederveen & Gorter 2002).

- A special, and particularly fashionable, approach to LED is cluster promotion. Based on research on 160 clusters all over the world, Michael Enright (2000) finds that governmental development policy (except for training and further education) is irrelevant for the performance of clusters.

- In the case of North America, one of the more popular instruments were enterprise zones, i.e. a policy to lure business to poor inner city districts by offering them fiscal incentives and exemptions from rules and regulations. The success of this approach has been very limited (Ladd 1994).

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1 See, for instance, the web pages of BMZ/GTZ (http://www.wiram.de/toolkit), Weltbank (http://www.worldbank. org/urban/led) and ILO (http://www.ilo.org/led and http://www.itcilo.it/delnet/)

- Another popular instrument is the creation of business and technology incubators, in particular to promote high-tech start-ups. Between 1984 and 1996, the German state of North Rhine-Westphalia spent more than € 500 million on incubators. An evaluation showed that companies inside the incubators displayed only a slightly better performance than a control group. The net job creation effect of the entire programme was estimated at between 2,000 and 4,000 (Elle et al. 1997).

Looking at the experience in developing countries, there has been a substantial amount of research on Latin America. The findings are sobering. There have been plenty of LED initiatives in Latin America in the 1990s (Aghón, Alburquerque & Cortés 2001). Many of them, however, never went beyond planning and mobilising stakeholders. Those initiatives that actually were implemented showed little effect (Llorens, Alburquerque & Castillo 2002, Helmsing 2001). In the case of Africa, the most relevant experience is probably South Africa, where local government has an explicit developmental role and has been pursing LED for many years. However, most local governments get entangled in insignificant black empowerment and poverty alleviation projects that have little or no impact (Tomlinson 2003, Meyer-Stamer 2002).

The impact of government-run LED interventions is usually limited. In fact, looking at traditional LED interventions, one cannot help but wonder whether the expectations they generate are in any way realistic. The implicit expectation around LED is like this: you do LED, and if you do it properly you are rewarded with growth, jobs and income. In the real world, the evidence that would support this expectation is very limited. Vibrant localities are not vibrant because of LED. Local business dynamism and growth is predominantly due to

- private initiative, which is to some extent influenced by locational factors, which in turn are to some extent influenced by local government and LED,
- local government interventions regarding infrastructure and urban development and renewal,
- national and supranational policy (e.g. telecommunication policy, transport policy, health policy, environmental policy, etc.).

If local governance plays a role, that it is usually private governance, e.g. highly effective business associations. Local government’s role is often limited to a laudable effort not to stand in the way. Other levels of government may be much more relevant; a typical example would be the dynamic development of a location as a result of national government’s industrial policy.

How to explain this sobering account of LED? In my view, there are three main reasons:

(1) There is no coherent LED concept or theory. Unlike urban and regional planning, LED is not an academic discipline. The academic literature on LED is surprisingly thin. LED practitioners have all sorts of backgrounds and skills, and the LED discussion draws on a wide variety of concepts from economics, sociology, geography, regional planning, and other disciplines. Particularly important is, ironically, the fact that many practitioners and institutions have a background in urban and regional planning and have not adjusted their

concepts and approaches to the new understanding of spatial planning as a societal process rather than the elaboration of a blueprint (Fürst 1997). Transplanting traditional urban planning concepts creates LED interventions where a lot is planned, little is implemented and nothing is achieved. LED aims at companies, and it therefore must pursue a business logic, not a planning logic.

(2) Many actors and researchers ignore the contradictions in the relationship between globalisation and LED. Globalisation, especially the increasing mobility of companies and workers, is without doubt a main incentive to launch LED initiatives (Vázquez-Barquero 2002). At the same time, globalisation creates various problems and serious challenges for local initiatives, for instance due to the fact that it is difficult to involve globalised companies in localised initiatives, and that local players are powerless victims of power games in global value chains (Meyer-Stamer 2003c).

