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Designing a Regional Development Agency:
Options and Choices

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Preface

This paper has originally been prepared as an input for GTZ's support to the Chilean government's effort to create Regional Development Agencies (RDAs). An earlier draft of the paper was written on behalf of GFA Consulting Group as part of the Programme on Decentralization and Regional Development in Chile (*Región Activa,* Component 2, Local and Regional Economic Development) which is funded by BMZ via GTZ.

When deciding on the structure of the paper, we opted against a detailed discussion of experiences with existing RDAs. The reason was very simple. There are so many RDAs, and so many different models of RDAs. This is, for instance, pointed out be the European Association of Regional Development Agencies, EURADA, which has about 150 member organisations (see www.eurada.org). Thus, developing a typology of existing RDAs might be an interesting academic exercise. However, since the purpose of this paper is a practical one, we decided to go for an deductive approach, i.e. take proven concepts of economic and territorial development and outline the key choices, trade-offs and dilemmas involved in the design of an RDA from that angle.

Very useful comments on earlier versions of the paper have been provided by Shawn Cunningham, Wolfgang Demenus, Harriet Ellwein, Johann Geldenhuys, Ulrich Harmes-Liedtke and Doug Hindson. The usual disclaimers apply.

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1 Introduction: The dream of the good king

As modern economies evolve, the task of governing or managing them takes the concept of nightmares to ever new heights. Societies and economies get increasingly complex, and they are increasingly integrated into a world economy that also becomes more complex all the time, so that complexity effectively grows exponentially.

As complex processes go, they bring both intended and desirable effects and unintended and undesirable effects. From an economics perspective, one of the main intended and desirable effects of the globalised economy is the evolution of free markets that take competition to new heights. Competition can be a healthy mechanism that leads to the selection of not only winning products but also institutional solutions that are most appropriate. Not only companies are competing in the global economy, but also regions and locations (Malecki 2004). The winning companies grow, the losers shut down. The winning regions grow, the losing regions – well, they cannot just shut down. Just like many employees of losing companies end up on the dole, losing regions face the same fate, depending on transfers (remittances of workers, government subsidies). From a big perspective, and the perspective of the economist in his padded chair in an air-conditioned office, this is a regrettable yet intended effect. From the local perspective, and the perspective of the local people, this is a most undesirable effect of competition.

Declining regions, as well as regions that have never enjoyed much growth, tend to respond to their unsatisfactory performance. The main reason for regional policy and territorial development initiatives is the fact that some regions are underperforming. At the same time, prospering regions are also pursuing territorial development initiatives, since they don't want to fall behind. The globalised world economy is a rat race, and everybody who stands still effectively falls behind.

But what do you effectively do when you do territorial development? There are quite a few recipe books available (e.g. Blakely and Bradshaw 2002). These days the question is not so much what to do but rather how to do it (Clark 2005). How do you select a promising recipe from all the ones that are available? How do you convince other players in your region that this recipe is a good one? We have observed that the result of the dedicated and devoted efforts of various players is sometimes *herring with chocolate sauce* (Meyer-Stamer and Giese 2004), which is unlikely to be a tasty dish. This is the result of an increasing number of cooks being involved in a territorial development kitchen, and the problem that each of them is so busy with his or her dish that little attention is left to what everybody else is doing.

This is where the good kind comes in, or the benign dictator. Just like a brilliant chef supervises his or her kitchen and makes sure that every dish complies with his or her strict quality standards, wouldn't it be nice to have a territorial development chef who achieves the same at the territorial level?

This is not infrequently the starting point when it comes to the design of a regional development agency. Many cooks, little coordination, unsavoury results, so let us place a chef into the middle of the whole mess to coordinate what's going on. This is the conductor model of the regional development agency. In other cases, there are few cooks, or actually hardly any, or just cook's assistants who don't really know how to cook. This then leads to the octopus model of a regional development agency, an entity that uses its numerous tentacles to stir up various pots at the same time.

Of course, the dream of the good king is just that – a dream. More than once, it happened that an agency that was set up to coordinate other agencies ended up as another agency, adding to, and actually reinforcing, the prevailing fragmentation at the meso-level (just like some one-stop-shops turned out to be on-more-stop-shops). The design of a regional development agency (RDA) must be guided by realism, not dreams. It needs to respond to the specifics of the local setting. Thus, there is not one recipe for an RDA. In fact, it is doubtful whether there can be a recipe book. When it comes to designing an RDA, it is essential that the design process is guided by a clear understanding of the alternative options in terms of task, mandate and governance structure. The purpose of this paper is to outline these options.

The paper is organised as follows. Section 2 gives an overview of things an RDA may do, i.e. critical choices in the design of an RDA, organised around the framework of the Hexagon. Section 3 discusses fundamentally different constellations in which an RDA may have to operate, and possible responses. Section 4 looks at some issues regarding the management structure of an RDA.

2 Organising the issues relevant for the design of an RDA: The Hexagon

There is not a standard model for an RDA. Just like most organisations, an RDA is an institutionalised response to a specific problem, challenge or opportunity. As the problem, challenge or opportunity is location- and time-specific, each RDA has its own unique design. Trying to create a typology to identify patterns in the design of RDAs would be one possible inductive approach to introduce structure. However, we choose a deductive approach. In this section, we will use the Hexagon framework to organise the key issues, choices, trade-offs and dilemmas that the designers of an RDA need to confront.

The Hexagon is a framework to organise the principles of territorial development in a way that is easy to memorise. Originally developed as a teaching tool on LED (Meyer-Stamer 2003), we have found that it is also a practical tool, for instance, in analysing LED practice in a given country. We posit that the Hexagon provides a useful framework to organise the key issues in the design of an RDA. It also relieves us of the necessity of writing an introductory chapter that addresses the starting question, namely: What is regional development? There is no simple, straightforward answer to this question, either. We will thus come back to this question in each of the following subsections so that the answer will emerge in due course.

The Hexagon is formed by six triangles. If you are familiar with the framework, you will notice that in this paper we have changed the sequence in which we address the triangles. We will, first of all, look at the triangle of synergies, which is normally No. 3. In our view, this triangle addresses one of the most fundamental choices in the design of an RDA, and that is why we look at it before anything else.

