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Benchmarking Territorial Competitiveness

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We operate as adviser and service provider to development organisations (development agencies, ODA (Official Development Assistance) donors, development banks, NGOs, cluster networks and others), to decision makers in private and public sector and to consultants and consulting firms. Since 2003, the knowledge that we have shared, and the tools that we have developed, have helped development organisations and stakeholders in many developing and transformation countries to conduct territorial and sectoral development in a more effective and efficient way.

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Table of Contents

1 Introduction

Competitiveness is a concept and a reality that is rapidly spreading throughout the world. Market logic is an increasingly widespread principle that affects not only all kinds of companies but also territories, whether they are cities, regions or entire nations.

The increasing relevance of competitiveness leads to an increasing interest in finding out more about leading competitors, and learning from their success stories. How did the small and medium-sized businesses in the industrial regions of Italy manage to remain highly competitive? What makes Silicon Valley and Bangalore leaders in information technology? Why did one region establish itself as a tourist destination while a neighbouring region with similar resources failed to do so? Such questions foster more structured and systematic comparisons, which in this paper I call Benchmarking Territorial Competitiveness (BTC).

In this working paper, I am particularly interested in how economically disadvantaged regions could benefit from Benchmarking. Stuart Rosenfeld, a researcher studying the relation between competitiveness and regional equity, has this to say on the subject: “Poorer and peripheral regions have limited access to .. benchmark practices, innovations, and markets. Without wider access, companies are limited to learning only within their regional borders and have a difficult time achieving any sort of competitive position” (Rosenfeld 2002, 10). This statement refers to the less prosperous regions of Europe but is equally applicable to towns and regions in developing countries.

In many developing countries the majority of craftsmen, producers or traders lack knowledge about the innovations and new tendencies of the market in which they operate. They often work in a manner that has been passed down by previous generations, with little change. This way of doing business is increasingly being questioned in the light of globalisation, which brings the logic of competitiveness to the most remote regions. When negotiating free trade treaties, business people and producers are now under great pressure to rethink their business model. Given the current situation, I want to look at the way Benchmarking can help them to learn from international and local best practices.

This study was inspired by requests from various local development practitioners for a more systematic investigation into best practices and an increased level of exchange and learning on Local Economic Development. In this report, I shall summarise some of my own experiences based on those debates and workshops, adding information taken from specialised literature on Benchmarking and territorial competitiveness. The report is divided into the following three parts:

1. In order to make the concept easier to understand, I define and synthesise some basic ideas on Benchmarking.

2. I then apply Benchmarking to the subject of the competitiveness of different locations and territorial economies, with reference to practical experiences and with the inclusion of some conceptual ideas.

3. Finally, I sum up a number of ideas on how Benchmarking could be used to encourage local and regional competitiveness.

The objective of this report is to identify a form of territorial Benchmarking that might respond to the needs of local and regional development practitioners. It does not attempt to offer a definitive answer, merely a basis for debate between all those interested in the topic. The writer of the report will be satisfied if this study serves as a stimulus to local economic agents and others involved in Local Economic Development.

2 What is Benchmarking?

2.1 Origins and definition

The idea of Benchmarking is simple. It means admitting that someone else can do something better than oneself and that one can try to catch up with and overtake that person. Benchmarking is a process that stimulates changes and improvements in organisations on the basis of information collected for the purpose of measuring the own performance as well as that of others. The Benchmarking process must be systematic, formal and organised, in order for it to promote a series of actions in a specific order, which constitute a coherent and reliable sequence that any member of the organisation can repeat. This process is continuous, since it takes place over a more or less extended time period, in order for it to demonstrate the dynamism of the strategies or their results. Benchmarking thus makes it possible to diagnose, measure, compare and evaluate, amongst other things, services, work processes, functions, etc., with the focus on the way they are offered and carried out rather than on what the particular service is.

The expression “Benchmark” originally comes from topography. It is a mark topographers make on a rock or a concrete post in order to compare levels. The expression Benchmarking entered the business vocabulary in the early 1980s, when the Rank Xerox corporation used it to refer to the comparison between one company and its direct competitors, or those companies recognised as industry leaders. Its meaning was then broadened: the comparisons were to go beyond local and industry competition, in pursuit of best practices wherever they might be found.

Rank Xerox studied the practices of a company from another sector, namely L.L.Bean, a leader in outdoor clothing, in order to improve its distribution system and re-establish its market leadership. This is an important example, since it demonstrates the usefulness of comparisons with companies from other areas of activity.

It is worth taking a closer look at the Rank Xerox case. What practices did it adopt and from what companies? There is no standard design for the Benchmarking process that can be adapted to all organisations. The most important thing is for the adopted design to function within the present culture of the organisation and help it produce a culture of continuous improvement.

Today Benchmarking is a practice that has spread beyond its business origins and is now applied to any organisation, institution or establishment, whether it produces similar results or not; it seeks to identify the best commercial practices that can be implemented in those areas that need improvement.[1]

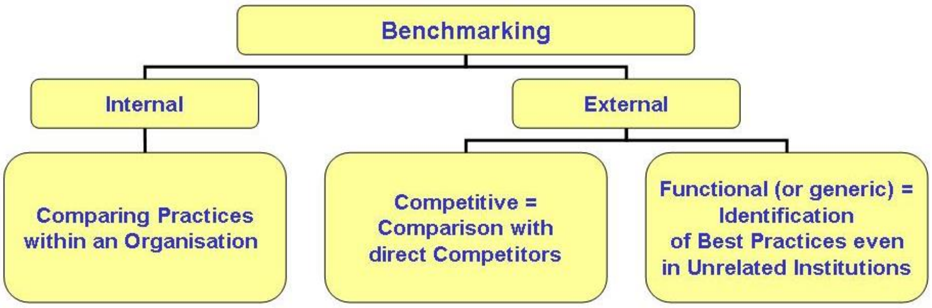
The different definitions of Benchmarking have the following elements in common:

- Developing competitive advantages.
- Studying best practices in organisations from any industry or country.
- Comparing the performance of an organisation with that of others, in order to obtain information that, when creatively adapted, might lead to an improvement in its performance.

In summary, Benchmarking is a tool for developing competitive advantages in an organisation, based on the creative or innovative adaptation of existing best practices.