(3) The literature on LED looks primarily at policy and much less at politics and polity. The main focus is at LED instruments, and authors draw long lists of instruments that LED practitioners may use (e.g. Blakely und Bradshaw 2002); the perspective at policy is primarily about toolkits. Political actors are kindly asked to subscribe to convincing concepts, but they often appear as the scoundrels who torpedo great proposal through petty politics; the perspective at politics is primarily about obstacles. In order to keep politicians out of the LED game, institutions like LED agencies (LEDAs) are created; the perspective at polity focuses social engineering.

Is there any chance that LED can become more relevant, generate a bigger impact and thus having the developmental impact that is expected from major LED programmes in developing and transformation countries? I will argue that the answer is Yes, but only if an approach to LED is based not only a sound conceptualisation of LED (which in my view is the Hexagon concept, see Meyer-Stamer 2003b) but also, and perhaps even more so, on a sound conceptualisation of the underlying governance pattern. This is what this paper is about. It addresses the third point mentioned above: the relevance of politics and polity in LED. The main focus is at governance, i.e. the effort of government and non-governmental players to shape the evolution of a local economy rather than just leaving it to the anarchy of the market. In the next section, I will address the tension between policy and politics. In the third section, I will look at the polity of LED, especially LEDAs and LED fora. In the fourth section, I draw some conclusions and present an alternative approach.

# 1 Policy vs politics

The LED discussion is a one-sided discussion. The main focus is at policy: what can local actors do to create a favourable local environment for business in order to stimulate the creation of jobs and income? Publications and conferences are looking for the latest best practice. This is despite the fact that the concept of a “best practice” is a dubious one. There are certainly good practices, but can there be a best practice in a field that is subject to so many intervening variables? Why have we not learned the lesson of the transition process in Eastern Europe that developmental practice cannot be easily transferred but has to be articulated very carefully into local institutional arrangements and institutions? This experience has clearly shown that instruments which work nicely in one context are completely inadequate in another context. This is one of the reasons why we should not one-sidedly emphasise policy to the detriment of politics and polity.

LED is in most cases predominantly a governmental activity. It is thus, just like other policy fields, shaped by the competition between political actors who present different ideas and concepts to attract voters. Moreover, it is subject to the usual political games to maximise power, defend entitlements, maximise resources etc. Only occasionally LED is an activity that is predominantly pursued by the private sector, and even then it is subjected to political influence.

One of the weaknesses of the LED discussion and practice is the implicit assumption that political actors are fundamentally well-intentioned, developmental and looking at the common good. In the real world, things are often not like this (see, more generally, Haldenwang 2004). Let us take a practical example. At a given location there are a number of established companies in a mature industry, i.e. the number of jobs tends to decrease. Companies shut down parts of their operations, but they do not sell those parts of their estates that are now idle. Now a new company from a different industry wants to set up a factory in this location. It needs real estate that is still owned by old companies. However, they do not want to sell because they fear that the new company may poach their employees or create an increase in the local wage level. Local government would like to attract the new company, but it does not own adequate estate, and it also does not have any means to persuade or force the old companies to sell their abandoned estates.

Basically, this is the story of the efforts of General Motors and Ford to set up factories in the Ruhr Area in the early 1960s. General Motors succeeded, mostly because of a highly clandestine approach where the mayor of Bochum managed to get hold of old companies' estates without ever mentioned GM. Ford, on the other hand, pursued a transparent approach, never got hold of adequate estates and ultimately built its new factory in Gent, Belgium (Gaigalat und Kania 2000).

What appears as short-sighted, egoistic behaviour of individual actors in a holistic perspective is a completely rational approach from the perspective of the individual business. The local company in the mature industry has to survive in a competitive market and will thus try to prevent any activity that may increase its factor costs. This is not a peculiarity of old industrial regions in OECD countries. We have observed the same thing in field research in Brazil in 1996, where local politicians in some locations tried to attract a car assembly plant the local companies did everything they could to avoid just this.