Figure 1: The Hexagon of Territorial Development

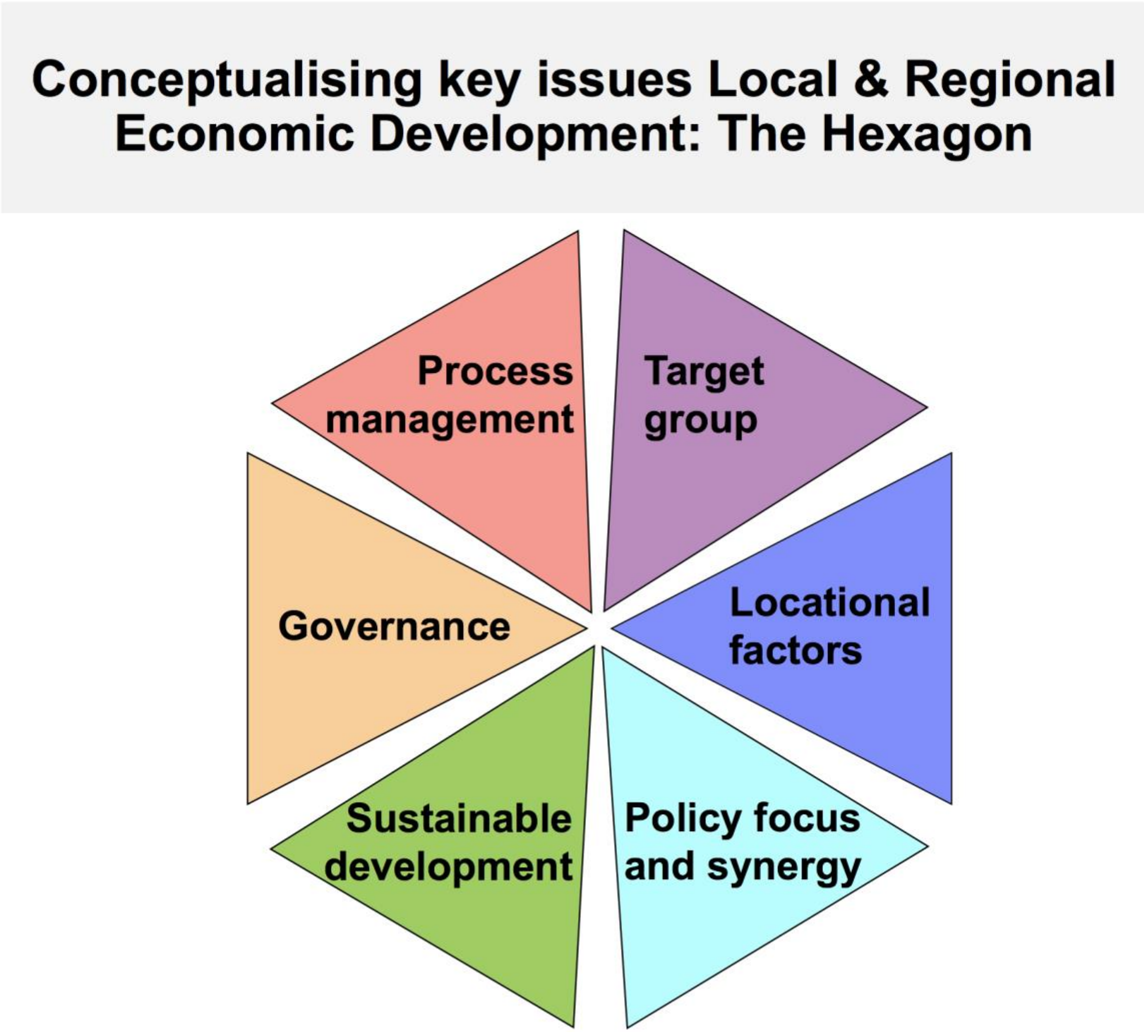


Table 1: An overview of the Hexagon of Territorial Development

Name of triangle	*Main message*	*Relevance for RDA design*
The triangle of tensions and synergies	• Three main approaches to local development: Economic, Social, Urban planning • Need to separate approaches • Option to look for synergies	✓ Define a clear focus for the RDA ✓ Think twice before deciding to combine two or three approaches in one agency
The triangle of the target group	• Three main addresses of territorial development: Existing companies, external investors, start-ups • Look at links between the three target groups	✓ Defining a focus that addresses only one or two target groups wastes opportunities ✓ Tasking an RDA with addressing all three groups must be matched with adequate resources

The triangle of locational factors	• Three types of locational factors: Tangible (quantifiable), not-tangible / relevant for companies, not tangible / relevant for individuals	✓ The focus of an RDA needs to be defined clearly: Which factors precisely is it supposed to work on directly? Regarding which factors will it facilitate relevant processes?
The triangle of sustainable development	• Strategic perspective in territorial development, as well as practical approach	✓ Promising starting point to look for innovative economic development approaches
The triangle of governance	• Three main groups: Government, private business, other stakeholders	✓ Create adequate governance structure for RDA ✓ Define an adequate reach for RDA
The triangle of process management	• Territorial development is an iterative process	✓ Clearly define tasks of RDA regarding facilitation, coordination and service delivery ✓ Clearly define relationship to other local planning processes in terms of role and timing

2.1 The triangle of tensions and synergies

It is crucial to remind oneself that any organisation has a genetic code. This genetic code is created at inception, i.e. during the search, discussion and negotiation process that leads to the basic design decisions on a given RDA. The genetic code can subsequently only be changed with a big effort and at great pains. The genetic code is shaped through the basic organisational set-up, the mandate and the initially recruited staff.

In the case of an RDA, the most critical design decision refers to the Synergy triangle of the Hexagon. Territorial development is conducted from three different angles and shaped by practitioners and concepts with three different disciplinary backgrounds. When an RDA is newly created, three approaches may guide its design. Whichever wins will define the genetic code. What are these three approaches?

- Business development / economic development / enterprise promotion. Territorial development can be driven from a business development perspective. Practitioners have a background in business administration or economics. The underlying concepts emanate from business and management studies, regional economics, and related fields.

- Urban / spatial development. Territorial development can be driven from an urban and spatial development perspective. Practitioners have graduated in urban and spatial planning, architecture, engineering and related disciplines. The underlying concepts emanate from urban planning, spatial planning, architecture, and similar fields.

- Social development. Territorial development can be driven from a social development perspective, which may have primarily an employment promotion or a social assistance focus. Practitioners have been trained in social work, pedagogy, and similar disciplines. The underlying concepts emanate from sociology, pedagogy, and related fields.

There is no doubt that there can be strong synergies between these three approaches, and that combining them can lead to a convincing holistic approach to territorial development. In the real world, though, there tend to be, first and foremost, tensions and conflicts. Let us look at some examples to understand them:

- Urban planners and architects emphasise urban quality and aesthetics, including criteria such as symmetry and concepts such as visual axes, and they tend to insist on compliance. Business developers may be frustrated with this because it often raises the cost and slows down the development of business estates and office complexes, so that it becomes more difficult to attract companies to those properties. Social workers are displeased because they want affordable housing for poor households, and quickly, never mind the urban quality. Urban planners and architects are frustrated with what they perceive as an opportunist approach of business developers and social workers, and they point out that those people's emphasis on short-term gains will compromise the long-term viability of urban business and residential areas.

- Urban and spatial planners operate with long-term approaches that usually cover a period of several years. Business developers, on the other hand, are interacting with businesses that need to survive in increasingly volatile markets and that have to adjust to new opportunities and conditions all the time. In the development of an urban district, formulating a strategy and sticking to it over a long period of time can be useful and beneficial. In business, strategies need to be revisited and reformulated frequently. This creates a tension in the time horizon between the urban planner, who thinks in a period of years, and the business developer, who thinks in a period of months. It may also create a tension in terms of approaches, where urbanists emphasise compliance with criteria and rules, while business development practitioners would rather prefer flexibility.

- Business developers emphasise the need to improve competitiveness. They try to assure that local businesses and their employees are among the winners in a context of globalised competition. Social workers, on the other hand, work with those persons who have dropped out of this competitive struggle, and who often appear as the innocent victims of a unnecessary harsh economic model. Social workers tend to perceive business developers as cruel. Business developers tend to perceive social workers as warm and fuzzy, yet ultimately as dreamers.

- In the area of employment promotion, development organisations typically address two very different clienteles. On the one hand, there are those individuals who are employable in terms of basic skills, attitude and health. They often need specialised skills to be reintegrated into the labour market. On the other hand, there are individuals with compromised employability, for instance because they are unskilled, have a long history of unemployment, and suffer from chronic health problems. Having one organisation address both groups is not necessarily the best option, since the two groups need to be addressed in very different ways and on the basis of different principles.

A different approach to understanding the tensions between the three approaches is through formulating the critical success factors for each of them, using a balanced scorecard. The first thing that appears is the different basic structure of the scorecard. The business development scorecard would have economic and financial indicators as the north-western quadrant, the social development scorecard service delivery, and the urban / spatial planning scorecard urban and spatial quality. Also, the CSFs themselves would be quite different.

Table 2: Possible Balanced Scorecards for different types of RDAs

Critical success factors of an RDA with a business focus

Economic and financial factors	***External relationships***
• Upgrading of territorial competitiveness • Economic growth of the territory • Creation of jobs and self-employment	• Effective collaboration with meso institutions • Management of relations with organisations in non-business fields of regional development
Knowledge and learning	***Internal processes***
• Consistent knowledge management • Regular upgrading on change management concepts and techniques	• Clear leadership and accountability • Consistent quality in service delivery

Critical success factors of an RDA with an urban development focus

Urban quality factors	***Financial factors***
• Consistent quality of urban environment • Upgrading of urban environment	• Availability of investors for quality design and architecture • Availability of funds for urban planning processes and contests
Knowledge and learning	***Internal processes***
• Consistent knowledge management • Regular upgrading on urban design concepts	• Clear leadership and accountability • Consistent quality in service delivery

Critical success factors of an RDA with a social development focus

Social upliftment factors	***Financial factors***
• Decreasing share of excluded citizens • Growing income earning opportunities	• Availability of funds for integration measures
Knowledge and learning	***Internal processes***
• Consistent knowledge management • Regular upgrading on inclusion concepts and techniques	• Clear leadership and accountability • Consistent quality in service delivery

Some RDAs have a clear profile, firmly rooted in one of the three approaches. Other RDAs have a more fuzzy profile, being rooted in two approaches or even all three. The trade-off is clear:

- When an RDA has a clear profile, you need more than one agency. Each of the three approaches is important and legitimate. Pursuing only one of them will create unbalanced development. Thus, it would be important to have an agency with a business development mandate and another agency with a social development mandate. Spatial planning might be handed to a government department or organised into a third agency.