2.2 Forms of Benchmarking

A simple typology can be used to explain the different types of Benchmarking:



Internal Benchmarking is based on the analysis of processes and outputs within a particular company, organisation or territory. In many companies and organisations, similar operations are carried out in numerous installations, departments or divisions. This is especially true of multinational corporations, which function at the international level. For this reason, many large companies begin their Benchmarking activities by comparing their internal practices. Although it is unlikely that they might discover best practices internally, identifying the best internal operational practices is, nonetheless, an excellent starting point.

The strongest argument in favour of implementing internal Benchmarking is that, even though the various divisions form part of the same organisation, geographical differences, and differences in culture and organisational approach almost always result in differences in work processes. As a consequence of the discovery of "local innovations", many companies

[1] One institution that has pioneered the application of Benchmarking to public administration and institutions promoting local employment is the Bertelsmann Foundation in Germany (see Bertelsmann 2001, 2003 and 2004).

have been able to obtain rapid benefits by transferring this information to other operations within the same company or organisation. In the same way, a Regional Government could compare different processes and results at the municipal level, or carry out Benchmarking between the different departments of the regional administration itself.

Internal Benchmarking might be a good starting point from which to initiate Benchmarking for a large company or organisation, since it enables it to do a trial run before embarking an external study of greater scope, and to establish Benchmarking objectives in realistic, although simple and concentrated, terms. If this is not done before visiting another company or organisation, all one will come back with is a mass of information that will difficult to adapt to internal practices.

External Benchmarking is divided in turn into two kinds:

- Competitive Benchmarking
- Functional or Generic Benchmarking

Competitive Benchmarking is based on the analysis of and comparison with the competition. It is the easiest type to understand due to the fact that it is oriented towards the products, services and work processes of direct competitors. Employees know that this kind of information is valuable since they are aware that a competitor's practices affect potential or existing clients, suppliers and industry observers. The key advantage to be gained from carrying out a Benchmarking process with your competitors is that since they employ the same, or very similar, technologies and processes as your own, the lessons that you and a competitor learn from each other are in general very easily transferred.

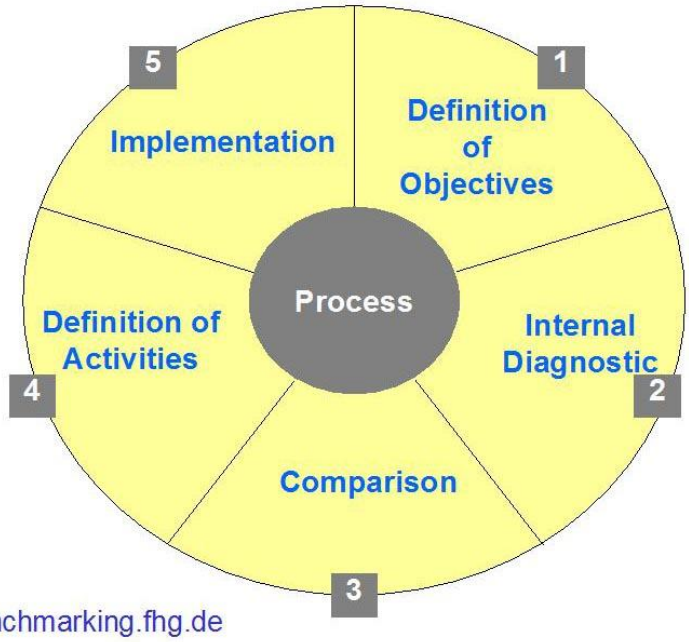
Competitive Benchmarking faces the problem of sharing data with competitors, which makes it somewhat difficult for comparisons between companies. Things are somewhat different when it comes to comparing locations. For instance, this methodology could be of relevance when comparing the practices of different fishing ports in a country, or different locations with a similar economic profile. On the other hand, it must be recognised that the competitive relationship between regional and local territories is much less accentuated than the one that is established between direct competitor companies.

In functional Benchmarking the organisations being compared may or may not be direct competitors. The object of functional Benchmarking is to highlight the best practice of a company recognised as being a leader in a specific area. It is often referred to as 'generic' because it is directed at functions and processes that are common to many companies, whatever sector they belong to, including manufacturing, engineering, human resources, marketing, distribution and invoicing, to name but a few. On account of the lack of direct competition it is easier to share data in generic Benchmarking.

Another important distinction is made between *Benchmarking of processes* and that of *output* or *performance*. According to the original concept, Benchmarking is all about comparing critical business processes, naturally with the intention of improving results. But Benchmarking in the public sector is oriented above all towards results or indicators related to performance, and thus serves first and foremost as a comparison of outputs. There are hardly any systematic comparisons of processes, and no Benchmarking with sectors from other areas of activity, as is common in the business sector. That is a shortcoming that should be rectified with an eye to the future. (Bertelsmann 2001, 11.)

2.3 The Benchmarking Process

Benchmarking can be divided into five principal phases:



Source: www.benchmarking.fhg.de

1. Definition of objectives

The definition of objectives serves to clarify the results that are hoped to be obtained from Benchmarking, and comparing them with the resources available for implementing such activities. Any Benchmarking process may have multiple objectives, but these must always be oriented towards improving the competitive position of the entity being studied. It is important to define the objectives on the basis of the client’s needs and those of other stakeholders. If the aim is to organize Benchmarking in a participative manner, the various important groups, including those at the executive level, should be integrated from the outset. In addition, it is advisable to set up a Benchmarking project team, which can depend on the advice of an experienced external Facilitator.

2. Internal Diagnostic

Internal diagnostic consists in identifying the key processes of a company or organisation. This entails identifying those areas or processes that need to be improved: core competencies of the organisation, central processes or critical areas, on which the satisfaction of clients or users depends. In order to keep the project manageable, it is advisable to be specific when defining objectives, and to focus on a few key processes rather than embracing the entire reality of the company or organisation.

3. Comparison

Benchmarking begins with a study to identify those companies or organisations that are well known within the area being investigated, and thus establish which are the best of their kind or are representative of the best practices. When seeking appropriate benchmarks, it is also important to take into account the cost and the ease of access to the available information. If the aim is to visit excellent companies or organisations, it may be more feasible to select those in the neighbouring area rather than in distant countries. It is equally important to look beyond one's own industry, and also seek best practices in other sectors.

The heart of Benchmarking is the collection and analysis of information relating to practices that can be adopted to improve the performance of the organisation in the selected areas. A project team will be responsible for planning and carrying out the comparative evaluation of the organisation's performance. Information gathering is not restricted to visiting other organisations. An important part of the research work consists in reviewing documents, files and publications, in addition to visits, surveys, interviews and meetings. The data analysis will depend in each case on the kind of data and on the needs of the organisation.