Behind this example is a simple fundamental problem. LED creates winners and losers, and the losers in LED are often those who are the winners in markets that are not competitively structured. When we conduct a PACA Exercise to diagnose a local economy (Meyer-Stamer 2003a), we typically observe two obstacles that stand in the way of growth: fragmentation and market failure. A typical example of market failure is the lack of market information that keeps potential entrepreneurs from starting a business. However, for other businesses the intransparency of markets creates opportunities to appropriate rents, and these businesses will do many things to prevent an LED initiative from remedying market failure:

- micro-finance initiatives must expect resistance from big, powerful commercial banks,
- weekly markets will probably not be supported by local retailers,
- real estate information systems will face resistance from owners of real estate who use the intransparency of the real estate market for speculation,
- the creation of data bases, information systems or fairs to create more transparency about available inputs and customers will face resistance from representatives of powerful suppliers or buyers who have no interest in transparent markets.

Another example for activities that will receive little support by local companies is the strategy dilemma in the field of skills development. Preventive, innovative skills development has strong externalities. Local employers thus have little interest in supporting it. At the same time, without a strategic skills development effort the locational conditions remain unfavourable for innovative industries. This dilemma is particularly relevant if you have to finance the skills development locally, and if businesses are supposed to contribute.

Resistance by business is only one of the manifestations of the special interests that stand in the way of LED initiatives. There is also politicking. Practitioners are constantly battling with the fact politicians are rejecting every idea and activity that came from competing parties. If a local election leads to a change in power, the new secretary in charge of local development will probably discontinue the initiatives launched by his predecessor. Overcoming this kind of behaviour is one of the biggest challenges in a democratic maturation process.

The structurally more difficult problem is fragmentation. This does not only rely to fragmented party landscapes. Fragmentation also exists between executive and legislative branches, between different layers of government, between public and private sectors, between various organisations of the private sector, between business promotion institutions, etc. Usually, each of these actors has an own agenda and special interests. Articulating these agendas and interests, and creating a compromise, involves a lengthy bargaining process, i.e. politics. I will address the question of the most appropriate institutional set-up in the next section.

Before we look at the LED polity, let me mention one more issue that is related to politics. Fragmentation among local actors is often reinforced through the very different ways in which they are integrated globally. For local politicians and government executives, globalisation is little more than an abstract concept; their day-to-day is most filled with an effort to battle with strictly local issues. For some local companies, on the other hand, integration into global value chains may appear much more relevant than local issues and factors. One example is the case presented by Schmitz (1998): In a major footwear cluster in Southern Brazil, major local companies torpedoed a local upgrading initiative because they feared that it might alienate their main customer in the U.S. (see also Schmitz 2003).

## 2 The polity of LED

One of the problems about LED in developing countries I have mentioned above is the discrepancy between planning and implementation. This problem also exists in industrialised countries, and its source is often the origin of LED: estate development and urban planning. For urban / regional / spatial planners there can be no doubt that you need a plan before you do anything practical. For many projects, this approach is useful, and indeed essential. For instance, if a business estate is developed it would be embarrassing to first build the roads and then worry about the sewage system. However, it is not appropriate to apply this kind of approach to every project, in particular in LED. For instance, what would a blueprint for a business networking initiative look like? You can plan the first networking event, and indeed you have to in order to make sure that you get the right actors and that the event goes well. But you cannot plan who is going to meet whom, and what will come out of this. Now, many LED activities are more like networking (because you can have a big impact with very little money) than like business parks (where you can bury lots of money without necessary creating jobs subsequently), so that the planning-driven approach to LED will often be inadequate.

