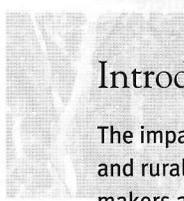


Innovation and Institutional Strategies for Local Enterprise Development

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Introduction

The impact of globalisation processes on regional and rural Australia is of increasing concern to policy makers and analysts (Botsman and Latham 2001). The idea, for example, that 'the Australian government needs to provide incentives for economic investment in the poorest parts of the nation, just as it offers incentives for Australian business to trade and invest overseas' (Botsman and Latham 2001, p. 29) drastically alters our thinking about the way in which regional and rural communities relate to each other. Latham's suggestion that 'the things which work globally need to be applied locally' (2001, p. 29) is both provocative and realistic in his assessment of the way Australia currently responds to the changing global economy. This paper reports on preliminary research into successful regional and rural economic development strategies which reflect initiative and the broad thinking advocated by Botsman and Latham. This research is part of a wider body of research being jointly undertaken by the three authors on the nature of economic and community development in regional and rural Australia.

As Daly (2000, p. 195) notes 'local government in Australia and especially in regional and rural Australia is deeply troubled'. This has come about, he argues, because of the decline in the overall number of local governments and the increasing responsibilities passed on to them by state governments, often without commensurate

financial assistance. Their 'troubles' are also exaggerated by the impact of globalisation and deregulation on the rural economies that traditionally sustained these communities.

There are many commentaries on the validity, or appropriateness, of the intervention strategies advocated to deliver genuine local economic development (see for example John van Tiggelen's article 'Staging a Recovery' in *The Age* 5 May 2001, pp. 18-23). While there are many such strategies, there is much less interest in conceptualising about the advantages and disadvantages, or appropriateness of these different frameworks. This paper provides a conceptual framework for doing this and takes its lead from Reich's (2000) notion that it is the way the creator and the organiser, the entrepreneur and the marketer, come together that determines the likelihood of economic success. In particular, the objectives of the research reported in this paper are threefold.

The first is to enquire into the relationship between local government agencies' innovation process, and the organisational structuring of enterprise development activities. Where the 'innovative process' is the 'accomplishment of innovative activities (action) [that] depends on the mediations constituting the contingencies of the institutional setting (structure)' (Edwards 2000). The second objective is to document this relationship after enquiring into the way innovative local governments have enhanced local economic and community development. Preliminary findings are

provided by two cases. The third objective is to outline a typology for sustainable local enterprise development, which identifies the key roles of both individual innovators and local institutions.

The focus is on regional and rural towns where local councils can play a key role as facilitators of economic and community development. The role of institutions, such as the local councils, and the capacity of their leadership are central to the success of economic and community development. This, however, is not an easy task as local governments in regional and rural Australia believe they have been placed in a difficult role as the deliverer of state government regulated services, with decreasing resources to do so.

Understanding Innovation and Learning

The typology outlined in this paper draws on Giddens' structuration theory (Giddens 1982). This is applied to explain why some local governments are innovative within their general local government structure while others attempt to institutionalise the innovation process. In particular, the model presented herein is an application of Edwards (2000) concept of the 'innovation process' applied to Australian local government.

Low formalisation of structures and loose coupling

Low formalisation can promote openness and flexibility in roles, which is a precondition for the initiation of new ideas (Shepard 1967). The nature of the enterprise development organisation put in place by local governments; their degree of formality and control; the nature of power relations (both internal and external); and, how these structures impact on, hinder or enhance individual innovation efforts at local economic development is important. Organic organisations with less formalisation have a higher capacity to innovate (Burns and Stalker 1961). However, low formalisation may also hinder implementation of innovation (Zaltman, Duncan and Holbek 1973).

Loose coupling can occur in organisations whose structures are characterised by low formalisation. Organisations that emphasise loose coupling of groups and that encourage low formalisation of

structure tend to be more innovative (Burns and Stalker 1961; Kohli and Jaworski 1990). These organisations have a flatter hierarchy and there is a tendency to share power among organisational members rather than the traditional top-down leadership approach. If an organisation is unable to develop appropriate routines and structures because its low formalisation of structures results in chaos, it will not be able to institutionalise innovation. While organisations characterised as low in the degree of formalisation are more readily able to facilitate the sharing of expertise, are more open and more frequent in communication, and have a tendency to focus on results rather than political territory (McGinnis and Ackelsberg 1983) it can be an impediment to realising the advantages of innovation. This is most likely to occur if there are no processes for knowledge convergence (Leonard and Sensiper 1998).