4. Defining activities

Once best practice methods have been identified it is a case of analysing why others get better results. It is sometimes thought that Benchmarking involves taking or stealing information in an ill-judged fashion. This is why it is essential to bear in mind that the practices usually need to be creatively adapted to the new context. Moreover, one must take into account the resources available for implementing the necessary changes.

5. Implementation

The project team designs an implementation plan for applying the best practices that have been identified. In order to get the support of other stakeholders it is important to communicate to them what actions have been determined and what the expected results are. The whole implementation process must be monitored to assess its effects and readjust the measures should this be necessary.

Benchmarking should not be seen as an isolated exercise. In order for it to be effective, it must be an integral part of a process of continuous improvement for keeping up-to-date with current best practices. Consequently, Benchmarking is not a closed sequence, but rather an ongoing process of communication and learning.

2.4 Participatory Benchmarking

Benchmarking is a technique that can also be applied to processes of participatory development planning. In recent decades, there has been a sharp increase in the number of community-based planning projects that use benchmarks and indicators for measuring progress in a participatory manner. Such projects are to be found in many countries of the world, at the national, regional or local level.

In general terms, these projects have five features in common:

1. They attempt to integrate economic, social and environmental objectives into the framework of an integral vision of development.

2. They set benchmarks and develop suitable indicators for monitoring the process designed to achieve their objectives.

3. The indicators and benchmarks are initiated, developed and monitored in different forms of a participatory community process, which sometimes includes the entire community, and at other times focuses on a specific group within the population.

4. They tend to be processes that are both long-term (which is to say, over 5 years in duration) and interactive.

5. They have established, or will establish over time, a relation with the formal processes of governance in their community.

In order to implement participatory Benchmarking successfully, particular care must be taken to relate the benchmarks and indicators in the appropriate manner. Various groups with different interests and functions may participate in the process of developing benchmarks and related indicators; ranging from representatives of business associations, unions and production chambers, social consumer associations and environmental groups, to local government representatives, experts or representatives from the broader community. They will all have their own benchmarks and indicators that respond most adequately to the aspirations of each particular group. The key to the participative process of creating community benchmarks is for citizens to collaborate in determining and monitoring the objectives, in order for them to better understand and learn about necessary resources and any restrictions that must be faced.

The result of this process should not be simply benchmarks and indicators as such, but rather a growing level of community activity (local projects and strategies, committees and meetings between those interested in sustainable development; better standards of governance; increasing attention to and understanding of the priorities of government and the community) and, in time, stronger communities.

3 Benchmarking of Local or Regional Competitiveness

3.1 Territorial Competitiveness

Benchmarking was created as a methodology for enabling companies to improve their position in their competitive environment. Before applying Benchmarking to territorial entities, we might ask ourselves whether the concept of competitiveness is equally valid for such entities, that is to say, for countries, regions or cities.

In the case of countries, Krugman (1994, 34) questions this analogy, since he argues that countries do not compete with each other in the same way companies do; unlike a company, a non-competitive country never stops doing business. For Krugman, international commerce is merely a strategic (or non-cooperative) game. Porter (1990), on the other hand, who sparked off a debate on territorial competitiveness, insists that countries – he talks of “nations”- can develop and improve their competitive position in relation to others. He emphasises the capacity of countries to create and maintain the right conditions for companies to develop specific competitive advantages. At the same time this view can be distinguished from the static vision of competition based on capital and low-cost labour, since instead it stresses dynamic aspects, i.e. the capacity for continuous innovation, change and improvement. In the final analysis, the competitiveness of a nation depends on the levels of productivity its companies achieve and their ability to maintain them over time. If productivity and competitiveness are taken to be synonymous, then this view is compatible even with the ideas of Krugman, who says that a country’s ability to improve its standard of living over time is almost entirely dependent on its capacity to increase output per worker (Porter 1990, 9).

In recent years, the debate on competitiveness has shifted its focus from national competitive advantages to regional ones. Camagni (2002) – disagreeing with Krugman’s thinking – states that economic globalisation affects not only companies, but also territories, which increasingly find themselves competing with each other. In fact, unlike countries, cities and regions compete in an international market for products and production factors, based on a principle of absolute rather than comparative advantage since exchange rates are not set on a location-by-location basis. There is no efficient and automatic market mechanism that gives each territory a role in the international division of labour according to its relative characteristics. Consequently, territories that are less competitive in terms of internal or external accessibility, the quality of its human or environmental factors, or its capacity to learn, risk being excluded or remaining in a slump. The competitiveness of a location depends less and less on its natural resources, and increasingly on the creative and innovative ability of local economic actors to make the most of its existing potential.

Competition between territories does not always produce positive results. We can identify two types of competition between locations:

1. One well-known type is that of static price competition, in which the governments of different territories attempt to attract investors through lower taxes and salaries, or with higher subsidies. This form of competition is characterised by winners and losers and often leads to a race to the bottom that results in labour and environmental standards being eroded. In the worst-case scenario, it does not even result in a strategic game.

2. The alternative is a dynamic vision of competition, based on the win-win concept. On the basis of a specific endowment of factors and capabilities, each territory seeks to develop its unique competitive advantage. This concept of competitiveness aims to achieve a local specialization that enables different territories to cooperate in a context of general development.

In a situation in which different territories compete to persuade a company to set up there, or aspire to host an important event, we are not going to find the right conditions for cooperation on Benchmarking. Each candidate is going to try and spy on the conditions of its competitors, without giving any information about its own approaches. The same thing is likely to happen when two fishing vessels operate in the same coastal waters and have the same intermediaries. In such cases, comparison with competitors may lead to imitation, but it will not be enough to achieve a real competitive advantage.

Benchmarking is more productive when it is carried out between territories that are not in a situation in which there is such direct competition. As I have already explained, it can be useful to study best practices even in unrelated institutions. The idea here is exchange and learning in the community, which is a tool for fomenting the competitiveness of regions in a cooperative manner.