The massive LED planning effort we often encounter in developing countries is also irritating because the discussion in industrialised countries has moved on. The spatial planning discussion has gone through a remarkable change. Fürst (1997, 117 f) states that there has been a transition “from a closed model of planning (final plan approach) to an open model of planning (planning as a process)”. He observes a process of learning that “the addressees of planning cannot be pulled over through more and better participation in the elaboration of the plan, but through the leveraging of personal relevance: Problem-driven approaches create a much higher motivation to participate than basic spatial planning plans”. He also observes that “planning processes are collective learning processes, where problems are conceptualised in a new context and where solutions need to be identified in a creative and cooperative manner”.

In fact, the planning-driven approaches to LED sometimes give the impression that 1960s-style concepts are alive and kicking. They sometimes appear like localised variants of ancient national development concepts, such as strategic industrial policy, which have been abandoned at the national level long ago and for good reason. One of the big misunderstandings about “strategic LED” is this: Some actors hope and expect that they can solve the inherent problems of planning- and strategy-driven top-down processes by running them at the local level. They ignore, though, that economies are subject to an ever increasing pace of change, which turns planning documents into graveyards of data the very moment they are printed out. It is not by coincidence that in the private sector strategy is no longer identified with the elaboration of multi-year plans (Mintzberg 1987, Mintzberg 1994, Porter 1996).

The planning-driven approach to LED is rooted in local government planning departments and development agencies whose employees have a background in planning. These planners are now transferring what for them are proven concepts from urban planning to LED – even in those cases where LED involves much more than industrial estate development and includes interventions that are inherently unplannable (yet need to be governed as they evolve).

In the reality of developing countries, LED-related institutions with a background in planning are one of three typical patterns. The second pattern are agencies that conceptualise LED as a social policy approach. They do not aim at business development but at direct poverty alleviation. This is, for instance, the predominant pattern in South Africa (Tomlinson 2003). But it is a pattern that is also known from industrialised countries; for instance, Michael Porter (1995) has criticised this approach to inner city development in the U.S.

## 2.1 LED Agencies – the obvious institutional structure for LED?

A third type of institutions that is frequently addressed in the LED discussion are LED Agencies or LEDAs. In the field of international cooperation, this model is promoted by a consortium that includes ILO, UNOPS, EURADA and Italian technical assistance. This model is supposedly based on experiences in Northern Italy. The truth, however, is that there is not just one model in Northern Italy – Pietrobelli and Rabelloti (2002) identified a number of different profiles of local development agencies there, and none of them represents the comprehensive business support model propagated by ILO et al.[2] Successful local development agencies are highly specialised in services that fit the profile of the local industrial cluster and that are otherwise not provided by the market.

The second, more important problem related to the LEDA is a different one. Depending on the context, a LEDA will be overwhelmed or face resistance:

- In a context of institutional weakness (i.e. unlike the enormous institutional thickness that defines Northern Italy), with few business promotion institutions, an underdeveloped BDS market, weak business associations and a weak state, the LEDA will face very exaggerated and unrealistic expectations. A typical LEDA employs between five and ten persons and it supposed to serve an area with between 100,000 and 500,000 inhabitants. Let us put this in perspective. Scottish Enterprise, one of the leading territorial development agencies, employs 1,500 persons and covers a territory with less than 5 million inhabitants. Moreover, Scotland is also marked by institutional thickness and a developed BDS market. In other words, a LEDA in a very underdeveloped setting can do a bit of everything (with little impact) or a lot of very few things, and in either case it will create a lot of disappointment.
- In a setting that is marked by the existence of a variety of business promotion and other development institutions, which are usually fragmented, a LEDA will try to establish itself as a coordinating agency. However, why would the other institutions want to be coordinated? Each of them has its own objectives, practice and performance indicators, and each will perceive an external attempt to coordinate as a limitation of its autonomy of action. In the real world, a LEDA will – after its coordination efforts have met with fierce resistance – start to design its own interventions. The ultimate outcome is not more coordination, but more fragmentation.

