

*Also by Bruno Dallago*

YOUTH ENTREPRENEURSHIP AND LOCAL DEVELOPMENT IN CENTRAL  
AND EASTERN EUROPE

REGIONAL DIVERSITY AND LOCAL DEVELOPMENT IN THE NEW MEMBER  
STATES

# **Local Economies and Global Competitiveness**

Edited by

Bruno Dallago

and

Chiara Guglielmetti

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First published 2011 by  
PALGRAVE MACMILLAN

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Palgrave Macmillan in the US is a division of St Martin's Press LLC,  
175 Fifth Avenue, New York, NY 10010.

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ISBN 978-0-230-25272-1 hardback

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data

Local economies and global competitiveness/edited by Bruno Dallago,  
Chiara Guglielmetti.

p. cm.

Includes bibliographical references and index.

ISBN 978-0-230-25272-1

1. Economic development. 2. Economic policy. 3. Strategic planning. 4. Competition. 5. Globalization—Economic aspects.

I. Dallago, Bruno, 1950— II. Guglielmetti, Chiara.

HD82.L53 2010

388.9—dc22

2010027502

10 9 8 7 6 5 4 3 2 1  
20 19 18 17 16 15 14 13 12 11

Printed and bound in Great Britain by

CPI Antony Rowe, Chippenham and Eastbourne

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## List of Abbreviations

ABC	Architecture, Building and Construction
ANOVA	Analysis of Variance
BSN	Business and Social Networks
CAP	Common Agricultural Policy
CIF	Cost, Insurance and Freight
CORIS	Cluster-Oriented Regional Information System
CPC	Communist Party of China
EC	European Commission
EMR	European Metropolitan Region
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FIE	Foreign Investment Enterprise
GDP	Gross Domestic Product
GGP	Gross Geographic Product
GPT	General Purpose Technology
HAS	Hungarian Academy of Sciences
HDI	Human Development Index
IAB	Institute of Employment Research, Germany (in German Institut für Arbeitsmarkt – und Berufsforschung)
IBM	International Business Machines Inc
IC	Industrial Clusters
ICT	Information and Communication Technology
IDC	International Data Corporation
IMF	International Monetary Fund
IP	Intellectual Property
IT	Information Technology
JHB	Johannesburg

# 11

## The Public Interest in Economic Development and Creativity: A Knowledge Governance Perspective

*Silvia Sacchetti and Roger Sugden*

### 11.1 Introduction

This chapter considers economic development from the perspective of the organization of production. The basis for our argument is a synthesis of two previously distinct analyses of the theory of the firm, namely: the competence-based and strategic choice approaches. That synthesis makes creativity – that is, the use of ideas and imagination so as to make things happen – a central issue in understanding production. From that we hypothesize that the treatment of creativity is a significant determinant of the prospects for economic development at local, regional, national and indeed global levels.

The structure of the chapter is as follows. Section 11.2 explores the organization of production and Section 11.3 highlights the significance of creativity, contrasting our analysis with much of the currently topical concern with so-called creative industries. Section 11.4 deepens the analysis by introducing the interests of publics as a criterion for assessing economic relations, behaviours and activities. This takes us in Section 11.5 to a depiction of the reality and prospects for economic development, hence to further comments on people's creativity. We conclude with some brief remarks about the challenges facing societies, communities and territories.

### 11.2 The organization of production

We view the essence of the problem of organizing production as the creation and use of knowledge so as to make choices over the strategic direction of activity (which may then facilitate the further creation and use of suitable knowledge).<sup>1</sup>

The concern with knowledge follows Richardson (1972) and Penrose (1959), who identify it as the essence of capabilities and see capabilities as defining what a firm can do. The link with strategic choice is inspired by a critique of the competence-based approach (inter alia Prahalad and Hamel, 1990; Teece and Pisano, 1994); this stresses the commitment, transmission and reproduction that are necessary for the effective creation and use of knowledge, but underplays the critical significance of the governance of knowledge processes. In contrast, governance – defined in terms of the power to determine strategic direction – is the principal concern of the strategic choice approach to the theory of the firm (Cowling and Sugden, 1998). It contends that the critical determinant of what does or might occur in production activity is strategic choice; that each and every type of economic process, system and organization is characterized by a particular type of strategic choice, that is, governance process; and that different types of governance are associated with different outcomes (in terms of efficiency, distribution and well-being). In particular, the strategic choice approach to the theory of the firm identifies a spectrum of governance possibilities (Sacchetti and Sugden, 2003), the two extremes of which are as follows:

1. Direction: A hierarchical system to plan activities according to the exclusive aims of a core, with or without the agreement of others; strategy making is dominated by the core, which directs resources.
2. Mutual dependence: An ideal type, characterized by the absence of hierarchy and of a strategic decision-making core; strategies are determined through a process of diffused co-ordination amongst partners, each of which is allowed and encouraged to contribute to strategic choice through communication and deliberation.

To illustrate, consider Hymer's (1972) analysis of uneven development, which can be applied to economic development at local, regional, national and indeed global levels. His concern is a stylized version of the US economy, and in particular its evolution from a system in which small firms are especially influential into one in which certain forms of large corporation 'penetrate almost every nook and cranny' (48). The analysis focuses on a hypothetical situation: what the world economy would look like, if it were to be dominated by a 'regime' (38) of such corporations. Hymer argues that the governance by direction in the corporations would be reflected in governance by direction of the world economy.

Hymer's analysis focuses on layered decision making in transnational corporations, most interestingly on two extremes: (a) the lowest levels

of management, responsible for the coordination of day-to-day activities; (b) the most senior levels of management, concerned with goal determination and planning, that is, strategy. He argues that while the lowest level would be spread throughout the world 'according to the pull of manpower, markets and raw materials' (50), the strategic planning activities would be concentrated in a handful of major cities, the likes of London, New York and Tokyo:

One would expect to find the highest offices of the [transnational] corporations concentrated in the world's major cities. ... These ... will be ... major centres of high-level strategic planning. Lesser cities throughout the world will deal with the day-to-day operations of specific local problems. These in turn will be arranged in a hierarchical fashion: the larger and more important ones will contain regional corporate headquarters, while the smaller ones will be confined to lower level activities. (50)

What Hymer also argues is that such an extreme system of governance by direction would have significant welfare consequences: 'income, status, authority and consumption patterns would radiate out from [the major] centres along a declining curve' (38), and 'the "best" and most highly paid administrators, doctors, lawyers, scientists, educators, government officials, actors, servants and hairdressers' (50) would agglomerate around those centres. His ultimate conclusion is that such governance has a systemic tendency to produce poverty as well as wealth, underdevelopment as well as development.

### 11.3 Creativity

A clear implication of our focus on the creation and use of knowledge so as to make strategic choices is that creativity is a central concern in the organization of production. There are three dimensions to this relevance:

1. The *creation* of knowledge: the use of ideas and imagination so as to cause an alteration in knowledge, for instance increasing the stock or changing its distribution.
2. Creativity in the *use* of that knowledge.
3. Creativity in *choosing a strategy*: the use of ideas and imagination so as to make things happen by opting for particular directions in production.

This perspective is in stark contrast to the attention given to creativity in recent analyses of 'industries supplying goods and services that we broadly associate with cultural, artistic, or simply entertainment value' (Caves, 2000: 1). Topical though the analysis of these 'creative industries' has become, not least in terms of prospects for economic development (see, for example, Cooke and Lazzaretti (2008) on cities and other localities), it is largely unconcerned with creativity as essential to the organization of industry in general. Rather, the literature considers sectors of industry that have been previously ignored, applying to the new-found sectors more or less traditional analytical methods (Caves, 2000). Moreover, there is typically no concern with creativity among people in general, instead there is consideration of restricted groups; see especially Florida (2002) on the notion of a creative class.

These considerations lead to a number of interesting questions:

- Who is and who is not using their imagination and ideas in the creation and use of knowledge so as to make choices over the strategic direction of production?
- Whose interests are being pursued when those strategic choices are being made, and whose interests are being ignored?

To find an answer to these questions, we turn to Dewey (1927) on the interests of publics and thereby deploy a particular criterion for assessing socio-economic relations, behaviours and activities (Sacchetti and Sugden, 2009a).