- When an RDA has a fuzzy, or holistic, profile, you need excellent leadership and management structures inside the agency, and you also need a highly competent (and patient) management of stakeholder relationships, since this RDA would have to deal with a highly diverse set of stakeholders with conflicting interests and agendas. The top management of the RDA needs to understand the three approaches. It must accept that each of them is important and legitimate. It must also understand that they need to be separated within the organisation, i.e. into different units, each of them with a different scorecard. The tensions between those units would have to be managed carefully. Moreover, it is important to understand that synergies will not evolve spontaneously but rather need to be carefully facilitated and managed.

Political decision makers may be tempted to avoid taking consistent, and sometimes tough, decisions in this respect. The design of an RDA will often involve intense political negotiations and end with a compromise. It is important to understand that a compromise that leads to a compromised profile of an RDA creates a huge risk that the future success of the RDA will be compromised.

2.2 The triangle of the target group

Let us assume that the decision has been taken to design an RDA with a clear business promotion mandate. What kind of business will it promote, then? There are three options:

- Business retention and expansion (BRE): The focus is on existing local companies.

- Entrepreneurship and start-up promotion: The focus is on new locally founded companies.

- Investment promotion: The focus is on attracting outside investors, be it national companies, be it multinational corporations.

It is a somewhat ironic observation that development agencies tend to have a fuzzy profile with respect to the triangle of tensions and synergies, while having a clear focus regarding the target group. It should be the other way around. A development agency that focuses primarily at BRE, or entrepreneurship and start-up promotion, or investment promotion, is doing something wrong. Rather than separating the approaches and trying to address each one properly, it is crucial to consistently seek synergies between investment promotion, BRE and start-up promotion.

At the same time it is important to recognise the existing tensions. The most important tension is between investment promotion on the one side and BRE and start-up promotion on the other. Throwing in all sorts of subsidies and benefits to attract external companies is something that drives local companies and entrepreneurs furious, and even more so if the new investor starts to poach employees from established companies. Targeting external companies that fit with the local specialisation profile, and indeed strengthen it, may be appreciated by local companies.

Let us have a look at the connections between the three approaches.

- BRE and investment promotion: Unless the local / regional economy is exceptionally weak, the focus in investment promotion should be at attracting companies that strengthen the profile of the local economy. Rather than marketing the location to anybody who might be interested, one would analyse the profile of the territorial economy and identify gaps in value chains that can be closed through targeted attraction of external investors.

- BRE and start-up promotion: There is often a potential to strengthen the territorial economy through spin-off companies and supplier development. A spin-off company is created when employees of an existing company leave to set up their own firm. Sometimes this creates a competitor, sometimes a specialised supplier or service provider. In the latter case, the original company would be interested in the success of the spin-off, but not necessarily willing or able to assist it in terms of raising investment capital, finding premises, locating adequate staff etc. Facilitating this would then be the task of the development agency. Regarding supplier development, territorial economies often suffer from information failures that have existing companies acquire inputs and services from distant places while they are, or might be, available locally. Facilitating this kind of "import substitution", i.e. promoting local business linkages, is another typical task of a development agency.

- Investment promotion and start-up promotion: The link between these approaches is franchising. One of the things a development agency can do is to inform potential local entrepreneurs about the opportunities and options involved in becoming a franchisee.

The design of an RDA involves difficult trade-offs regarding the three target groups. Decision makers often create a bias in terms of the focus. For instance, RDAs often have a strong focus at investment promotion. However, they can be much more effective in their investment promotion when they are also involved in BRE and start-up promotion. However, when an RDA that specialises in investment promotion engages with local businesses to identify opportunities for targeted attraction of investors, other agencies that have BRE as their main mandate may perceive this as an intrusion into their turf. At the same time, it is important to realise that tasking an RDA with investment promotion, BRE and start-up promotion implies an enormously wide portfolio of activities which will only be covered in a somewhat shallow way, or which will lead to the creation of a rather huge organisation.

2.3 The triangle of locational factors

Locational factors are defined as those features that make a given place or region attractive for business – in terms of retaining businesses and fostering their growth, in terms of retaining or attracting start-up entrepreneurs, and in terms of attracting external investors. It is common to distinguish three types of locational factors:

1. Tangible locational factors, which are mostly “hard” criteria and which can often be quantified.

2. Intangible factors relevant for companies, which are “soft” factors and not easily quantifiable.

3. Intangible factors relevant for professionals, which are basically those factors that define the quality of life in a given location.

There is a clear hierarchy between the three types of locational factors. Most relevant are tangible factors. It is only after tangible factors become increasingly similar across locations in a country or region that intangible factors become relevant as a distinguishing feature. To put it differently: If your location, unlike other locations which are nearby, suffers from unreliable electricity supply, water scarcity, and dreadful roads, even excellent supporting institutions and the most effective business network program will have only a limited effect.

One can draw up long lists of instruments that address locational factors. The one below mentions a limited number of key instruments.

Instruments targeting tangible locational factors
- Real estate development
- Infrastructure development
- Predictable energy and environmental costs
- Skills development programmes
- Fiscal incentives and subsidies

Instruments for intangible locational factors that are relevant for companies
- Creating a business-friendly public administration - Indicators:
  - Swift response to applications
  - Swift registration of business start-ups
  - Bundling of administrative responsibilities
  - Effective support for businesses in transactions with regulatory bodies
  - Economic competency and hospitality of key actors (e.g. mayor)
  - Constructive style of communication between local politicians and government administrators, and companies and their associations
- Stimulating business networking
- Promoting innovative financial instruments
- Providing competent research and development institutions, technology incubators
- Stimulating an innovative milieu
- Encouraging an active role of business associations and chambers
- Promoting a positive image

Instruments targeting intangible locational factors that are relevant for individuals
- Improving the quality of housing and neighbourhoods
- Securing good environmental quality
- Assuring a high quality of schools and other education institutions
- Providing good social infrastructure
- Assuring good leisure infrastructure (sports, cultural events)

Would an RDA use all these instruments? Hopefully not. If it tried, it would become a kind of *über-government*, i.e. it would assume a number of responsibilities that should rest with various departments of local and regional governments. The focus of an RDA should be to facilitate processes that address locational factors. What does this mean practically?

- Regarding tangible locational factors, an RDA will not build infrastructure or run skills development activities. Instead, it must assure that the infrastructure development plans of the relevant government departments are aligned with the needs of businesses and the necessity to create an attractive location. It also must assure that the skills development market works properly. Note, however, that there are numerous cases where a dedicated agency has been created to develop and market a specific business estate, in particular brownfield sites or an abandoned military base. The task profile of such an agency tends to grow over time, and it is important to manage the relationships and division of labour between such a single purpose agency and the RDA.

- Regarding intangible factors that are relevant for companies, an RDA will typically be an intermediary between government and the private sector and facilitate communication between them. It will thus play an important role in any effort to make public administration more business-friendly. Effectively, an RDA may become a first-stop agency that informs and guides companies in their interaction with the public sector.

- With respect to other intangible factors relevant for companies, such as business networking, innovative financing instruments, or promoting innovation, RDAs are often more than just facilitators. They frequently run projects that aim at strengthening these factors.

- Regarding intangible factors relevant for individuals, RDAs have been known to run activities such as polls among spouses of managers of transnational companies to assess the attractiveness of the location and identify critical areas for upgrading, informing other government entities on needs for upgrading. An RDA will usually not get directly involved in creating or upgrading these factors.

Upgrading locational factors is one of the key mandates of an RDA. However, this primary implies facilitation, and only to some extent direct interventions and delivery. In order to improve locational quality, an RDA needs to address market failure, government failure, and network failure. We will come back to this point in the next section.