Resource dependence

Resource dependence is a theoretical dimension that is fundamental to organisational sociology (Miller 1992; Pfeffer 1981; Singh 1990). This perspective focuses on the exercise of power-dependence of individual organisations in an environment (Pfeffer 1981; Pfeffer and Salancik 1978; Thompson 1967). Resource-dependence as power-dependence occurs through centralised and decentralised local government decision-making that focuses respectively on high and dispersed power-dependence. The local government literature can be organised according to institutional resource dependency and focuses attention on the centralised and decentralised power of the local government and the power-dependency that it creates. Most of the local government literature appears to work, implicitly and explicitly, within the scope of this dimension. It is considered that the centralised/decentralised power of local government impacts on the structures it builds. For instance, a local government that is highly centrally planned and controlled would have a high level of power-dependence on economic development compared with a decentralised organisation with a greater emphasis on partnership. Under conditions of decentralised planning and control, power-dependence is far more dispersed requiring greater emphasis on partnership. That is, under conditions of dispersed dependence, organisations seek alliances and resources through a broad range of

stakeholders. In contrast, local government agencies characterised by centralised power-dependence rely more on their own resources and have a narrow range of alliances and stakeholders. In other words, resource-dependence for local government focuses attention on the degree of power-dependence an economic development initiative can experience and infers a range of strategies that organisations can use to effect their degree of dependence.

Innovation and organisational learning

Organisational learning is the key to fostering employee creativity and innovation. An underlying premise of this view is that levels of formalisation of structures and power dependence impact on the environment that supports organisational learning, which in turn creates a climate where it is more likely that innovation will occur. This position is consistent with the study by Hurley and Hult (1998) who found that innovation is associated with organisational cultures that value learning. Another recent study finds that open communication is positively associated with innovation (Ramus and Steger 2000). Essentially, organisations that are committed to learning are more likely to foster creativity and innovation from employees. In contrast, organisations that view learning as an expense are unlikely to encourage employees to experiment with new ideas.

The link between enterprise development organisation and innovation is consistent with Amabile *et al.*'s (1996) research findings on the influence of environment on creativity. Their study linked social environment and the frequency of innovation. Similarly, Moorman and Miner (1998) argue that the organisational context can influence innovation and improvisation. Further, the relationship between power dependence and innovation is implicit in the innovation literature. For example, managerial influence on variations in innovation is characterised by the level of centralisation/decentralisation in operational decisions and activities (McGrath 2001).

Innovation refers to the implementation of creative ideas within an organisation. 'Creative ideas' has to do with the production of novel and useful ideas (Ramus and Steger 2000). Thus, idea generation is synonymous with creative ideas, but this is only one stage of the multistage innovation process on

which many social factors impinge (Kanter 1988).

Organisational learning refers to the development of new knowledge that has the potential to change the strategic direction of the firm (Fiol and Lyles 1985; Slater and Narver 1995). Two types of learning have been identified in the organisational learning process. They are 'type I learning' and 'type II learning' (Fiol and Lyles 1985). The distinction between type I 'adaptive' learning and type II 'generative' learning is set out in table 1. Type I learning is the kind of learning that occurs when one organisation is perceived as exploitative and mimics the actions of others. In contrast to this, type II learning is the kind of exploratory learning that occurs, for example, when units discover and implement new approaches to business processes, technologies and products (McGrath 2001).

Table 1: Typology of organisational learning

Type I learning	Type II learning
Occurs through repetition	Occurs through use of heuristics and insights
Routine	Non-routine
Control over immediate task	Development of different structures
Rules and controls	Rules to deal with lack of control
Well-understood context	Ambiguous context
Occurs at all levels within an organisation	Occurs mostly at upper levels
Behavioural outcomes	Insights, heuristics and collective consciousness
Institutionalises formal rules	New missions and new definitions of direction
Adjustment in management systems	Agenda setting
Problem solving skills	Problem defining skills
	Development of new myths, stories and cultures

Source: Fiol and Lyles 1985, pp. 803-813

Innovation differs from organisational learning in that it refers to the efforts of employees to experiment with new ideas, encourage partnerships across the organisation, and approach supervisors with suggested changes. In contrast, organisational learning reflects a set of knowledge-questioning values shared by organisational members (Baker and Sinkula 1999). Like organisational learning, however, innovation is characterised by discontinuous activities rather than discrete,

sequential stages (Anderson, Rungtusanatham and Schroeder 1994). It is possible that routine tasks and well-defined, well-understood problems involve much less innovation than novel situations. In such an environment, there is much opportunity for individual creativity to exploit novel developments and change (Schumpeter 1934; Tushman and Rosenkopf 1992).

Four propositions are now presented, based on the foregoing review.