### 11.4 Interests, notably public interests

For Dewey (1927), an act might have significant consequences both for those directly engaged in it, and for others. The direct participants are said to have private interests in the act, whereas the others have public interests. Dewey (1927) is also clear in acknowledging that an act might bring into existence more than one public, each of which, according to Long (1990: 171), has 'a shared concern with consequences' of the act. Referring to this literature – and recognizing that the making of a strategic choice is an act – Branstion et al. (2006: 195) identify 'the public interest in a corporation's activities in general and in its strategies in particular as the agreed upon, evolving concerns amongst all of those indirectly and significantly affected by those activities and strategies (wherever they live, whatever their nationality)'. For example, the consumers purchasing a corporation's outputs would form a public, as

would (at least the mass of) the corporation's employees (that is, all of those not actually making its strategic decisions).

To illustrate more specifically, consider the economic crisis that broke across much of the world in 2008. Strategic choices in the banking and finance sector in London, New York and other leading centres impacted on interested parties in all sectors and in all corners of the world. Stiglitz (2008) refers to a global crisis and to 'families whose life dreams are destroyed as they lose their homes, their jobs, and their life savings'. Very few of the people losing their employment had a direct input to the strategic choices being made, but each clearly had an interest. When Bell and Blanchflower (2009) refer to the crisis impacting on youth unemployment and warn of the 'permanent scars' (26), they are identifying young people as an interested public.

### 11.5 Economic development: Reality and prospects

Drawing these lines of analysis together, Figure 11.1 depicts reality under currently prevalent processes of economic development, in line with the aforementioned analysis of Hymer (1972). It focuses on the

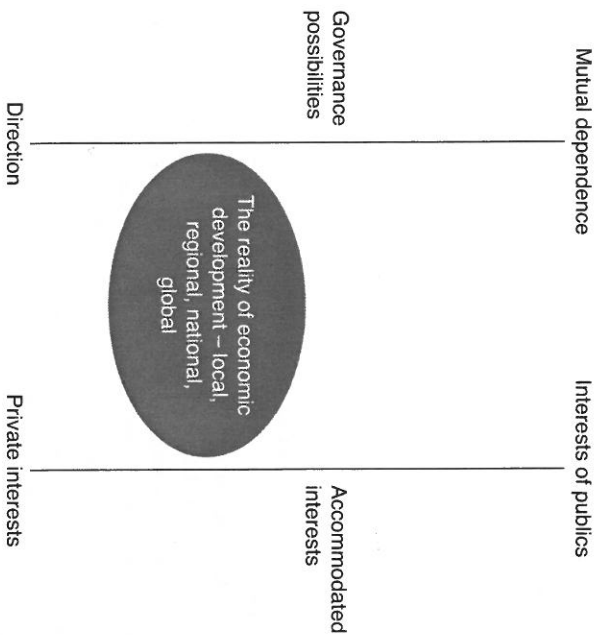


Figure 11.1 Governance of, and interests in, economic development

parallel spectra of interests and governance possibilities that we have been discussing. On the left hand side of the Figure we map governance, ranging from direction to mutual dependence. Parallel to this, on the right hand side we map the accommodation of interests. The idea underlying the parallel spectra is as follows:

- One extreme is governance by direction, associated with the pursuit of specific private interests and the exclusion of publics
- The other extreme is governance by mutual dependence, associated with an awareness and accommodation of the interests of publics
- Between these two extremes are degrees of direction, corresponding with degrees to which specific private interests override the interests of publics (or, viewed from the opposite end of the spectrum, corresponding with degrees to which there is an awareness and accommodation of the interests of publics).

As for the current reality of economic development, the sort of concentration of power and unevenness envisaged by Hymer (1972) is in many respects well recognized in the literature (inter alia Dicken, 1992; Cowling and Sugden, 1994; Sugden and Wilson, 2002 on economic development; Sugden and Wilson, 2005 on globalization). For example, Henderson et al. (2001) review analysis of uneven development across and within countries. For them, 'the most striking fact about the economic geography of the world is the uneven distribution of activity' (81), reflected in 54 per cent of world's GDP being produced by countries occupying 10 per cent of the land mass. Similarly Coe and Yeung (2001), assert that uneven development is 'the single most visible structural outcome of globalization processes' (370). Moreover, they relate development variations across territories to the 'uneven power relations underlying most global production chains such that some segments of these chains have disproportionately greater power and control over other segments' (371).