2.4 The triangle of sustainable development

The triangle of sustainable development posits that it is essential to find an adequate balance between economic, social and environmental objectives. Economic development must not come with negative social and environmental effects that compromise the livelihood of future generations, and vice versa. This triangle provides a strategic vision for territorial development: Create sustained competitive advantages and assure that the gains from economic growth are equitably distributed without compromising the ecological foundations of development.

Rather than debating whether sustainable development is a vision or a mirage, an RDA can employ this triangle as a search pattern for innovative approaches to developmental activities. We have already addressed the tension between economic and social development, yet also emphasised the potential for synergy. A practical way of achieving this is a consistent effort to build skills, and to make sure that particularly individuals in lower income strata have access to quality skills that are demanded by employers. A consistent effort to lower barriers to entry for self employment and business creation by individuals from lower income strata works in a similar way.

Regarding the synergy between economic and ecological development, there is ample evidence that many environmental problems generate business opportunities that can lead to the creation of vibrant business sectors. Searching for such opportunities, and facilitating the process of them being taken up by businesses, is an important task for an RDA. How can this be done practically? First, there are often obvious opportunities. For instance, sawdust is an input for a variety of products (e.g. insulation material, packaging material, or pellets as a source of energy) and not waste. If wood processing companies don't know what to do with their sawdust, a start-up business that processes it get its main input for free.

Second, there is the option of conducting systematic materials flow analyses that track the flow and transformation of material resources in the territory, trying to locate inefficient use of materials and to identify opportunities for more efficient materials use. Third, there is the option of creating "industrial ecosystems", e.g. industrial parks that are designed around the principle of materials efficiency, where one company's "non-product output" is another companies valued input (e.g. Ayres 1996).

2.5 The triangle of governance

Regional development will usually involve three groups of actors: the public sector, the private sector, and other stakeholders, such as academic institutions, NGOs or local communities. The design of an RDA involves a variety of critical choices regarding the status of the agency and the structure involved in its governance.

2.5.1 Public, mixed or private RDA?

A RDA can be set up as a purely public, a mixed public-private or a purely private entity. There are straightforward trade-offs involved in this:

- A public agency connects easily with the public sector yet may battle to establish credibility with the private sector. This kind of set-up is useful in cases where an important focus of the agency is to make the public sector more business-friendly, i.e. act principally as a change agent inside the public sector.

- A purely private agency connects easily with the private sector yet may battle to create effective relationships with the public sector. This kind of set-up is rare yet does exist, for instance in places where infrastructure utilities are purely private and establish a development agency to generate additional demand for their product.

- A mixed agency may appear like a promising approach to providing the best of both worlds, yet it can also generate the worst of both worlds. In a place where public and private sectors have an antagonistic relationship, a mixed agency can be paralysed and useless, suffering from lack of credibility and influence on both sides. In a place where public and private sector have a reasonably constructive relationship, a mixed agency can offer significant benefits in terms of being close, yet not too close, to either side and thus being perceived as an honest broker.

The legal status of an RDA has important implications with respect to a number of factors:

- Recruitment pattern and salaries: A purely public agency will battle to recruit qualified staff with private sector experience in countries where salaries in the public sector are lower than in the private sector. At the same time, it is important to point out that an RDA that is staffed with public servants will look and act like the public service and may thus be perceived by the private sector as another useless government office. For an RDA to be credible with the private sector, it is crucial that its staff is to some extent made up of professionals with private sector experience (though not exclusively, since that would compromise its credibility with the public sector).

- Political interference: An RDA should not be subject to direct interference (i.e. direct orders) by political office holders, be it in terms of recruitment, be it in terms of everyday management decisions. This is often a motive in setting the agency up as a mixed or a purely private entity. But even then it is crucial to craft procedures that clearly define the limits of the influence of political decision makers, be it in the everyday management of the agency, in staffing decisions, or in the setting of strategic priorities.

With respect to the last factor, it is important to also discuss the governance pattern of an RDA. The more effective RDAs appear to be organised in a business-like way, with a strong CEO who is judged against delivery on performance indicators, rather than political criteria, and with a strong supervisory board that can exert influence on the strategic orientation of the agency and at the same time assure its legitimacy in the respective constituencies.

2.5.2 Functional region or administrative unit?

Related to the issue of legal status is the spatial focus of an RDA. The borders of economic functional regions often do not match with administrative borders. Yet a RDA that is set up as a public entity will usually be set up along existing administrative borders, for instance at the level of a province or county.

Research has shown that economic development activities are more effective when the targeted area matches with administrative borders (Cheshire 2001). When functional region and administrative borders do not match, decision makers face a trade-off. Focusing an agency at an administrative territory makes governing it easier but may compromise the effectiveness. Setting it up to address a functional region increases the likelihood of effective interventions, yet governing the agency becomes more challenging as more stakeholders with possibly conflicting interests and agendas become involved.

2.5.3 Top-down vs bottom-up

An RDA can be the outcome of an organic bottom-up territorial development process or the result of a top-down decision. In an ideal case, an RDA will involve elements of both: It is an outcome of a lively territorial development process that is driven by an alliance of local stakeholders who have decided that an agency is needed to professionalise and deepen their development effort; at the same time, it draws on funding opportunities and information sharing systems that are offered by higher levels of government. The benefit of bottom-up in terms of legitimacy and efficacy is obvious, whereas the benefit of a top-down element emanates from the ability to secure funds from higher levels of government and to effectively articulate strategic choices vis-à-vis higher levels of government.

In the real world, though, RDAs are often the output of top-down processes. National or provincial governments often introduce such agencies as part of efforts to promote lagging regions. In the worst case, they clash directly with existing bottom-up structures, engage in protracted fights over influence and resources, and ultimately damage the growth performance of already lagging regions.[1] In the second worst case, they are installed with an overly broad mandate and the expectation to substitute for the weakness of government and other meso-level structures. In an ideal case, higher levels of government consult local and regional stakeholders before taking a decision and design an RDA in a way that ensures its fit with existing structures.

2.5.4 RDA, polity and politics

Regarding the governance of an RDA, it is important to address one more issue, which is the embeddedness of the RDA in the respective national and local political culture. It is not rare to find that RDAs are created to escape the limitations of petty politics yet ultimately get mired in exactly those petty politics. RDAs are sometimes created in the context of political systems that are not primarily marked by problem-solving but rather by clientelism and patrimonialism (Meyer-Stamer 2004). Such political systems are often characterised by antagonistic relationships, where the political opposition does everything possible to undermine government’s efforts to implement policies, and where a change in government is followed by the replacement not only of high-level officials but actually of staff at all levels of ministries and government agencies. In this kind of setting, an RDA that has been celebrated as a success by one government will be immediately scrapped after a change in government. External organisations, such as development assistance donors, may hope that through an RDA they can create an effective government structure that is out of the reach of the political game. This hope, though, will be dashed – unless the champion of the RDA idea succeeds in getting the backing of all relevant political players, and in involving them in a constructive way in the governance of the RDA. It goes without saying that achieving this is a political masterpiece in itself.

2.6 The triangle of process management

Territorial development is an iterative process. The purpose of territorial development is to create a localised competitive advantage in a globalised economy. Since many locations improve their advantage all the time, no territory that enters this race can afford to ever stand still. When stakeholders in a location or region have completed some activity to strengthen

1 The case of the English RDAs is instructive in this respect, see Lynch 1999 and Fuller, Bennett and Ramsden 2002.

their competitive advantage, they cannot afford to sit back and relax. Instead, they need to look out for new opportunities to strengthen their competitive advantage.

An RDA is usually designed to be a key actor in the territorial upgrading effort, if not "the process manager". In the design of an RDA, political decision makers will often battle with a number of dilemmas and critical choices, many of which involve a trade-off between short-term and long-term results.

2.6.1 Facilitation or service delivery?

An RDA can facilitate the delivery of services, or it can itself deliver services to companies. Services that sometimes are delivered by an RDA include the following:

- identifying appropriate real estate for local businesses or external investors,
- organising managerial and technical updating courses,
- providing credit at market or subsidised rates,
- providing venture capital,
- organise business fairs,
- setting up an e-commerce platform,
- organising business networking events, business clubs, and similar activities.