- P1: Enterprise development structures that are characterised by low formalisation of structures/systems and high innovation are innovation pervasive.
- P2: Enterprise development structures that are characterised by low formalisation of structures/systems and low innovation are innovation frustrated.
- P3: Enterprise development structures that are characterised by high formalisation of structures/systems and high innovation are innovation unguided.
- P4: Enterprise development structures that are characterised by high formalisation of structures/systems and low innovation are innovation lacking.

Methodology

The typology developed for the case studies is based on a preliminary review of the literature and on fieldwork in two award winning local government councils. Analysis of the fieldwork data was achieved through data reduction, data matrices, pattern identification and explanation (Miles and Huberman 1994; Patton 1990; Yin 1994). The purpose of this preliminary research was to explore the innovation process by examining variations in the relationships between enterprise development structures and innovation.

A semi-structured interview protocol was developed following the procedural guidelines recommended by Yin (1994). Qualitative data management and analysis techniques recommended by Miles and Huberman (1994) were utilised throughout the research to achieve conceptual groupings around the themes of low formalisation of structures/systems: high

innovation; of low formalisation of structures/systems: low innovation; high formalisation structures/systems: high innovation; and, high formalisation of structures/systems: low innovation. These relationships are set out in the typology in Figure 1.

Case Studies

This research involves two case study councils, classified as small rural under the Australian Local Government Classification System. Both have experienced difficult economic times over the last two decades, and both have, in recent years, been category winners in the National Office of Local Government National Awards for Innovation. As their awards were for the way in which each had been innovative in relation to local economic and community development, they were chosen for the preliminary conceptual development phase of this research. A brief summary of their approach to enterprise development is set out below.

Council A is a rural council 'Environment' category winner with its 'eco-tourism' strategy. Championed by a retired local stock and station agent with a passion for saving the native flora and fauna, this initiative has grown into a regional program with adjoining local councils, which include the habitat of an endangered bird species.

Council A has a strong emphasis on innovation around how to protect rare natural assets through eco-tourism. The champion for this initiative has been well supported by Council A and its General Manager, in particular, who has helped coordinate the preparation of a publication assisting eco-tourists who visit the district. Together these two individuals have coordinated awareness raising in the community about the economic and, ultimately, the environmental potential of welcoming eco-tourists to the Shire.

With a depressed local economy – after the closure of an open cut mine in the late 1980s, and a rural economy feeling the pressures of declining commodity prices – Council A was looking to generate local economic activity. The idea of capitalising on their unique native fauna and flora with an 'eco-tourism' strategy has worked well for the Shire.

Tourism numbers have increased over the last two years, albeit in still modest numbers. There has been sufficient interest for the Mayor (a small business person) to note that local businesses, especially in the bed and breakfast and local service industry, have seen an increase in eco-tourism related business since the publication of the eco-tourism information. As a corollary to the initial eco-tourism publication, Council A is now participating in a regional program based around the unique geological formations in the district. The second publication was based on the same strategy as the preceding one. The councils in the region have identified interesting geological formations and mining operations from the past and mapped these for tourists interested in panning for alluvial gold. Both strategies bring more tourists to the region and provide them with interesting opportunities to stay over.

These initiatives have not been instituted in any formal economic development organisation structure. Council A in fact, is the main vehicle by which grant funds were sourced to pay for the publication and dissemination of largely brochure-based information. The momentum for these programs comes from several key players in the community. The retired local resident who championed the first eco-tourism innovation is the driver and should his interest wane it is questionable whether the program would continue with the same level of impetus.

Council B is a rural council 'Business and Regional Development' category winner with its Economic Development Institute (EDI). This initiative was championed by several well-placed individuals: a Shire councillor, the editor of the local newspaper (who became the chief executive officer of the EDI) and the CEO of the Shire council who is the Secretary of the EDI. Originally an initiative of the local Chamber of Commerce (which also contains several councillors, including the councillor who has played a leading role) the EDI was established after a conference titled, 'Awakening our Potential' facilitated by Peter Kenyon (see John van Tiggelen's article mentioned earlier in this paper for an account of Peter's approach to local economic development recovery strategies).

The main activity for the EDI is the preparation and conduct of its annual 'sitting' at which local

economic development innovators from around the country are brought together with the local community to learn about and discuss strategies they could develop in their community. The philosophy behind the sittings is to 'help people realise they are capable of doing anything' (relating to local economic development). It is designed to give people self-confidence, to discover that their wealth is their people. The Mayor regards this event as an important event on the annual agenda for the Council. Importantly he recognises the role that up to 120 local volunteers play in assisting to stage the sitting. From simply hosting guests to playing a central role in the design and management of the sitting these volunteers both contribute to, and gain from, the interaction the event provides. It is a valuable opportunity for people in Council B to network with each other and the many visitors to their community.