This recognition of concentrated power applies not only to the power associated with particular localities, regions and nations, but also to that of particular firms. Consider for example Fold (2001), highlighting the impacts of large producers in the chocolate industry in Europe on cocoa production in West Africa, and linking those with the influences of the structural adjustment programmes stimulated by the World Bank and International Monetary Fund (IMF). More generally, Rothschild (2005: 445) views the large transnational corporations as having 'become – nationally and internationally – an especially powerful interest group'.



In short, on the basis of the theoretical and empirical evidence, we would argue that the world's economies have been driven by large and powerful firms that essentially follow their own, private interests, with comparatively less regard for the publics upon which they impact. Hence we show the current reality of economic development – local, regional, national and global – in the space towards the extreme lower ends of the governance and interests spectra in Figure 11.1.

Furthermore, an implication of this analysis is that most people are constrained in their creativity. In part, the private interests governing economic development processes have, as a corollary, excluded interests that comprise a mass of people who are not directly or significantly involved in creating and using knowledge so as to make choices over the strategic direction of production. These excluded people are simply denied what Schumpeter (1912: 93) refers to as 'the joy of creating, of getting things done, or simply of exercising one's energy and ingenuity'. We would also assert that even among those not denied, most are constrained so that the fruits of their creativity can be harvested for the narrow, private gain of those governing production.

In terms of organizational design, the departure from hierarchy (and the values associated with it, that is, the exclusive use of creative abilities) requires an increase in the complexity of the rules governing the organization. Such change would be framed by the development of new 'habits of thought' and routines, which are themselves an expression of creativity. Several factors, however, may hinder change, for example, power imbalances (Cowling and Sugden 1998a), lock-in effects and path dependence from previous choices (David 1985), risk, lack of alternative institutional frameworks, resistance against change (Hirschman 1970), loss of critical abilities in people, acceptance of the status quo (Sacchetti, Sacchetti and Sugden 2009). Yet, if following early institutionalists, critical inquiry and curiosity are at the roots of change, creativity maintains a paramount position. This is consistent with the Veblenian inclination of people to exert their inquisitiveness and curiosity, the critical and the creative proceeding in one piece, 'placed as they are between openness and decisiveness' (Christensen, 2009: 725; Veblen 1998/1898).

The case for a diffused, rather than concentrated, use of creativity is essentially related to people being able to shape production consistently with multiple, emerging values and needs. Fundamentally, this requires that at an upper level, there exists a variety of governance structures which are the expression of different sets of values (See Lanes and Tortia, 2009). Recalling a Veblenian argument, a multiplicity of institutional solutions is necessary if production governance is conceived in evolutionary terms.

Again, this is an argument for focusing on creativity, as the spark which conveys variety and change within and across localities.

## 11.6 Concluding remarks

Viewed from another perspective, we have identified a critical challenge for societies, communities and territories: the possibility of evolving a model of economic development that better serves the interests of publics. Quite how this might be achieved, if in fact it could be achieved, would require further analysis and considerable thought. For example, we would need to explore precisely what is meant by 'public'. We would need to understand how publics might identify both themselves and their interests; analysing what acting in public interests entails, Dewey (1927: 327) reasons that 'the prime difficulty' is discovery of 'the means by which a scattered, mobile and manifold public may so recognize itself as to define and express its interests'. Especially important is that we would need to think about the importance of values in socio-economic activity (on which see Sacchetti and Sugden, 2009a). Do people look to impose one on another? Do they focus on personal consumption for personal gratification? Do they value mutual respect, sharing, critical awareness, some notion of socio-economic democracy?

Another concern would be consideration of varied types of enterprise, and indeed socio-economic systems comprising different mixes of enterprise types. Using Hymer's analysis, this chapter has offered criticism of a stylized form of large corporation, but that is not to argue that large corporations or large firms more generally do not have a place in a socio-economic system serving the interests of publics. It might be that we need to consider systems in which there are both large and small firms, as well as firms that seek profit and those that are non-profit. Perhaps we need to give particularly close thought to the role of so-called social enterprises and the third sector.

## Note

1. This perspective is explored and explained in detail in Sacchetti and Sugden (2009b).

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