Many if not most of these services can in principle be provided by for-profit businesses or by business associations and chambers. Thus, tensions typically emerge when an RDA appears to compete with businesses, associations or chambers. The principle should be that an RDA must never compete with commercial providers or business associations, but rather facilitate market- or network-based solutions to pressing problems felt by companies. In practice, however, an RDA will often be tempted to try to deliver a quick-fix rather than facilitating a solution, especially if it is under pressure to deliver short-term results. These short-term results then come at the cost of market distortion, and possible damage to existing businesses or the creation of barriers to entry to start-ups in specific services. In order to minimise damage, it is crucial that an RDA conducts ex-ante checks on possible displacement and distortion effects of its interventions. Ideally, an RDA would justify any intervention on the grounds of a plausibly identified market failure, government failure, or network failure, and design any intervention in a way that makes a market, government or a network work better.

2.6.2 Facilitation or own budget?

For an RDA, the temptation to distort markets and displace commercial providers will be particularly strong if a strong performance pressure is combined with an own budget. A strong case can thus be made for an RDA that has no grant and credit lines at its disposal, and that facilitates local businesses' and institutions' access to sources of funding. This, however, sounds good in theory yet can become a self-defeating approach in practice in a setting where other government organisations have little funds available or are slow in disbursing them, and where other sources of funding are not easily available.

To make things even more complicated, providing an RDA with its own discretionary funding lines involves yet another trade-off. One would hope that an RDA does the right things, and does them quickly. In practice, however, it is difficult to have both things at the same time. Responding quickly to problems or opportunities gives little space to thorough research on market, government, and network failure. Investigating them thoroughly creates delays. Balancing both issues, as well as making sure that an RDA is financially accountable and responsible in its use of funds, is not an easy task.

2.6.3 Coordination or consolidation of fragmented activities?

It is extremely rare to find that an RDA is created in a setting that is marked by the absence of organisations with some kind of development mandate. It is rather frequent to find an RDA that has been created with a mandate to do something about a very fragmented meso-level organisational landscape. Fragmentation is one of the main challenges that developmental efforts face, and new agencies are often set up to address it.

The are two ways of addressing fragmentation. One approach is the consolidation of fragmented organisations into one agency. The result is typically an internally fragmented agency that is temporarily, i.e. during the preparation for the merger and some time after, entirely ineffective, i.e. renders little or none of the services that it is supposed to provide. Managing a merger, and managing a newly created organisation that involves a number of different (and perhaps incompatible) organisational cultures is a steep task, especially as political decision makers appear to be unaware of disciplines like "organisational development", rather preferring to believe that they can order the employees of a newly merged agency to work effectively. This belief is often unfounded, and a badly managed consolidation process can lead to an agency that performs far below expectations.

The other approach to addressing fragmentation involves coordination. Coordination can be done in two different ways. One approach is to pursue coordination for the sake of coordination, i.e. establish highly time-consuming mutual information patterns, communication and reporting systems, and meetings. The main effect of this approach is resentment, leading to passive and active resistance.

The other, more promising approach is to coordinate in an indirect way, in particular through concrete project activities that necessarily require the participation of various agencies and then to address and invite the relevant agencies. Addressing them for the sake of a specific activity is much more promising than addressing them for the sake of coordination, and even more so if the activity is squarely inside the mandate and deliverables of the respective agency. Research on cluster initiatives in Europe found that a main effect is to create an occasion for communication and coordination between fragmented public business promotion agencies (Raines 2000). This type of coordination is based on win-win games.

2.6.4 Permanent or fixed-term?

A regional development agency must not necessarily be a permanent institution. There are examples of fixed-term RDAs which were set up with a specific mandate, usually to manage a specific initiative and/or to facilitate a change process at the territorial level.[2] The advantage of a fixed-term agency is that it is perceived as less of a threat by other organisations and agencies. It will go away after some time, so there appears to be less risk of losing power and prestige.

3 Basic constellations in regional development and their relevance for the design of an RDA

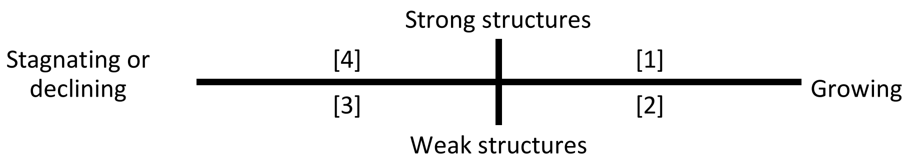
Regions are different, and thus RDAs are different as well. In this section, we will introduce two concepts that help in organising ideal types of regional development realities. Subsequently, we will cross the two concepts and look at the implications for the main focus of RDAs in different types of territories.

3.1 Concepts

The first concept distinguishes four types of regions. The second concept distinguishes market, hierarchy and network as ideal type patterns of organising economic activities.

3.1.1 Four types of regions

We suggest that it is useful to distinguish four different types of regions, as summarised in the following matrix.



1 A growing economy with strong structures has a long tradition of successful economic development. The local economy is dynamic, driven by competitive companies and perhaps a cluster. Also, the capital cities and major metropolitan areas in developing and transformation countries typically fit into this quadrant. Businesses can rely on a solid infrastructure and good factor conditions.

2 A growing economy with weak structures is still in the early phase of its growth process. It may, for instance, be driven by an emerging cluster which is the result of innovative entrepreneurship and localised imitation. Yet the infrastructure is not yet developed, and factor conditions are deficient.

2 Examples are the IBA Emscher Park and the REGIONALE initiatives in North Rhine Westphalia, Germany (cf. Dönitz and Panebianco 2006).

3 A stagnating economy with weak structures is a phenomenon that we often find in rural and peripheral regions. There are only limited local production activities, including subsistence agriculture, and the main sources of income are remittances and government transfers.

4 A stagnating or declining economy with strong structures is suffering from the structural decline of the main local industry, be it because a resource such as a mineral deposit is running out, be it because the main local cluster has lost its competitive edge vis-à-vis domestic or foreign competitors (or maybe it never had one and is now falling apart after the borders have been opened to foreign competition).

The following table summarises the four types and the labels we will use below.

	Strong structures		
Stagnating or declining	Declining region	Thriving region	Growing
	Marginalised region	Emerging region	
	Weak structures		

3.1.2 *Markets, hierarchies and networks*

Economics research has formulated the market / hierarchy / network triads of modes of coordination (Powell 1990, OECD 1992), social scientists tend to distinguish market, organisation and community (e.g. Wiesenthal 2000). The following table looks more closely at the economic perspective.

Table 3: Stylised comparison of forms of economic organisation

Parameters	Forms		
	Markets	*Hierarchies*	*Networks*
Normative basis	Contract, property rights	Employment relationship	Complementary strengths
Means of communications	Prices	Routines	Relations
Methods of conflict resolution	Haggling; resort to courts for enforcement	Administrative fiat, supervision	Norm of reciprocity, reputational concerns
Degree of flexibility	High	Low	Medium to high
Amount of commitment among the parties	Low	Medium to high	Medium to high
Tone of climate	Precision and/or suspicion	Formal, bureaucratic	Open-ended, mutual benefits
Relations between economic agents	Independence	Hierarchical	Interdependence
Source: OECD (1992), p. 78, adapted from Powell (1990).			

Each of the three modes of coordination has its specific advantages and disadvantages:

- A functioning market (i.e. a market that does not suffer from market failure) is the best choice for coordinating allocation decisions on scarce goods. It does not address the issues of distribution (i.e. equitable distribution of assets and income) and scale (i.e. the overexploitation of non-renewable resources). In fact, functioning markets tend to decrease equitable distribution and encourage the overexploitation of non-renewable resources.

- A hierarchy is good at conducting routine activities that require division of labour and direct coordination. Scale-intensive production is practically only possible in private sector hierarchies, i.e. companies. Delivery of routine services, especially with respect to public goods, is the main task of public sector hierarchy, i.e. the public service. Moreover, the public sector needs to address issues of market failure. Hierarchies tend to be bad when it comes to flexibly responding to non-routine problems, challenges or opportunities.

- Networks can be formalised, such as in membership organisations, or they can be informal. They are good at coordinating issues where markets fail and hierarchies are not flexible enough. However, just like markets and hierarchies may fail, so can networks, for instance when they grow too big for effective internal coordination.

What is important in both the economic and the social science strand of theorising is the observation that in the real world it is highly unlikely that any pure mode of coordination will work. When a market does not work, the adequate answer is, in all likelihood, not more market but rather more hierarchy / organisation, for instance in the shape of an anti-trust body that dismantles monopolies that have naturally and spontaneously emerged from market processes. The response to market failure can also be more network / community, for instance through collective action to address a specific problem that is not solved spontaneously in the market.

