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Developing a territorial economy: what do we need to get right?

Whenever territorial authorities or an external development organisation or both in cooperation embark on an attempt to strengthen a local economy, some essential questions need to be answered immediately, with a series of follow-up questions along the way. The key question remains: what do we need to get right in order to strengthen a local economy? Answers to this question are less straightforward than one might assume, and they have partly changed in recent years. The discussion about systemic approaches to development and the introduction of complexity thinking into the development arena made us reconsider some of the answers.



First and foremost, we need to be aware of our own priorities and constraints. Our development priorities will determine the guiding concepts to apply (such as favouring territorial over sectoral development approaches, inclusiveness, competitiveness, etc.) and principles to abide by (such as market orientation, participation, local ownership, etc.). This will shape our initial set of hypotheses and point us in the direction

of a “better” desired state of the local economy that we want to reach through the development initiative. Constraints of the development efforts are set by the parameters of the programme itself in terms of budget, personnel engaged, duration and often pre-defined goals and objectives. Constraints are also introduced by the different interests and preferences of organisations, which directly or indirectly exert an influence on the initiative.

Next, we need to understand what is going on in the locality before making any suggestions or even decisions on how to move the local economic system more strongly towards a higher level of economic prosperity and wellbeing of the population. The problem is, though, that we will never fully understand the local economy and everything that is going on in there. However, we should get a proper sense of how the local economic system might respond to any intervention, how to try to change it and whether there is any readiness for change at all. How can we develop such a sense? On the one hand, we need to examine the local economy by doing some kind of analysis, for which appropriate instruments and tools must be chosen. On the other hand, we can probe the system by running safe-to-fail experiments to see what



interventions might work and what might not. Whether the emphasis is on analysis and diagnosis or rather on probing and sensing, depends on the configuration of the territorial economy. Typically, a territorial economic system has both ordered and unordered situations. Therefore it is helpful to use the Cynefin framework to differentiate between different elements. If some situations or elements are simple or complicated by nature, analysis and diagnosis seem more appropriate. If other elements are rather complex, i.e. competing hypotheses plausibly explain the local reality, we need to run experiments in order to find out how to intervene in



the most promising way (see article *Designing a TED Process under Uncertainty* in this publication). But in either case we need to gain some sort of understanding of the main parameters of the territorial economy, which include its key characteristics and structures, the types of local actors and their patterns of interaction, the competitive advantages and disadvantages, the history and its repercussions on potential development opportunities as well as options for strategic initiatives. Let us look at these parameters separately.

Key characteristics and structures of the local economy comprise economic sub-sectors, production factors, demand conditions and the institutional setting, their interdependence and cause-effect relationships. Regarding economic sub-sectors, we need to get an idea about their diversity and their recent and current performance. The demand conditions reflect the market forces driving the local economy. Here we also need to understand how and why certain supply and demand conditions do not respond to each other due to market or government failure. Finally, we need to keep an eye on the organisation and practices of knowledge and information flows.

Apart from local structures, the local actors, including enterprises, are another key parameter that needs attention and understanding. Which actors play what role, how do they influence the local economy and how do they interact with each other? In order to get the relevant and important stakeholders involved in the initiatives (in whatever role) we need to understand who is present, what interests they are pursuing and where

they agree and disagree. Understanding social relations and power structures will make it easier to attract those actors into the process who are necessary to make it successful and sustainable. Ultimately, the success of territorial development is strongly influenced by self-selection and the self-involvement of individuals and organisations. However, this process can be shaped and influenced by the design of the overall programme and individual interventions.

Economic assets, structures and actors shape the competitive advantages and disadvantages of a territory. Hence it is important to find out in what configuration the different local elements are combined in order to create a unique advantage (which is not easy to replicate from other locations), and thereby to increase the diversity of local offerings. It is equally important to identify competitive disadvantages that prevent or slow down economic success in some sub-sectors or in the whole local economy.

Competitive advantages are usually the result of long historical development processes that evolved over decades or even centuries. Looking back into the past helps to reveal and understand the current perceptions of reality and myths still profoundly held by local actors. Even more important is that the economic history might affect potential development opportunities in the present and the future. Gaining insight into important shifts, trends and structural changes in the past could provide some indication on how the local system may respond today in a similar situation. What interventions were implemented in the past and which of them failed or succeeded? What are the existing capabilities and





(structural) change of the locality and its actors. Strategic decisions made at the beginning of the initiative and an understanding of the system gained in the early stages of the development effort will help us to devise suitable intervention options, and only those will trigger real change in a sustainable way. Ultimately, each territory needs to explore and find its own path to development, but local stakeholders can draw on a rich variety of practical tools as well as experiences during their development journey.

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experiences that new competitive advantages could be built on? Not every territory follows a straight trajectory; however, path dependency can still be observed in many places. Being able to recognise such a path greatly facilitates the design of future interventions.

Continuous learning is key to keeping a territorial development strategy agile. A monitoring and evaluation system should be part of the intervention design from the beginning. From time to time it is useful to question the belief system of the promotion team and repeat the question “What is really going on?” The practice of pausing for a moment of reflection is helpful for refreshing and adapting the territorial strategy towards new trends and opportunities.

In the end, when attempting to strengthen a territorial economy, we want to come up with strategic initiatives that can create a deep learning experience and