3.2 Interested parties and practical experiences

In an "era of indicators of performance and rankings" (Kitson 2004, 997) regional Benchmarking is fashionable, and comparisons between the economic development of different regions and cities are increasingly common. There are various groups of actors who are interested in the economic-territorial comparison:

- *Companies* seeking production, research and sales locations. It is extremely important for them to have detailed, precise information on new sites.
- Mobile *people* seeking new places to work, study or set up a new business.
- *Marketing* directors of cities and regions who wish to make their locality attractive to investors, qualified professionals and tourists.
- *National* and *supranational institutions* and *international cooperation agencies* that are particularly interested in development in less prosperous regions.
- *Researchers* interested in empirical data for studying the mechanisms of local competitiveness.
- The *media,* who see the rankings of places as an attractive product.

There are different methodologies for comparing localities, which correspond to the specific needs of each group. I have selected a few examples from among the wide range of Benchmarking and ranking methods, in order to demonstrate the diversity of this field.

3.2.1 Business Climate Survey in Central Java

Under contract by GTZ-red (Regional Economic Development) in Indonesia, Swisscontact and Mesopartner conducted a Business Climate Survey (BCS) in 2005. The BCS comprised the seven districts in the Solo Raya region (formerly SUBOSUKAWONOSRATEN region) that is located in the South of Central Java province. The BCS addressed the whole range of government-created factors that shape the enabling environment for business, from generic and sector-specific laws and regulations to service delivery including development activities, as well as companies' internal efforts to innovate and strengthen their competitiveness. The BCS does not only include information gained from the survey, which builds on the perception of enterprises, but also on information gained from hard statistical data. These aggregated figures are the basis for calculating indices to assess and rank the Solo Raya region as whole, each of its districts, and each sector. This methodology allows to provide a solid picture on local/regional as well as sector-specific competitiveness and facilitates benchmarking efforts. The BCS identified a number of shortcomings regarding the business environment and economic dynamics of the region, which need to be addressed jointly by all stakeholders, i.e. the businesses themselves, the government and the supporting environment.

The BCS 2005 and its results, particularly the sector benchmarking and the district benchmarking, were highly acknowledged by the district governments of the region and the provincial government of Central Java and stimulated reform efforts at the district level. In 2007, the BCS will be repeated on a larger scale and deploying a more focused survey questionnaire. Due to the request of the provincial government, the BCS 2007 will cover all 35 districts in Central Java and will be jointly organised and financed by the provincial government, GTZ-red and a leading media company in Central Java.

3.2.2 Provincial Competitiveness Index in Vietnam

The Provincial Competitiveness Index (PCI) was developed by the Vietnam Competitiveness Initiative (VNCI) and the Vietnam Chamber of Commerce and Industry (VCCI)[2]. VNCI is an economic development project funded by USAID. VNCI is managed by Development Alternatives Inc. (DAI) and the Asia Foundation as the main subcontractor to DAI. The Asia Foundation is in charge of the research and policy component of VNCI that also includes the design and elaboration of the PCI.

The PCI assesses and ranks provinces by their regulatory environments for private sector development, i.e. the provincial governments' treatment of and attitude towards private enterprises. In 2005, the PCI covered 42 provinces, accounting in total for 89% of the national GDP. In 2006, the second PCI included all 64 provinces and major cities in Vietnam. In general, the 2006 PCI has seen a different and larger sample set, a modified methodology and new sub-indices and indicators.

Following the implementation of the Enterprise Law in 2000, Vietnam has seen considerable private sector growth. Since 2000, more than 120,000 formal private companies have been

[2] Source : http://www.vnci.org

registered, six times the number of formal private registrations in the nine years prior to the law.

However, the critical issue in Vietnam is that this success is limited to a small number of provinces. In 2005, only 11 of Vietnam's 64 provinces accounted for more than 60% of private sector growth along with 70% of private sector investment and revenues.

The PCI has been designed to measure the variance in provincial regulatory frameworks, excluding structural endowments such as infrastructure, geographical location, proximity to markets and human resources that give particular advantages to some provinces, but can hardly be improved in the short term. PCI makes the attempt to prove that good economic governance is able to improve private sector performance in provinces regardless of natural endowments and other comparative advantages.

Provincial leaders are expected to use the PCI as a guide to identify their strengths and weakness more accurately. VNCI is encouraging the provinces to identify low scores by first looking at the sub-indices and after that at specific indicators within sub-indices. Development activities should directly address the weaknesses identified. Province are furthermore encouraged to look at better performing neighbours, who are supposed to deal with similar economic issues, and to try learning from them.

After controversial discussions in 2005, the PCI is now an established policy tool in Vietnam to conduct a diagnosis that concentrates on the economic governance of provinces. The PCI attracted attention from a variety of stakeholders, such as the business community, the media, the donor community and the provinces themselves. Most remarkable is the immediate positive impact of the PCI. Several provinces directly embarked on activities to improve their regulatory environment and their behaviour vis-à-vis enterprises. The PCI started to trigger competition among provinces to upgrade their regulatory performance. For instance, the authorities in Ha Tay province that ranked at the very bottom of the table in 2005 entered into a number of commitments to improve their regulatory environment and organized a major investment promotion conference in early 2006. Donor organisations such as GTZ or DANIDA have integrated the PCI into their programme activities, e.g. for monitoring purposes. The PCI is frequently quoted by the prime minister's office as well as by media and was declared one of the top 10 economic events in Vietnam in 2005.

3.2.3 The Harvard Cluster Mapping Project

The cluster mapping project[3] was inspired by the research done by Michael Porter (1990) on "The Competitive Advantage of Nations". Porter situates the most influential factors of competitiveness at the regional level. Regional economies are specialised, since each region represents a different mix of industrial clusters. A cluster is a geographically concentrated group of interconnected companies and associated institutions within a specific field, including product manufacturers, service providers, universities and business associations.

3 Source: http://data.isc.hbs.edu/isc/cmp_results.jsp?type=benchmark.

In order to measure the development and competitive strength of various regions, Porter's team systemised all the regions of the United States. They analysed regional economies on different geographical levels, including federal states and metropolitan areas. The data were divided into three broad categories: general economic development, composition of the regional economy, and the competitiveness of clusters. Such data can be used to identify the most important clusters in a region's economy, to compare the position of a cluster from one region with those of others, to understand the drivers of relative income, growth in employment and in the establishment of new companies in a region, and the development of a region's register of patents.

For Porter, regional competitiveness is closely related to the existence of clusters. He criticises what he regards as the short-sighted attitude of many large companies, which decide to locate their installations wherever they can save most on costs. Instead, business leaders should seek out localities that unite specific industrial resources in a cluster (see Silicon Valley or the Napa Wine Valley), which can result in a competitive advantage. The Harvard Cluster Mapping Project fulfils the function of producing empirical data for supporting this message.