Each of the three types of coordination is subject to failure. The following table gives an overview of the main reasons and implications of market failure.

Table 4: Market failure

Type of market failure	**Example**	**Consequence**
Natural monopoly	Telecommunications in rural, thinly populated areas	Customers in rural areas pay much higher price for telecom services than urban customers, perhaps have no service at all, and suffer from delays in access to innovative telecom services
External effects	Investment in skills development	Companies invest less in the skills development of their staff than would be desirable from a macro perspective
Indivisibility	Size of a container (minimum 39 cubic meters) that needs to be filled by supplier	Small producers cannot connect to customers because the don't produce enough to fill a container

Asymmetric information	Information about residual toxics and other contaminants in fruit and vegetables in the absence of sophisticated and costly testing equipment Information about the quality of planting material (seeds)	Customers don't buy fruit or vegetables if they suspect that producers have used more agrochemicals than they admit Producers only buy seed varieties they know, and they buy from sellers they know
Public goods	Availability of agricultural extension service for poor producers	Producers can't improve quality and productivity and thus remain uncompetitive

Mentioned in the table are intrinsic limitations of markets, i.e. areas where markets do not evolve spontaneously and where hierarchy or network needs to intervene in order to create a functioning market. The types of market failure mentioned in the table create barriers to entry, i.e. a situation where business opportunities will not be taken up by entrepreneurs or companies.

Apart from these intrinsic limitations of markets, there are also markets that fail because of other reasons. Over time, markets consolidate, especially in areas where barriers to entry are intrinsically high, for instance because of economies of scale and high sunk cost, such as in steelmaking. The result is often an oligopoly or a monopoly, which creates a situation where the price mechanism, which is the main communication device in markets, does not work any more.

Hierarchy is also subject to failure. There are two different approaches to analyse the failure of hierarchies which are relevant in our context. First, there is organisational failure. It occurs when a given organisation fails to deliver services or even causes accidents even though the staff of the organisation acts according to established operating procedures. Organisational failure is often an outcome of inadequate knowledge management,

Second, there is government failure. In the context of economic development, government plays a crucial role as an actor that remedies market failure, as well as addressing the negative consequences of functioning markets in terms of undesirable distributional effects. A variety of government interventions is a response to market failure, to failing markets or to issues that are an undesirable outcome of market processes:

- Typical responses to market failure are the delivery of public goods (e.g. basic education) and the response to natural monopolies (e.g. delivery of electricity through public enterprises or state regulated private monopolies). Other government interventions respond to negative externalities, for instance environmental regulation.
- Other government action addresses failing markets, for instance the implementation of an anti-trust policy.
- Yet other government action responds to undesirable outcomes of market processes, for instance persistent unemployment or underinvestment in research and development.

Government failure typically takes the shape of

- insufficient or inadequate response to market failure, or failure to deliver, e.g. in education or agricultural extension,
- failure to address failing markets, for instance because private monopolies are politically powerful,
- policy interventions that exacerbate problems while pursuing best intentions, for instance labour regulations that try to stabilise employment yet effectively act as a disincentive for companies to hire staff.

Third, there is network failure. The following tables give an overview of typical network failures.

Table 5: The Seven Problem dimensions and pitfalls in networks

	Problem dimension	Potential pitfalls of networks
(1)	***Problem of numbers***	
	Number of actors involved in a network may be large	The greater the number of actors, the higher the risk of veto positions that may block a network.
(2)	***The time dimension of decisions***	
	Networks are faced with the challenge of establishing long-term interests against short-term interests. Mechanisms: • conflict avoidance • cooperation • development of social cohesion	These mechanisms can contribute to conservative and structurally conservative tendencies, agreement on the "smallest common denominator", and collective conservatism
(3)	***Institutional consolidation***	
	The institutional consolidation of networks is a condition for their functioning. • stabilization of cooperative relationships by • development of "weak ties" into "strong ties"	These mechanisms can trigger the following : • the retarding function of the logic of compromise in networks • cognitive, social, and political blockades • path-dependent action • "internal" consolidation, "hostile" or "indifferent" attitude vis-à-vis network environment: tendency to consciously externalize costs and produce unintended effects
(4)	***Coordination problems***	
	Networks have the possibility, important to many policy fields, of working out horizontal coordination between a large number of reciprocally dependent actors	The coordination problem is that the Kaldor optimum is difficult to achieve and a common actor understanding on the criteria for the distribution of "profit and loss" as concerns product-solution options is needed as a condition for preventing bargaining blockades ("endless disagreement")
(5)	***Bargaining dilemmas***	
	Development of trust-based relationships between network actors is the condition for the functioning of networks.	Dilemma: trust-based relationships between actors are the condition for successful coordination , but at the same time especially trustworthy actors may easily be cheated in the bargaining process, strategically oriented bargaining patterns (e.g. including manipulation of information) may prove successful over the short term, but they undermine trust-based relationships and prevent any approximation to the Kaldor optimum
(6)	***Power***	
	In networks the governance resources are distributed across a great number of actors. There are no clearly identifiable power centers.	In networks, too, there exist asymmetric relationships between actors who possess resources of varying strategic significance; networks are not a priori "democratic" and "hierarchy-free;" "power" in networks and between networks and their environment can lead actors "not to have to "learn." Then the "systemic intelligence" of networks is threatened with erosion
(7)	***Tensions between conflict and cooperation***	
	Cooperation in networks permits cumulative, goal-directed search and learning processes on the part of the actors involved.	The following applies for the relationship between conflict and cooperation: • in networks there are as a rule both cooperation and conflict; • exaggerated harmony orientation can hamper efforts aimed at innovation; • conflicts are a potential productive force; • cooperation and conflict can operate in networks as a bond and a solvent.

Source: Messner 1997

What is the relevance of market, hierarchy and network for an RDA? An RDA is often expected to address all three types of failures:

- facilitating solutions for market failure, in particular with respect to positive externalities (e.g. skills development), coordination externalities (e.g. business networking), public goods (e.g. basic research), and asymmetric information (e.g. basic metrology and quality infrastructure),
- addressing state failure (e.g. fragmentation of public institutions),
- addressing network failure (e.g. through cluster initiatives).

For an RDA, it is important to conceptualise its activities adequately, as each of the three failures needs to be addressed in distinctive ways.

3.2 Types of regions

However, depending on the type of region, some type of failure may be more prevalent than other ones. We will reflect on this issue in the following section.

3.2.1 Thriving region

In a thriving region, one would expect that the business climate is vibrant and that business opportunities are easily visible. Some types of market failure, such as indivisibilities and information externalities, would not be an issue. Other types would have been effectively addressed through the creation of dedicated organisations, for instance with respect to positive externalities in skills development and R&D.

One would also expect government to work reasonably well. With a steady revenue stream from the thriving economy, it would be able to build capacity to address market failures such as public goods effectively.

The most likely problem would be network failure. The problem would not be the absence of networks but rather their proliferation, leading to fragmentation and network failure issues, in particular around

- the problem of numbers, due to an increasing number of actors, and networks of actors, that need to be connected,
- the coordination problem, as an increasing number of actors encourages free riding and thus makes a fair distribution of costs and benefits more difficult to achieve,
- the bargaining dilemma, especially as free riding becomes more frequent.

In a thriving territory, an RDA would need to assume a critical facilitation and management role in order to reduce the risk of rampant network failure.

3.2.2 Emerging region

In an emerging region, markets would also work pretty well, and barriers to entry would be low. Here, the key issues would be government failure and network failure.

Regarding government failure, the main issue would be the need for government to address those market failure issues that limit the growth potential, in particular with respect to public goods. For instance, emerging regions are often battling with backlogs in terms of infrastructure development. But there are also more specific issues, such as the creation of the underlying quality infrastructure, in particular accreditation and calibration organisations. An RDA would play an important role in terms of facilitating solutions.

Regarding networks, the problem would be weak networking. In a fast growing emerging territory, businesses are often too busy to form associations, or make sure that existing associations work well. An RDA would play, again, a facilitating role.