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2 "LEDAs have organised their functions so as to supply enterprises with all-around assistance, including help in formulating reliable business plans, credit disbursement and post-financing assistance." (ILO et al., undated, p. 26).

## 2.2 Governing LED with LED fora?

It is a big question which institutions are supposed to deliver LED. The other big question is who is supposed to govern the implementation of LED. Few actors would want to allocate this task exclusively to government. LED is a business-oriented activity, and thus it is essential to involve the business sector in design, implementation and governance. Many would argue that the best way to govern LED is thus the creation of roundtables, actors' conferences or fora to gather all those players that are relevant for LED.

One of the pioneers in this respect was the German state of North Rhine-Westphalia. It government decentralised structural policy in 1989 through the creation of 15 regional conferences that were supposed to organise a bottom-up process of territorial development. This initiative has received a lot of attention; however, its success was very limited (Potratz 1999). Most of the regional conferences ceased operation after a brief period of time, after having negotiated a list of project proposals the various local actors wanted to submit to state government; the design of the initiative, with each conference being set up as a filter for project proposals, encouraged a bargaining process of the "I support your project if you support my project" variety. Only in two regions, where a genuine bottom-up process had already existed before, effective regional conferences continued to exist.

One of the important lessons of the NRW approach is that there is a clear tension between consensus and innovation. State government expected the regional conferences to create a "regional consensus", which led to very conventional, orthodox proposals. Innovation in LED is driven by few pioneers who are willing to take up a much more numerous force of conservative actors.

A similar approach has been pursued in Scotland since 2001, and the assessment also appears to be rather sober. The mandate and legitimacy of the Scottish regional conferences are not clear. Apparently, they engaged in a rather academic brainstorming and planning process that did not really lead to practical activities.

I have observed a similar pattern in South Africa where almost every municipality created an LED Forum. Again, its status was not clear, its responsibility not clearly defined and the relationship to the local legislative unclear.[3] The problems were exacerbated by the fact that most actors in the Forum had no clear idea what LED was supposed to be in the first place, what an LED Forum was supposed to do and who would thus have to be represented. The predominant pattern was the creation of a huge forum where representatives of business associations, HIV/Aids groups, other NGOs and political groups looked at each other and engaged in unstructured brainstorming processes. Those actors who suffered from time constraints, in particular representatives of the private sector, deserted the Forum after few, usually frustrating sessions, and the Forum became increasingly irrelevant.

3 Regarding the fundamental problems of fora and similar institutions see Manor (2000).

## 2.3 Dilemmas of network governance

Network governance is a daunting task even under relatively favourable circumstances. Network governance becomes relevant to the extent that government alone cannot solve problems any more and societal actors expect to be involved in policy formulation. Involving societal actors becomes crucial when key resources – information, skills, time, money – are no longer predominantly in the hands of government officials but rather distributed among a variety of actors, including companies and business associations, NGOs, training and research institutions, etc. Network governance (Mayntz 1991, Mayntz 1993, Scharpf 1993) emerges when essential resources are distributed among governmental and non-governmental actors and only pooling these resources, involving the direct interaction among these actors, can lead to an adequate definition of problems and, based on this, policy-making that aims at problem-solving. Network governance is the predominant pattern of governance in industrialised countries (Messner 1997).

Hardly anybody likes network governance. It involves substantial transaction cost. Its results are usually nowhere near the results each of the players aspired. Actors get involved in network governance because there is no alternative. The key categories to understand the effectiveness of network governance are implementation crisis and shadow of hierarchy:

- The implementation crisis emerges when government formulates strategies and programmes that cannot be implemented because that do not meet with the interests on the side of the intended target group; an innovation policy programme where companies don’t apply for available funds would be a typical example.

- The shadow of hierarchy becomes important when government can threaten actors with the formulation of rules that would create serious cost for those actors, especially if that cost would be higher than the transaction- and opportunity-cost of network governance. It is also relevant to overcome endless disagreement in network governance.