3.2.4 The Silicon Valley Index

Since 1996, an annual index has been published to provide information on economic development in Silicon Valley.[4] The index serves to strengthen regional identity, and provides a solid basis for organising coordinated, pro-active efforts to make Silicon Valley a better place to live, work and do business.

The index is produced by Joint Venture, a non profit organisation, which provides information on the region's economy and quality of life. Joint Venture brings together established and emerging leaders from business, labour, local government, education and NGOs in order to create a region with sustainable development and one that is oriented towards competitiveness in the global economy.

The focus of the index is clearly the internal analysis of Silicon Valley. Using a set of 37 regional indicators, the index measures progress towards achieving the goals established in the Strategic Plan for 2010: "A Regional Framework for Growing Together". The objectives of Silicon Valley 2010 were developed by taking into account the contributions of 2,000 residents of Silicon Valley. Four main areas were identified:

(1) Our innovative economy makes productivity grow and increases prosperity.

(2) Our community protects the natural environment and promotes healthy living conditions.

(3) Our society connects people and opportunities.

(4) Our public and private institutions develop shared solutions.

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4 Source: http://www.jointventure.org.

Every year the index is presented at an event organised for the broader community of the region. In addition, the results of the index are disseminated throughout the world. Thus, the Silicon Valley Index is an important regional marketing tool.

3.2.5 Summary

The promoters of the various examples of the comparison and analysis of regional economies differ greatly from each other: a popular economic journal, an agency for promoting regional employment, an internationally renowned university, and a non profit organisation.

In the cases of Central Java and Silicon Valley the initiative arises in the region itself. In Silicon Valley, the index is even produced with private resources. Here, internal indicators are analysed above all else, with only occasional comparisons being made with other regions or with the national level. Similarly, in Central Java the focus is at comparing different locations within one major region

In the case of the Harvard Cluster Mapping Project and the Vietnam experience we are dealing with external institutions that are comparing local economic realities. In the Vietnam case, provinces within one country are compared, and the initiative is introduced in a top-down way, without consulting provincial decision makers first. The focus is at stimulating provincial efforts to create a more business-friendly environment. The Cluster Mapping Project includes very detailed information that enables us to identify the competitive profile of the US regions. Detailed information on relative income, employment and business ventures could be of some value to investors, but the main beneficiaries of the project will be researchers studying competitiveness.

3.3 Conceptual References

If we wish to design a system for Benchmarking competing regions, we are faced with the problem of there being no scientific consensus on those factors that guarantee successful regional development, and less still regarding the indicators for measuring the competitiveness of regions and localities.[5] On the other hand, we do have a number of conceptual models for analysing territorial competitiveness, and I shall limit myself here to

Classification of different types of Competitive Territorial Benchmarking

	The initiative comes from a particular region	The initiative comes from an external institution
Benchmarking functions through an agreement between participating regions	(1) (Example: Central Java): emphasis on learning from each other	(3) (Example Harvard Cluster Mapping Project): stimulates academic debate
The participation of Benchmark regions is not required	(2) (Example: Silicon Valley): oriented towards internal strategy and useful for regional marketing	(4) (Example: Vietnam Provincial Competitiveness Index): there are winners and losers

5 See for example the debate Regional Studies, Volume 38, Núm 9, December 2004, Special Issue: Regional Competitiveness.

mentioning the instruments we apply at Mesopartner in our Local Economic Development consultancy.

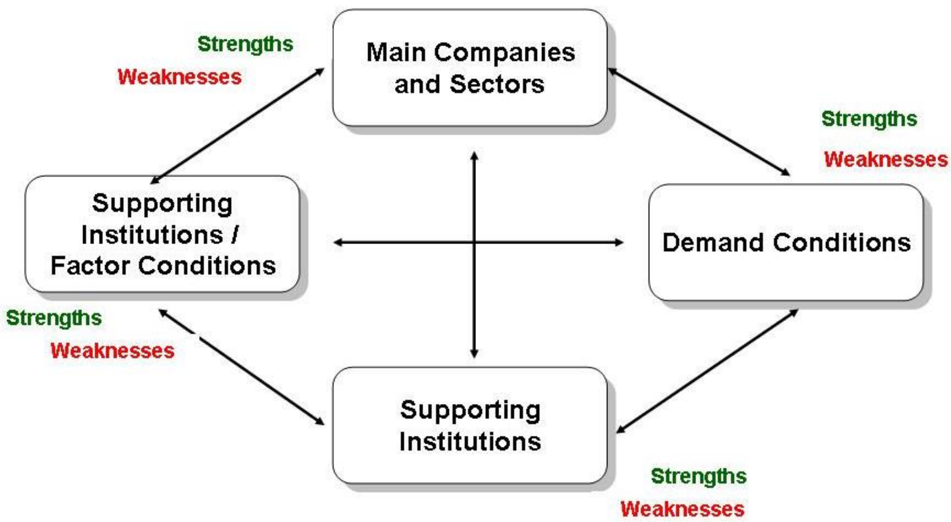
3.3.1 The Diamond of Competitiveness and Rankings

One of the most widely used tools for the diagnosis of territorial competitiveness is Michael Porter's Diamond (Porter 1990). Porter developed this schema in the framework of a study on the Competitive Advantage of Nations, and later applied it to other territorial aggregates such as regional economies or local clusters. This tool is used to identify four key elements that explain the competitiveness of a territory:

1. Company strategy, structure and rivalry.
2. Factor conditions.
3. Related industries and support institutions.
4. Demand conditions.

In later publications, he also mentions "government" and "chance" as additional factors that influence competitiveness (e.g. Porter 1998).

In order to facilitate understanding amongst a non-economist target group, in our PACA work we employ a simplified version of the Diamond of Competitiveness:



Source: Meyer-Stamer 2003

Here (local) government activities are integrated into the angle of support institutions.

