Dimensions of Local Economic Development: Towards a Multi-level, Multi Actor Model

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Abstract: Stimulating local economic development or starting this process is not an easy task. Even harder is the development of theories on this process. In this paper we want to work out a model that brings together social entrepreneurship, the different levels: macro, meso and micro and the local communities with the help of existing literature and our experiences with setting up local economic activities in several projects carried out in Indonesia in cooperation with Ministry of Planning in Indonesia and the ITB in Bandung. The work of Stimson (Stimson et al., 2009) on local economic development is a good start but only focusing on the endogenous factor in a region they exclude two levels: the local and the national/international level. For the local level we can use the work of Canzanelli (2001, p. 9) who describes LED as a process in which local actors shape and share the future of their territory. He defines LED as a process in which local stakeholders work closely together. Such a process will stimulate and facilitate partnership between local stakeholders, enabling the joint design and implementation of strategies. This will be mainly based on competitive use of the available local resources with the final aim of creating decent jobs and sustainable economic activities. For the national level we can use the models from the triple helix idea’s (Pennink, 2012).

Key words: local economic development; triple helix; global value chain; local communities
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1. Introduction

It has already been ten years since Helmsing (2003) wrote in an article that local economic development has dramatically changed. Foremost, central governments have lost their central economic coordinating role. Secondly, the new “geo-economy” context creates winners and losers. Some localities are able to export goods and services to larger domestic and international markets while others are not able to realize this. Thirdly, it is increasingly becoming the norm that localities are expected to be responsible for creating the right conditions for entrepreneurs to be able to seize business opportunities, households to improve their livelihood, and workers to locate careers that coincide with their capabilities. Fourthly, local economic development is about new roles for the public sector. This applies not only to central government but to local governments as well. Helmsing completes his article with the statement that the new LED will be multi-actor, multi-level and multi-sector.

In this working paper, we would like to develop a model that will, hopefully, be a step in the direction that

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Helmsing is claiming to be the future, at least in multi-level and multi-actor aspects. We will begin with the work of Birkholzer (2005) and Stimson et al and then, with the support of our own completed work in the field of Local Economic Development in Indonesia and Tanzania, we will develop our new model.

2. Regional Economic Development Model

Stimson et al. (2009) created a model for achieving regional economic development with the focus on endogenous variables. The variables that are crucial for regional economic development and growth, according to this model, are represented in Figure 1. The first variable demonstrates the resource endowments and market conditions that a region currently possesses. Sufficient resources are necessary for a region to efficiently grow and perform. The second and third variable, leadership and entrepreneurship, are closely related but are not synonymous. Effective leadership encompasses entrepreneurship. Leadership can be performed by an individual but, in the case of regional economic development, is more likely to be the expression of the collective action of a society or a group of people. This is where the fourth variable, institutions, becomes relevant. The model has the advantage that it can be employed to bridge the gap between the thought processes in scientific theories and the behavior in realizing an increase in local economic development. By adding (quasi)independent, intervening and dependent variables we can at least think in terms of causality and the attractiveness of that way of thinking although we all know that, in the reality of daily life, many things do not follow the lines of causality.

![Regional Economic Development Model by Stimson et al. (2009)](image)
Stimson et al. (2009) has already focused on endogenous variables for achieving regional economic development. By focusing on the internal or endogenous factors, they hoped to demonstrate the importance of these factors compared to factors outside the region and, moreover, to discuss how to balance internal versus the external factors (see also Row, 2009). We now believe that it is again time to reconsider the manner in which the balance can be created between internal and external factors, however, before this reconsideration begins, we want to elaborate the external factors. We can focus, on the one hand, more on the local situation and, on the other hand, more on the national, and even the international, situation that could have influence on the regional economic development. We begin, however, with a focus at the local level.

3. The “Forgotten” Local Level: The Local Actors

A closer inspection at regional economic development clearly reveals that this model concerns leadership, entrepreneurship and institutions but omits local actors who are living somewhere in a concrete situation. They may be the subject of the effects of economic development but not as actors who could contribute to that process. In our work on Local Economic Development in Indonesia in cooperation with the Bappenas (Ministry of Planning), the Neso (Netherland Educational Support Office), the Institute of Technik Bandung, University of Indonesia, local fisherman and farmers, heads of departments of Bappeda and staff members of local universities from 2004-2010, we experienced the significance of the role of these local actors.