One of the reasons why actors involved in network governance tend to be frustrated is the fact that it involves standard problems that cannot be easily solved. Research on the InnoRegio territorial development initiative in Eastern Germany identified six typical dilemmas which are just as relevant everywhere else (Wetzel et al. 2001, 92 ff):

(1) The ownership dilemma: At a certain phase in the network process, actors need to take on responsibility, simply because tasks require to be attended to. On the other hand, the allocation of responsibilities needs to be kept flexible, so as to avoid cemented hierarchical structures that make it difficult for newcomers to join the network, but also to circumvent the clustering of groups within the network.

(2) The trust dilemma: Initially, a new network involves limited trust among members who hesitate to share critical information. The less information they share, the more likely the network will become dysfunctional and collapse. However, sharing critical information creates the risk of opportunistic behaviour by other members of the network.

(3) The self-organisation dilemma: In each network the question comes up: how much coordination, structure and management is required to work effectively and efficiently?

At the same time trade-offs need to be made, to not impinge on flexibility which is always at danger when structures and coordination become too rigorous and complicated.

(4) The communication dilemma: Collaboration between various actors invariably creates conflict. One option is to ignore conflict (and hope that it gets sorted out somehow), the other to address it. Either approach can solve the conflict – or lead to an escalation which may let the network collapse.

(5) The legitimacy dilemma: It will arise in most networks at some stage. It is therefore crucial to anticipate that each participant of the network is at the same time representative of an organisation. The dilemma of legitimacy challenges each member to clarify the interest of the network and of his/her organisation. Moreover each participant functions as interpreter between these two “worlds”.

(6) The compatibility dilemma: The internal functional logic of networks is often very different from the hierarchical functional logic of the organisations that are represented in the network. If the difference becomes too big, the possibility of communication between network and environment suffers. However, if the network is too similar too its environment, it will not unfold its potential.

There are no easy, straightforward solutions for these dilemmas. Only skilled and experienced facilitators will be able to find the balance between the extremes. If such facilitators are not present, the question arises who else will manage the network. In this case, its success depends on coincidence – perhaps there is somebody in the network who happens to combine leadership and facilitation skills. It is rare to find network members who have been trained to be effective facilitators. Politicians and government representatives claim responsibility for facilitation. However, their tools and skills are often closer to those of Nicolo Macchiavelli than to those of contemporary facilitation technique gurus. It is not a coincidence that in countries like Germany, where network governance is ubiquitous, the facilitation industry is enjoying high growth rates.

## 2.4 Territorial change management: Concept or metaphor?

Might the alternative to lengthy, complicated and often frustrating processes of negotiating LED in actor networks be the introduction of territorial management? The term “regional change management” has recently started to emerge as a new fashion in the development business. Where are the reference cases which can illustrate what is behind this term?

In fact, there are few. A search in Ingenta produces no results. A search in ECONIS results in one hit, an article about the “Nuremberg programme” (Neumann 1996). This is, in fact, a highly instructive case. It takes us directly to the question whether regional change management is a concept that is directly connected to mature concepts of organisational development – or rather a metaphor which describes analogies and a few OD tools that are also useful in territorial development.

Nuremberg is an old industrial region that has been declining for a while. Since the 1990s, corporatist actors – the social-democratic local government, trade unions and business – have pursued an active local economic development policy. Dörre (1999) describes how this approach fell apart in the second half of the 1990s. This was particularly due to changes in big branch plants, after their long-term, locally embedded directors retired and their successors changed so frequently that there was no way of integrating them in trust-based local networks. Additionally, large corporations reassessed the importance of Nuremberg, downgraded its attractiveness and became less interested in local upgrading initiatives.