Porter's diamond also served as an inspiration to the designers of the Competitiveness of Countries Rankings. One such "league table" has been published in the World Economic

Forum (WEF) since 1979.[6] In a recent edition, this Global Competitiveness Report (GCR) compared the competitiveness of 80 countries throughout the world. The report is praised by its own authors for being "the most authorised and comprehensive approach to comparing the strengths and weaknesses of national economies around the world" (Cornelius and Schwab 2003). They identify two dimensions of competitiveness: expectations for growth over the next 5 to 8 years, and the competitiveness of businesses, which relates to the effective use of a country's available resources, based on the four elements of Porter's diamond structure. (Malecki 2004, 1102)

Since 1989, the International Institute for Management Development has been producing another report, the World Competitiveness Yearbook (WCY), which compares the competitiveness of various countries in the world. Both reports include hard data and data from opinion surveys carried out among executives. The WCY analyses the huge total of 314 (!) indicators grouped into four categories of competitiveness factors: economic performance, governmental efficiency, business efficiency and infrastructure. Since the 2003 edition it also includes some regional economies, such as Bavaria (Germany), California (USA), Catalonia (Spain), Ile-de-France (France), Lombardy (Italy), Maharashtra (India), separately from their national economies.

The authors state the following arguments for including regions in their rankings:

- Regions present profiles that are different from their respective nations.
- Regions seek greater independence for managing their competitiveness.
- Regions represent "pockets of competitiveness".

In summary, it would appear that the Diamond of Competitiveness offers a certain structure for the comparison between competing territories. The two examples given above also demonstrate that the four angles of the diamond were not sufficient in themselves for Benchmarking, but that they inspired the creation of more sophisticated sets of indicators.

Although the rankings of nations and regions is based on the combination of a large number of factors and variables, one can still have certain doubts about the significance of the ranking results. "Even though a ranking of all countries reflects a combination of factors and variables put together in a certain way, the combination is not the same as systemic competitiveness" (Malecki 2004, 1103 f).

3.3.2 Systemic Competitiveness

The concept of Systemic Competitiveness addresses the factors that shape the growth and prosperity of a given country or territory. It goes beyond the traditional approach of focusing at the macro-level, i.e. the generic framework conditions that are shaped by macroeconomic policy and institutions, and the micro-level, i.e. the workings of markets. It emphasises the need to also consider the meso-level, i.e. targeted interventions to shape a competitive

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6 http://www.weforum.org/pdf/Gcr/GCR_2003_2004/GCI_Chapter.pdf.

advantage, and the meta-level, i.e. the slow variables that shape a society's capability to respond to the challenges of a globalised world.

A practical way to apply the concept of Systemic Competitiveness is through qualitative benchmarking. Qualitative benchmarking is a method which has successfully been applied for company benchmarking. It is fundamentally different from quantitative benchmarking. Quantitative benchmarking approaches, which are being applied both for companies and for regions, are often difficult to apply since many data are not available or not consistent. More importantly, at a territorial level they often do little more than indicate problems which are obvious anyway. Qualitative benchmarking looks at key factors which determine successful development – be it of a company or a region – and then applies a scoring model which is based on group discussions with key stakeholders. The company-related approach has been described by Collins, Cordón and Julien (1996); its applicability in a developing country setting has been demonstrated in Brazil through practical work of the Instituto Euvaldo Lodi.

In the Annex, you find an attempt to apply this type of approach for territorial benchmarking. It is based on a questionnaire that is supposed to help practitioners in getting a better understanding of the systemic competitiveness of the location they are investigating. More specifically, it provides them with a list of features which define the difference between poor and high-performance localities. A high-performance locality would score high on most, if not all features.

This questionnaire is for application with a group of local stakeholders. Optionally, you may consider to introduce a dynamic perspective, i.e. to look at the current situation and the situation five or ten years ago.

There are still a few questions regarding the use of this kind of questionnaire as a tool in Regional Benchmarking:

1. Although this questionnaire is based on the concept of systemic competitiveness, it does not help us to understand the systemic interactions between the various factors. It tells us nothing about the cause and effect relation or about possible "feedbacks". Therefore, it makes it difficult for us to identify the systemic implication of a good evaluation of a particular characteristic.

2. For an "objective" comparison of different territories we need uniform criteria. Evaluations that employ qualitative criteria differ greatly according to who is doing the evaluation. It is also essential to take into account the timeframe, since the competitiveness of a region is continuously evolving.

3. The selection of criteria for the questionnaire unites the experience gathered from academic debate and the subjective experience of the author. Consequently, we should not take these factors as a given, but rather understand them more as an incentive. We shall see in the following chapter that the critical factors for success are different in each particular case.

Despite such doubts, the questionnaire seems to be particularly useful for comparing different competitive territories. The challenge will be to create a data base that might permit real inter-territorial Benchmarking; in fact, it is questionable whether a questionnaire-based, participatory approach can lead to an outcome that complies with scientific criteria. Nevertheless, the questionnaire is a useful tool in stimulating local stakeholders to critically reflect the strengths and weaknesses of their local economy. Using the questionnaire with local stakeholders in a given region can be the entry point to a joint process of developing a genuine systemic analysis, i.e. identifying the feedback mechanisms that promote or retard economic development in the respective territory.

3.4 The Compass of Territorial Competitiveness

The Compass of Local Competitiveness is a tool to monitor and assess the strategic approach to and the progress of territorial development / Local Economic Development (LED) initiatives. It is based on the Balanced Scorecard (BSC) method. Whereas BSC has been designed for the use in companies and other organisations, the Compass is specifically designed to cater for the needs of territorial development initiatives. The preparation of a Compass is the result of a facilitated workshop that takes up to one day.

There are a few references in the literature regarding the relations between Balanced Scorecards (BSC) and Benchmarking.[7] In the publications by the creators of BSC there is a certain scepticism regarding Benchmarking:

> Robert S. Kaplan asked Larry D. Brady, executive vice president of FMC Corporation, one of the most diversified companies in the United States with worldwide revenues in excess of $ 4 billion: “Benchmarking has become popular with a lot of companies. Does it tie in to the balanced scorecard measurements?” Brady answered: “Unfortunately, benchmarking is one of those initially good ideas than has turned into fad. About 95% of those companies that have tried benchmarking have spent a lot of money and have gotten very little in return. And the difference between benchmarking and the score card helps reinforce the difference between process measures and output measures. It’s a lot easier to benchmark a process than to benchmark an output. With the scorecard, we ask each division manager to go outside their organisation and determine the approaches that will allow achievement of their long-term output targets. Each of our output measures has an associated long-term target. We have been deliberately vague on specifying when a target is to be accomplished. We want to stimulate a thought process about how to do things differently to achieve targets rather than how to do existing things better. The activity of searching externally for how others have accomplished these breakthrough achievements is called target verification and not benchmarking.” (Kaplan 1993, 15).