Both in thriving and in emerging regions, it is important to properly manage the difficult relationship between a business focus and a social focus. Even in high growth regions there are usually groups of citizens who are bypassed by the growth process, or even marginalised as a result of it. This creates a justification for an RDA that specifically works on including presently excluded groups. At the same, it is important to understand that even in a prosperous an RDA with a business focus is a good thing to have. We have argued above that this should lead to two, not one, RDAs – one with a business focus, another one with a social focus.

3.2.3 Marginalised region

In a marginalised region, market failure, government failure and network failure reinforce each other, thus minimising locational quality and creating a variety of barriers to entry to businesses. For an RDA, the main focus might be to lower barriers to entry, i.e. to find ways of addressing market failure.

When an RDA is installed in a marginalised region, the biggest risk is a mismatch between expectations, potentials and resources. In the past, there have been cases where RDAs with a broad mandate were set up in rural areas with an only small productive sector, especially in terms of processing and manufacturing. They were then expected to substitute for the absence of an evolved meso-level, i.e. a set of supporting institutions, by providing a variety of services, from enterprise promotion to financial services to skills development. When an agency like that had just half a dozen professionals, there was a clear mismatch between mandate and resources. Thus, it is essential to define clearly the task of an RDA in a marginalised region. It must have a clear strategic focus, and this must include a habit to say No to requests and proposals that do not fit with the strategy.

3.2.4 Declining region

In a declining region, government is probably working reasonably well, even though it would suffer from increasing financial constraints with respect to routine activities. Infrastructure would be dense, though slowly decaying. There would be a dense structure of organisations providing public goods, even though demand for some of them would dwindle.

The main problems would be network failure and market failure. Regarding network failure, the main problem would be collective conservatism. Actors in a declining region are frequently the last to realise that the economy is in structural decline, and pulling them out of a state of denial is a tough job, though it would definitely be one of the tasks of an RDA.

Regarding market failure, an important issue would be barriers to entry due to the usual as well as specific reasons. Usual reasons include indivisibilities, external effects, asymmetric information and public goods. Specific reasons refer to failing markets, for instance a land market that is distorted by old industries that are unwilling to sell their idle properties.

In a declining region, the main mandate of an RDA would be to facilitate adjustment in old sectors and to address market failure that blocks the emergence of new sectors.

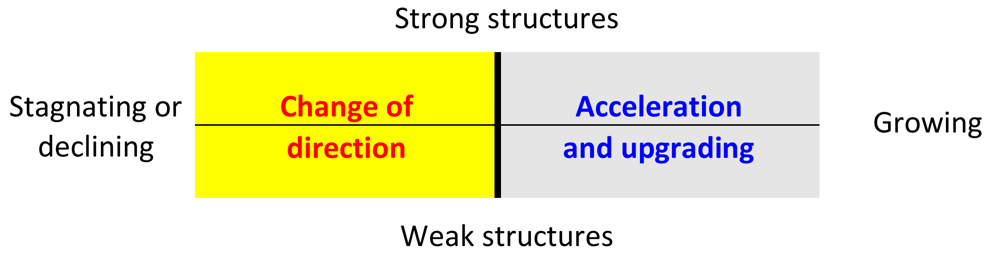
3.2.5 Fundamental differences in approaches

We want to take our reasoning regarding the different foci of an RDA depending on the fundamental economic structure of its region one step further. Territorial development ought to be conceptualised, inter alia, on the basis of change management concepts. In this respect, the approach in type 1 and type 2 economies (i.e. growing regions) needs to be different from the approach in type 3 and type 4 economies (i.e. stagnating or declining regions).

- Type 1 and 2 economies are fundamentally doing well. The focus of a territorial development intervention is at upgrading, i.e. strengthening the existing competitive advantage. In this type of location, change management is about facilitating incremental change. A typical focus would address factor conditions, for instance addressing fragmentation among meso-level institutions in a type 1 economy or actually identifying and addressing the most pressing bottlenecks in a type 2 economy. In these types of locations, one might actually run PACA or RALIS Exercises or use PACA tools to identify specific opportunities or bottlenecks and address them (cf. www.paca-online.org). The Compass would be ideal to manage the process. Strategic interventions initiated through Genesis are an option, but not a necessity.

- Type 3 and 4 economies are fundamentally unwell. Here, the objective cannot be to grease a machine so that it can run at a quicker pace. Rather, the challenge is to initiate a process that leads to radical change in the territorial economy. In other words, these are the places where we need to design and implement a territorial change management processes that aims at radical change. A tool like PACA is useful to initiate the process, but we need to make sure that we move to more strategic interventions in a relatively short period of time.

Figure 2: Two different change management approaches



This consideration has important implications for the staffing of an RDA. Under any circumstance, RDA staff needs a combination between technical / topical know-how (sector development, entrepreneurship development, skills development, innovation promotion, investment promotion, etc.) and highly developed communication and facilitation skills. However, in type 3 and 4 regions (Change of direction) the latter "soft skills" are even more important than in type 1 and 2 regions. In type 3 and 4 regions, RDA staff needs excellent skills in change management and turnaround management, as well as lateral thinking and other tools to stimulate innovative thinking outside the box.

4 Organisational features of an RDA

The last point takes us to the final consideration, namely some reflections on critical organisational features of an RDA. In this respect, we have already mentioned some issues:

- It is important to understand that the genetic code of an agency is determined with its basic set-up and the initial staffing decisions. Decision makers should be aware of the fact that their short-term considerations and decisions can have a detrimental long-term effect, for instance when the set-up and mandate is shaped by acute, pressing problems.

- An agency should be kept free from political interference in its day-to-day operations and staffing decisions. For instance, an agency should pursue a meritocratic recruitment pattern, i.e. hire staff based on clear, explicit criteria and in a transparent way.

In fact, the quality of the staff factor makes or breaks the performance of an LED agency. An LED agency is usually located in between the public and the private sector, and it needs to connect with both. Thus, it is not recommendable to recruit staff only in the private sector, as one might be tempted to do, and it is certainly not a good idea to recruit staff only in the public sector. Recruitment of staff must be strictly based on merit. Wages must be competitive, so that the agency can attract highly competent professionals.

It is essential to have staff with a private sector background strongly involved at the very early stage of the creation of an agency. Organisational development is highly path dependent. When an agency is initially set up by individuals who have worked in the public sector for their whole life, the agency will look like any public sector agency. But it is crucial that an LED agency looks, thinks and acts as much as possible like a private company, since only then will it be able to interact easily with real private companies.

Apart from such basic features, we suggest that an RDA should be designed around three types of management approaches: knowledge management, change management, and performance management.

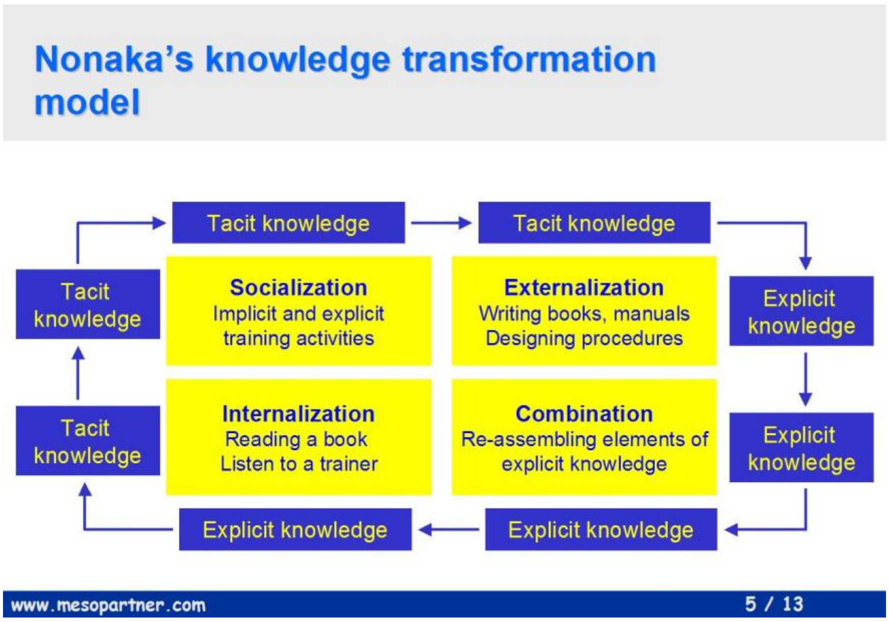
4.1 Knowledge management

An RDA has the issue of knowledge, and thus the necessity to manage knowledge, at its heart. Knowledge refers to knowledge about the territorial economy and its actors and sectors, but also to knowledge about territorial development concepts, instruments and tools.