Might the Nuremberg programme have been more successful if the local economy had been less dependent on branch plants of major corporations who have their headquarters in far away places? Recent work by Austrian researchers and practitioners[4] would indicate that the answer is Yes. In their publications, the term "regional change management" is used as a metaphor, since it is not related to management, like in a company, but to moderation and facilitation. Regional management in this sense is a typical incarnation of the "cooperative state".

In its original sense, change management is the other side of the coin of everyday management. It is applied in companies and other big organisations with a clear decision centre. Successful companies have a governance pattern that is similar to constitutional monarchies, with an executive monarch. This applies in particular to companies with a good track record in change management, e.g. General Electric, where Jack Welch introduced a model of charismatic leadership. Even though each corporation, like any other big organisation, is characterised by intense micro-politics, this does not change the fact that there is a clearly defined decision centre and a clear organisational goal. Neither feature applies to a territory. Within each territory, anywhere, there is polity and politics to constantly negotiate what the goals of collective actors are. In case of General Electric, on the other hand, the goal is clear: build electrical apparatuses, engines and other gadgets and package them with services in order to earn money.

Nevertheless, the term "territorial change management" is a useful metaphor to stimulate creative thinking processes. This does not only relate to the question (intensely addressed by the Austrian authors) of which moderation and communication techniques from organisational development may be applied in territorial development. It also, and in particular, relates to two other points:

- shifting the focus from structure to process. Approaches like LEDA get stuck in endless conflict on structures without moving into service delivery. Territorial change management is a variety of network governance. Which actors and organisations participate, and in which way, will evolve during the process.

- the focus at the customer. Orienting the entire organisation towards the satisfaction of the customer was one of the main objectives of corporate OD processes in the 1990s. Recent territorial development initiatives address the same issue. Companies inside a value chain are supposed to widen their perspective from the direct customer to those final consumers who purchase the products that come out of the value chain. Actors in a

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4 See http://www.oear.at. Various ÖAR-Studies are available at the website of Austria's Federal Chancellor, http://www.austria.gv.at/.

cluster are expected to solve the final customer's problem instead of optimising their partial rationality; for instance, in a health care cluster the actors are supposed to define their role not based on their origin in a particular discipline, but with a clear focus at the customer's problem, such as cancer.

# 3 Governance of LED and PACA

Network governance, not only of LED, is the predominant pattern of governance in industrialised countries. But what about developing and transformation countries? Let us address this question by first looking at the term "governance". Governance is an analytical category that has been created to address a changed reality. Governance and networks are key categories in a context where a state that is pursuing the common good needs to closely interact with societal actors to solve problems. The term "cooperative state" has been created to describe a reality where "the clear distinction between who governs and who is being governed is disappearing" (Mayntz 2004). Renate Mayntz, a prominent German political scientist, defines governance as follows, referring to a number of political science subdisciplines (ibid.):

"In international relations, governance is a term that describes a pattern of power structures without an overarching sovereign power. The term was adopted by policy research as it fits the specifics of the 'cooperative state', i.e. political rule that is based a strong involvement of civil society actors. In both fields, there is no clear distinction between the governing subject and the governed object, because the addressees of governance are actively involved in the design of rules and their implementation. Looking at a national state, governance thus covers the various different patterns in which issues are ruled and coordinated in the society: from institutionalised self-rule of civil society actors to various types of collaboration between governmental and non-governmental actors to the sovereign acts of government."

In industrialised countries governance, and more specifically network governance, is an empirical fact. However, it is important to note that governance addresses predominantly a pattern where government action pursues problem-solving. As Mayntz has noted elsewhere (2001), this perspective tends to lose sight of other goals of political actors, in particular maximising power for its own sake, as well as securing privileges and serving special interests. The governance discussion emerged from the effort not only to find an adequate description of the political reality in industrialised countries but also to create a sound basis for policy advice.