At the same time, Kaplan himself recognises the usefulness of Benchmarking the indicators of one company with those of others.[8] The advantage of BSC lies in the fact that it starts from a strategic vision and translates it into critical factors, key indicators, targets and actions. Benchmarking, on the other hand, does not have this link with strategic objectives and thus runs the risk of comparing factors that are not really vital to success.

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7 The studies identified refer exclusively to companies (see Below 2003 and Bandow 2004).

8 “The five results indicators of Apple were “benchmarked” with the “best-in-class organisations” (Kaplan 1993, 11).

Once a BSC has been elaborated, Benchmarking can be very useful. In order to be able to compare indicators with competitors, in our case other similar regions and leading localities, there must be a certain uniformity in the definition of indicators of outcomes (and not of processes). When the region with which we are comparing ourselves produces better results than our own, it is useful to identify the causes of this difference. In all likelihood, the region being used as a comparison (the benchmark) has more efficient processes than our own. Once the best practice has been identified, it is a question of analysing if and how this practice can be made use of in our own organisation. Therefore, Benchmarking of results/outputs leads us to the Benchmarking of processes. It should be remembered that it is not always possible to transfer a good practice from one organisation to another.

Thus, the Compass of Local Competitiveness can be of use for identifying key factors and indicators for the competitiveness of a region, which are comparable within the framework of a system of interregional Benchmarking. In order to arrive at a greater number of comparable indicators, it is advisable to elaborate some type of generic BSC, which the different regions can adapt to fit their own reality.

4 Conclusions

When it comes to designing a plan for Benchmarking Territorial Competitiveness it is necessary to seek a balance between two arguments:

1. One view is that the actors in a region (of a developing country) could learn from economically successful regions, which are located, on the whole, in developed or emerging countries (e.g. the industrial districts of Italy, or Silicon Valley, or Bangalore). The Benchmarking of Localities Questionnaire is based on this idea, although the systemic competitiveness approach is broader and includes a reflection on the overall conditions in developing countries.

2. The other line of argument focuses on the uniqueness of each local economic development process. Each system has its own logic, so what is useful for one is not suitable for another. “There are certain doubts about the usefulness of Benchmarking processes with the objective of improving regional competitiveness: because there is no ‘optimum’ development model, it is difficult to copy or imitate a successful model from another place, and often new trajectories arise in space” (Boschman, 2004, 1001).[9] In this regard, the Compass of Local Competitiveness is an instrumental response that can be strategically implemented without the need for comparisons with other regions.

In addition to the two extreme positions, I see a good opportunity for combining the different instruments in an intelligent way in order to make the most of internal and external approaches. The usefulness of the Compass lies in its ability to identify the key factors for competitiveness in each particular case. This does not rule out the possibility of elaborating a generic Balanced Scorecard that captures a set of typical factors and indicators, which may contribute to the creation of a concrete Compass of Local Competitiveness. The elaboration

9 Author’s translation.

of a generic framework should even make use of the scientific wisdom of concepts like the diamond of competitiveness or that of systemic competitiveness.

The overall objective of a Benchmarking of Territorial Competitiveness could be to stimulate inter-territorial learning in order to increase the competitiveness of the provinces and municipalities and their companies, and thereby make good use of free trade treaties for integral and sustainable development.

Specific objectives include the following:

- The internal analysis of the competitive situation of each participating province or municipality serves to clarify and improve the economic development strategy for the territory.

- The comparison with other territories facilitates an understanding of the current development situation of each participating territory and provides orientation for possible improvements.

- Benchmarking facilitates the identification of good practices already developed elsewhere and their dissemination throughout the region or country in question.

- Benchmarking increases transparency regarding results and the management of economic development in the territories, and thus serves as an encouragement to those in charge to achieve good results.

- A Benchmarking system is of use to national organisations and for international cooperation, since it gives clear indicators on where the greatest impact of policies for encouraging territorial competitiveness is found.

When it comes to launching a Benchmarking initiative the actors can choose between several methodological options:

- Identifying *good practices*. Here it is important to distinguish between indicators of results and indicators of processes. Comparing the former helps us to identify good practices in processes. Transferring knowledge about best practices leads to genuine innovations and real progress.

- A very simple way of learning from the experience of others is through *work placement* programmes. This is often a means of finding about success stories from neighbouring regions or countries. When the companies concerned are not direct competitors, and obviously also in the case of development agencies, the exchange of experiences is very often of interest to both parties. At the same time, it might be interesting to visit the world leaders and learn directly from their experience.

- For institutions at the national or international level it might be interesting to organise *contests* between competing cities or regions. Such a framework could combine the notions of competition and co-opetition, in order to encourage territories to make more of an effort in the field of economic development. There is also the possibility of combining such contests with the distribution of public funds.

- Similarly, *rankings* could encourage competition between territories and facilitate the disclosure of good practices. A good position in the rankings could help a city or region become attractive to investors, entrepreneurs or qualified personnel. When dealing with specific rankings, for example for tourism, this could also be an attractive element for clients, in this case for tourists.

- The selection of a particular instrument will always depend on the interests of the promoters of a local economic development initiative and, of course, on the resources available for implementing any such plan. It is advisable to start with Benchmarking in a simple and modest fashion that can be sustained for several years, since the effectiveness of Benchmarking depends on the continuity of the process.

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Annex: Benchmarking table to assess Territorial Systemic Competitiveness

Background	Structure	How to use the table
The concept of Systemic Competitiveness was formulated in the 1990s to overcome the confrontation between market fundamentalism and traditional governmentalist approaches to development. The main argument is that a stable, predictable macro-economic framework is a necessary yet not sufficient condition for dynamic economic development. Targeted interventions are also necessary. Moreover, it is essential to understand the ability of a society to engage in meaningful dialogue on how to structure the macro-economic framework and targeted interventions. "Systemic" refers to the economic system in the way it was first introduced by Friedrich List in 19th century, and in the way it has recently been used in concepts like "national innovation system". Systemic Competitiveness does not intend to be an approach that is based on systems theory. The concept was initially formulated with national economies in mind. However, it applies just as well to territorial economies, i.e. local economies, economic regions, clusters, etc.	The concept distinguishes four analytical levels: • The micro-level involves economic actors and markets. The attention is primarily at companies and networks of companies. • The meso-level addresses targeted interventions to shape a competitive advantage or to address market failure. • The macro-level looks at generic economic policies and institutions. • The meta-level addresses slow variables, such as the economic system, socio-cultural values, basic patterns of governance, and collective memory.	The benchmarking table introduces a number of factors that research has highlighted as critical success factors for dynamic territorial development. At each level, several factors capture specific elements of systemic competitiveness. For each factor, different expressions are given. A value of 1 indicates a factor that is absent, weak or adverse. A value of 5 indicates a factor that is highly developed. The table is an adaptation of qualitative benchmarking methodologies that are being used at a corporate level. The table should be filled by a group of informers who have different backgrounds (public sector, private sector, education / training / academia, local communities, etc.) are familiar with a local reality. One option is to have them fill out the table individually and to calculate averages afterwards. Another option, which may be more insightful, is a process whereby the entire group of informers discusses each factor and defines a score based on consensus.