Since the establishment of the EDI the Shire has seen the development of a more diversified economy in the local region. The Institute was instrumental in the Chamber of Commerce winning a Federal government farm diversification grant that has led to the development of 10 new products. The value adding to local vegetable products by way of more effective packaging as vegetable 'snacks' is a good example of this.

The EDI also works closely with the State government on a range of initiatives to assist local economic development. The 'Building Rural Leaders' program run by the Queensland Department of Industry, is another example of where the Institute has taken a proactive role.

The issues for the EDI relate to its role over the long term. It has been in operation for five years and is developing a regular pattern to its work. The local leaders are concerned that this format does not become passé, and are looking for ways in which they can renew the vision and strategy that has been the catalyst for innovation and change in the Shire.

Figure 1 Typology of the relationship between enterprise development structures and innovation

		Enterprise development structure	
		Low formalisation of structures/systems	High formalisation of structures/systems
Innovation	High	Innovation pervasive - High type II learning orientation, low power dependence, highly explorative and exploitative, highly adaptive. Manifests as creative individuals who are encouraged and have the opportunity to experiment.	Innovation unguided - Low type II learning orientation, high power dependence, high exploration, high mimicking of structures and procedures. Manifests as creative individuals whose efforts are unguided.
	Low	Innovation frustrated - Low type II learning orientation, high power dependence, highly exploitative, low exploration, high mimicking of structures and procedures. Manifests as creative individuals not identified and economic development structures are frustrated.	Innovation lacking - Low type I learning orientation, high power dependence, low exploitation and exploration, low mimicking of structures and procedures. Manifests as low valuing of creative individuals and little formal interest in economic development.

Discussion

While there are similarities in the economic and community development strategies employed by these two award winning shires, there are also distinct differences. These differences reflect Giddens '*duality of structure* [which] provides a metatheory that enables researchers to consider action and structure simultaneously' (Edwards 2000, p. 446). The balance of this duality, however, is not the same for each case study council. From the analysis of these two case studies, and from the experience of local government over an extended period, it is argued that it is the balanced relationship between action (in this case innovation) and structure (the presence of enterprise development organisations) that determines the likelihood of long term economic sustainability. This relationship is set out in the typology in Figure 1.

For example, the innovation surrounding the eco-tourism strategy in Council A is innovation that is relatively unguided. The high power dependence at Council A is reflected in the creative efforts of one or two key individuals. Should either one of these individuals withdraw from the exercise, the potential for the council to obtain external resources is diminished much more than in Council B. Apart from the support of the local Council this

initiative is not supported by any other institutional and organisational structure to carry on the good work that has already been established by a few key, highly innovative individuals. The economic development opportunities it has created run the risk of being dissipated in the absence of these key players. Its current strategy is to mimic their single successful innovation rather than exploring new innovative ideas.

With Council B, the EDI is an example of innovation that is on the borderline between innovation frustration and innovation pervasive. It has established an excellent enterprise development structure. However, for this economic development strategy to be sustained an innovator(s) is required to breathe new life into the Institute. In the absence of such a person, or people, key players in the Institute would become frustrated and lose interest in facilitating its work. Council B has, in the past, demonstrated an initial capacity to both develop a range of innovations and to successfully exploit these. However, despite this early success, sustainability is dependent upon the effectiveness of the EDI to attract and build a culture of innovation.

While both councils focus on type I learning the prediction is that they will have different long term outcomes. Both councils also display values and practices that are characteristic of type II learning

behaviour. However, Council B is stronger in the implementation of these values and practices. Consequently, it is argued, consistent with Edwards' (2000) notion, there is a greater likelihood of the transformational change of 'organisational repertoires' in Council B than in Council A. That is, for Council B, there is much more likelihood that their current innovative development strategies around the EDI will become embedded in the culture of the local council organisation.

Conclusion

As Giddens (1982) has noted balanced action and structure is required for productive outcomes. Our review of the literature on structure, power and learning applied to two innovative councils, supports this view. For pervasive innovation to become embedded in a local government's organisational culture, managers need to identify and nurture individual creativity and initiative and support this behaviour through enterprise development structures that reward and maintain the innovation process.

Innovation and leadership is an important theme for future case study research. In particular, striking the balance between appropriate structures and the encouragement of creative and innovative behaviour is a tension managers need to address and that requires more research. Achieving this equilibrium is a key leadership challenge if local government is to find new ways of working in an ever-changing social, economic, technological and political environment. Underpinning this leadership challenge is a growing need to understand the consequences of managing recruitment and selection of professionals with appropriate sets of skills and expertise mix for the demands of this century in rural and regional Australia.

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