In OECD countries, successful territorial development is based on policy networks that consist of various government agencies, the private sector, trade unions, NGOs, and other players. This pattern is linked to the more general emergence of policy networks as the predominant governance pattern. But it also has a more specific reason. LED is only rarely a mandatory role of government. In most countries, LED is a voluntary activity that is driven by the need of local political actors to improve the legitimacy with their respective constituencies. LED is not an activity where government can enforce compliance. It is inconceivable that, say, the local business chamber is fined because its delegate does not show up at an LED meeting. Network governance is the only way to govern LED.

Unfortunately, in many developing and transformation countries governance and network governance are not an empirical fact but a normative concept. For instance, looking at Latin America Haldenwang (2004, 185) states that “political systems in Latin America often feature a lack of focus at the common good”; “many regimes have battled with the effort to improve governance. Corruption, the absence of a rule of law that covers everybody, intransparent decision making processes and underdeveloped public services in many countries continue to undermine the trust of citizens in their democratic order” (ibid, 193). In patrimonial societies and in countries whose political system is characterised by clientelism and nepotism, the predominant goal of government is not problem-solving. However, without a clear focus at problem-solving, the main reason for the emergence of network governance is absent.

We cannot readily assume that the state in developing and transformation countries is predominantly of the problem-solving-oriented variety. States in these countries, while formally democratic, are often of the patrimonial, nepotist, clientelist or paternalist variety. For quite a while, the discussion on the state in these countries has highlighted the need for “good governance”. The extent to which these states have made progress towards “good governance” since the 1990s is being questioned in the academic literature. There is no question that state reforms have been going on, often including massive decentralisation processes. Decentralisation is one of the main reasons why LED has come onto the agenda in developing and transformation countries in the first place. However, decentralisation has not necessarily led to the creation of truly democratic, participatory bottom-up decision making processes. Often, the result has rather been the decentralisation of patrimonialism, nepotism, clientelism and paternalism.

This creates a local context where politics affect LED efforts in a different way than they do in industrialised countries. Local governance for LED is frequently not of the network variety, involving various actors, but rather dominated by government, in particular elected officials in executive positions who leverage LED to further their political ambitions and careers. LED is not driven by a problem-solving orientation but rather follows a political logic of power accumulation. The problem for LED initiatives is not only, as some authors would point out, the lack of social capital. The problem lies deeper, rooted in a political structure that is oriented towards specific interests and does not care much about the common good.

How would you suggest to govern LED in this kind of setting? We have been advocating the PACA approach for a while (Meyer-Stamer 2003a). It has emerged in a setting where governance is not predominantly of the problem-solving variety. It is less demanding in terms of institutional sophistication and democratic maturity than approaches like LEDAs or LED Fora. PACA is explicitly based on the assumption that

- there are no operational networks of governmental and non-governmental actors and thus no effective network governance,
- local actors are not necessarily and not predominantly interested in problem-solving, and most certainly have not yet agreed on a shared problem definition.

By introducing PACA in a location, we set the stage for a process that addressed both issues. The main goal of PACA is

- to identify LED activities that will be implemented immediately because they address an issue that local actors have given a high priority,
- to identify local actors who can agree on a joint definition of a given issue, and on a shared approach to address the issue,
- to initiate a process that avoids a pattern where governance structures are suggested by external advisors who battle to get a buy-in from local actors; instead, the objective is to initiate a process where a cooperative governance pattern emerges because local actors start to understand that it is essential to solve problems.

Is PACA the silver bullet that solves the governance issues involved in LED in developing and transformation countries? Obviously not, since there cannot be a silver bullet. But PACA has drawn important conclusions from other, less successful approaches. It is not a solution in search of the right problem. It is rather a concept that explicitly sets the stage for a learning process. If LED is a new topic for local actors, it is crucial that they ride down the learning curve quickly. The most effective way of learning is learning-by-doing. Doing in this perspective does not mean planning, but acting. PACA is designed to overcome planning-driven LED approaches that are weak on implementation. It launched a process of action learning for local actors involved in LED.

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