Micro-Level

Points:	1	2	3	4	5
ISO 9000	There are no or only a handful of certified companies in the locality		In the main industries, only a minority of companies is certified		In the main industries, the majority of companies is certified or preparing for certification
Benchmarking	Hardly any company is involved in any systematic internal benchmarking effort		In the main industries, only a minority of companies is pursuing a systematic internal benchmarking effort		In the main industries, the majority of companies is pursuing a systematic internal benchmarking effort
Specialization	In the main industries, most companies are producing the same or very similar products		In the main industries, there is some degree of specialization between companies, both in terms of final products and in terms of production steps along the value chain		In the main industries, there is a high degree of specialization between companies, both in terms of final products and in terms of production steps along the value chain
Informal collaboration	In the main industries, there is little or not informal collaboration between companies		In the main industries, there is some degree of informal collaboration between companies, e.g. mutual support after a key machine broke down		In the main industries, there is a high degree of informal collaboration, e.g. constant exchange about new trends in technology and markets
Formal collaboration	In the main industries, there is little or not formal collaboration between companies		In the main industries, there is some degree of formal collaboration between companies, e.g. joint visits to foreign fairs		In the main industries, there is a high degree of formal collaboration, e.g. joint purchasing / sales, export consortia, technology alliances
Market failure	Barriers to entry for new businesses are very high, and many subsectors of the territorial economy are monopolized		There are barriers to entry for new businesses in some subsectors of the territorial economy		There are few barriers to entry, and business opportunities are easily visible

Meso-Level

Points:	1	2	3	4	5
Policy	There are few defined economic and business promotion activities		Government and other institutions have defined economic and business promotion policies, but they are fragmented and idiosyncratic		Government and other organisations systematically and co-ordinately adjust and develop their economic and business promotion policies
Evaluation	Governmental economic development and business promotion organisations are not evaluated		Governmental economic development and business promotion organisations are only occasionally evaluated		Governmental economic development and business promotion organisations are regularly evaluated
SME promotion	Institutions do not respond to the needs of companies		Only some institutions respond to some extent to the needs of companies		Most institutions respond with their offers to the demand of companies
Chamber	The Business Chamber is little more than a club of some local business leaders		The Business Chamber has a few professionals and is organizing activities such as legal advice and seminars		The Business Chamber is highly professionalized and offers a broad spectrum of services
Business Associations	There are no operational sectoral business associations		The capacity of sectoral business associations is limited, e.g. to ad-hoc lobbying activities		Sectoral business associations play a crucial role in organizing exchange between companies and supporting their upgrading effort

Meso-Level (continued)

Points:	1	2	3	4	5
Secondary training	Local institutions do not respond to the needs of companies and the labour market		Only some institutions respond to some extent to the needs of companies and the labour market		Most institutions respond with their offers to the demand of companies and the labour market
Higher education (if locally existent)	Local institutions do not respond to the needs of companies and the labour market		Only some institutions respond to some extent to the needs of companies and the labour market		Most institutions respond with their offers to the demand of companies and the labour market
Technology institutions (if locally existent)	Institutions do not respond to the needs of companies		Only some institutions respond to some extent to the needs of companies		Most institutions respond with their offers to the demand of companies
Development finance institutions, including micro-finance	Institutions do not respond to the needs of companies and the labour market		Only some institutions respond to some extent to the needs of companies and the labour market		Most institutions respond with their offers to the demand of companies and the labour market
Co-ordination	There is little communication and no co-ordination among meso-level institutions		There is some amount of communication and co-ordination among some of the meso-level institutions		Communication and co-ordination among meso-level institutions is a well-established practice

Macro-Level

Points:	1	2	3	4	5
Finance	Local government is financially broke and has no means of fulfilling tasks which are elementary for economic development (infrastructure, education, health)		Local government is suffering from budget restrictions, but it fulfils its elementary tasks		Local government is financially strong and can make discretionary funds available for economic development projects
Red tape	There is a dense web of laws, regulations and permits which make doing business really difficult, and local government is doing little to simplify things		There are numerous laws, regulations and permits but local government is trying to reduce them, and it tries to make processes more transparent and efficient		Government is streamlining laws, regulations and permits, and it is committed not to let them stand in the way of business
Business mindedness	Local government officials have no idea what running a business involves, and they do not care		Local government understand that running a business is not easy, but still they interact with companies in a bureaucratic manner		Local government is dealing with companies in a business-like manner
Corruption	Most interaction with government involves a bribe		Businesses do not have to bribe government officials, but it makes processes much swifter		Very few government officials would accept a bribe, and few businesses to try to bribe an official

Meta-Level

Points:	1	2	3	4	5
Government	Local government agencies are not interested in economic development		Local government agencies show some interest in economic development, but it is not their top priority		For local government agencies, economic development is a top priority
Entrepreneurship	Businesspeople enjoy little respect and social prestige		Businesspeople are respected, but other professions are more prestigious		Businesspeople are highly respected, and becoming a businessperson is a preferred option
Organisations	There are no or weak business organisations. They have a small membership base.		Business organisations are mostly dominated by local leading businesspeople which pursue their own agenda		Business organisations have a broad membership base and are internally organized in a democratic, transparent way. They are representative of the private sector
Policy networks	There are no effective means and channels of communication and negotiation between local government and the private sector		There are some means and channels of communication and negotiation between local government and the private sector, but they are on an ad-hoc basis		Local government is consulting the business sector on key policy decisions, and there is an ongoing practice of problem-solving-oriented negotiations between both sides
Vision, development strategy	There is no shared vision regarding the development goal and strategy of the locality		There are competing views regarding the development goal and strategy of the locality		Key stakeholders agree on a development goal and strategy of the locality