A concept that is highly relevant in this context is the distinction between tacit and explicit knowledge. Tacit knowledge refers to a person's intuitive, often unreflected knowledge. Explicit knowledge refers to knowledge that has been documented and codified. For an organisation, it is crucial to document and codify knowledge, since otherwise crucial knowledge will be lost irrevocably once a professional leaves the organisation. Innovation research has shown that knowledge can, unfortunately, never be entirely codified, which creates a hurdle for knowledge transfer. This makes consistent management of knowledge even more important.

The possible modes of transition between tacit and explicit knowledge have been summarised by the Japanese management researcher Ikujiro Nonaka (1994) in the following way.

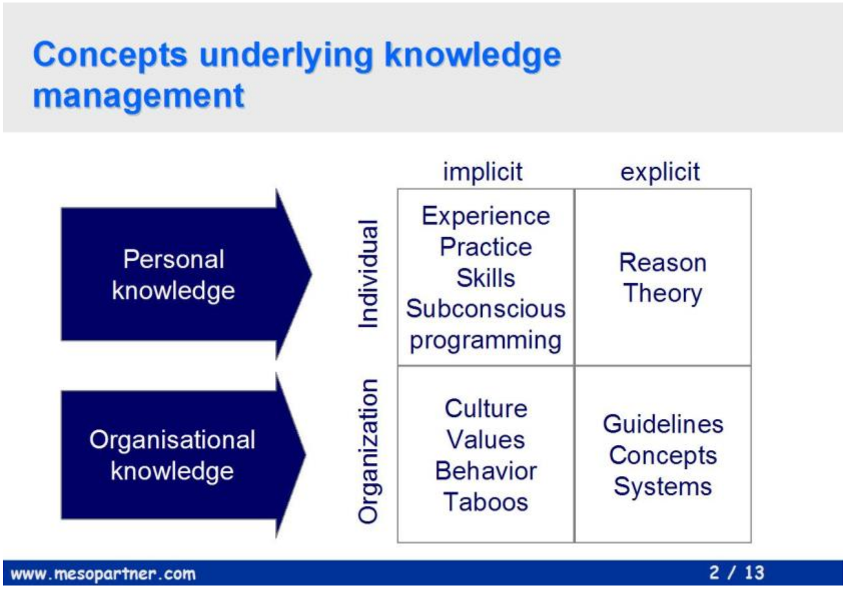
Figure 3



This model is designed from an organisational knowledge management perspective. Obviously, the socialisation of a given individual involves more than implicit and explicit training, yet in an organisational setting these are the main mechanisms. It is also important to point out that in order to understand how individuals absorb knowledge it is crucial to look at all the parts of the sequence, not just at one of them. In other words, the effectiveness of "externalisation" depends on the effectiveness with which this is linked with socialisation, combination and internalisation.

Taking this conceptualisation of knowledge one step further takes us to the distinction between personal and organisational knowledge. Not a long time ago, the idea that there is such a thing as "organisational knowledge" was frowned upon. The common understanding was that knowledge rested with individuals. However, research showed that knowledge is often embedded in organisations, for instance through standard operating procedures. Thus, the amount of knowledge embedded in a given organisation at any point in time is different from the sum of the knowledge of the members of that organisation. This point is explained further in the following figure.

Figure 4



Again, an important point is the interrelationship between these four elements. Knowledge management needs to look at the compatibility and congruence between the four quadrants. For instance, concepts and guidelines that are not aligned with the culture and values of the organisation, never mind the skills and subconscious programming of the professionals, are not going to be effectively absorbed and applied by the staff inside the organisation.

Figure 4 also makes it easy to understand that knowledge management must not be confused with IT system management. IT systems can be a very important supporting infrastructure for information distribution. Yet knowledge management is not primarily an issue of technology.

For an RDA, it is essential to set up an explicit knowledge management system, and preferably to devote at least one staff member full-time to this task, as soon as possible after the agency has been created. It is essential that the knowledge management system encourages not only single-loop but also double-loop learning, i.e. a process where also the underlying paradigms that the professionals use in their work are constantly questioned.

4.2 Change management

We have argued above that one of the most important skills of RDA staff is a profound understanding of change management concepts and tools.[3] This needs to be an important criterion in staffing. It is also linked to knowledge management, which needs to constantly reflect on the evolution of change management (CM) concepts and the learning processes around CM that occur in and around the agency.

An RDA that wants to consistently employ CM techniques is well advised to use them in-house as well. This will need to be linked to performance management (introduced below). Whenever performance management reveals deficits in the service delivery of the agency, the agency should consistently apply CM techniques to change its practice, rather than trying to come up with ad-hoc measures or quick fixes.

One of the factors that is linked to an organisation's propensity to change is the interior design, even though this is often not considered. The more rigid the interior design is, the more solid is the resistance to organisational change. In the case of an RDA, one of the obvious questions would be "Do the staff members need offices?" One should not just assume that they do, since they are expected to spend a lot of time outside the agency, interacting with stakeholders in the region. Allocating a personal office to staff members can create a level of comfort and cosiness that militates against activities outside the office. In fact, a strong argument can be made in favour of virtual offices or flexible offices where none of the staff members is allocated a permanent room, or even a permanent desk. Picture the office section in the business class lounge of an airport, and you know what we have in mind.

4.3 Performance management

An RDA must introduce and consistently implement a performance management system. We would suggest the use of the Balanced Scorecard (Kaplan and Norton 1996) or one of its derivatives, such as the Compass of Local Competitiveness.[4] Performance management involves

- the definition of overarching goals,
- the identification of critical success factors (CSFs) that need to be in place to achieve those goals,
- the definition of key performance indicators (KPIs) that track the progress towards the overarching goals.

Goals and CSFs need to be revisited on an annual basis. KPIs need to be tracked on an at least quarterly basis. It is essential that action is taken when KPIs do not develop in the expected and intended direction.

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3 See, for instance, http://www.solonline.org/.

4 See www.mesopartner.com

Consistent performance management is in fact a critical success factor for any RDA. It is important to understand, though, that powerful incentives stand in its way. In a highly diverse regional economy, defining goals is difficult, and defining goals through consultation with all relevant stakeholders can turn into a nightmare. Also, a director of an RDA can make her life much easier if she responds to opportunities, crises and random interventions by key politicians, instead of doggedly pursuing the defined goals. This is one of the reasons why a clear governance structure, and a certain degree insulation for the RDA’s management from political interference, is so important.

5 Concluding remarks

The creation of a Regional Development Agency is a complex and challenging task. Often, various actors with diverse and sometimes conflicting goals are involved in the creation of an RDA. Negotiations between them may lead to a compromise that, quite literally, generates a compromised RDA.

The design of an RDA should involve a certain degree of focus at the common good, rather than the exclusive pursuance of short-term particular interests. The actors involved in an RDA need to take informed decisions regarding the various dilemmas and trade-offs involved in the design of an RDA. The design process should be driven by deductive reasoning, including an assessment of existing experiences with RDAs that had to confront similar challenges, rather than inductive reasoning, i.e. a process where regional stakeholders behave as if they were the first ever to confront the challenge of designing an RDA.

It is easy to underestimate the scope and depth of skills necessary to run an RDA in a competent and effective manner. An RDA that has only three or four staff members will battle to make a significant impact even if that staff is utterly brilliant. A simple rule of thumb regarding the number of staff is this: When there are more supervisory board members than staff members, you have too many stakeholders involved in governance structure and, underlying that, too many objectives that the RDA is supposed to pursue. You either need to kick out some board members, and thus eliminate the objectives that they stand for, or to expand the staff.

The main principle of RDA interventions should be "light touch". Light touch is the opposite of heavy handed. RDA interventions must always be fixed-term, and the exit strategy should have been formulated before the intervention even starts. Any intervention should be designed in a way that encourages and empowers other actors to take responsibility as quickly as possible. Ultimately, the indicator of success of an RDA is not the growth in staff and budget, but rather the degree to which it makes itself dispensable.

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