Canzanelli (2001) also demonstrated that economic development at the local level is a process in which local stakeholders work cohesively. Such a process will stimulate and facilitate partnerships between local stakeholders, enabling the joint design and implementation of strategies. By introducing the local actors, we will also employ the concept of local economic development. Later in this article, we will demonstrate that this will also affect the selection of the dependent variables in our model. Instead of simply adding a box with the label “local actors”, we add a second level to the model on the left side labeled as quasi-independent variables which indicate the status quo of the local situation. In the middle, we indicate, as intervening variables, the local actors acting as entrepreneurs to realize output for the local community. On the left side, also labeled as the dependent variable output the development of the local economy is indicated. In regard to the intervening variable zone, we can also think of the function of leadership in terms of local leaders just as we have replaced the entrepreneurial function as entrepreneurial activities of human beings. In regard to institutions, it becomes more difficult to replace with something solely on the local factor, therefore, we will keep it as a (first) overlap with the regional level.

At this local level, we can now also consider another aspect. At the regional level, considering the entrepreneurial functions will keep most of the cases in line with development economics and regarding a rational homo-economicus. At the local level, it can either be an individual human being or a group of local actors organized in a format like the cooperative. At the intervening zone, this raises the question of how to coordinate entrepreneurial activities (Vredegoor & Pennink, 2014). Although this might also be part of what local leaders will do, we want to introduce this variable separate from what local leaders actually do. The introduction of the aspect of group and individual also introduces questions for the independent and dependent variables. For the independent variable, it regards the state of the art at the group level in addition to the characteristics of the resources for producing. We will employ the concept of social capital from the literature to label this (Pennink, 2011). For the dependent variable, it is not only about the return on investments for the entrepreneur but is also for the return on investments for the entrepreneurial group and as an extra variable regarding the quality of how the
local people live together and how this has been improved. This extra variable creates more difficulty in realizing economic activities. It is not just creating return on investments but also includes questions on how to divide the return on investment. Based on our experiences, we also introduce the concept of empowerment. Indeed, this can be part of the variable “local leaders” but empowerment can be more than what is included in this variable.

In graphical language, this results, for the moment, in the following Figure 2:

4. The (International) National Level: Triple Helix and Global Value Chain

Again, at this level, we have the dependent and independent variables and the intervening zone. The intervening zone can be of special interest for economic development because the well-known Triple Helix Model (Etzkowitz & Leydesdorff, 1995) is introduced in this zone. In this model Economic development is suggested to be stimulated by cooperation between government, business and industry (Pennink, 2012). We have added the local dimension to the Triple Helix Model. For the government, it is not just the national agencies but also provincial and the municipal levels that are actors that can (and should) contribute to the interplay of the three actors. In this interplay, the willingness to share knowledge is significant and, at the local level, there is a need for knowledge. This need for knowledge and knowledge sharing will become even more prevalent if the process of decentralization will be effected as we have researched in Tanzania (Huisman & Pennink, 2012) and Indonesia (Schoot Uiterkamp & Pennink, 2012).

In regard to government, we can also image that it is not only the famous, large universities that can (and should) contribute knowledge but also the local universities. In regard to business, we can add cooperatives and
local entrepreneurial groups in addition to large companies. Our methods relate the national level to the local and the regional levels with this double triangle. In Figure 3, we have depicted the next step in the development of our new model.

![Diagram of the National Model and the Relationship with the Regional and the Local Levels](image)

Figure 3  The National Model and the Relationship with the Regional and the Local Levels

Graphically, it became too complex to stress the relationship with the other two levels; however, in the intervening zone within the triangle, there is the relationship with the regional and local level.

In the next step, we add the international level. MNC’s can be included and their possible role in the context of Local Economic Development as well. For the development of our new model, we can now determine what will be the effect if, at the local level, an entrepreneurial group intends to produce a good and will attempt to export this to another continent, and vice versa, if an MNC desires to buy products from local markets. In other words, what will be the influence of the Global Value Chain on the different levels, and how can this knowledge be employed in favor of improvements of local economic development? From the theoretical perspective of developments in the value chain, focusing on coordination mechanisms is also interesting. From this perspective, there is the question of coordination within a chain and between chains. The next question will be similar and encompasses the aspect in organizations of whether parties are organized only in parts of the chain or over the entire chain (vertical versus horizontal integration). In addition to these questions, it also becomes theoretically interesting to determine what the consequences can be of vertical and horizontal integration on several places in a value chain and who dominates this process. If, for example, the locally produced goods are sold to a wholesaler who subsequently exports the goods to Europe where an MNC purchases the goods, what will happen in the local situation if the MNC begins to specify strict requirements for the products, and what will happen at the level of the wholesaler?

In the next figure, we have introduced the Global Value Chain:
Figure 4  The Global Value Chain Introduced

Figure 5  Multi-level, Multi-actor Model for Local Economic Development
5. Conclusion

We realize that, by adding more levels, the already complicated model of Stimson et al. (2009) becomes even more complex. However, we believe that, by adding the extra levels, new research questions will arise on each level which will be fruitful to develop. These research questions from diverse levels will also influence each other. What will happen if a researcher is focusing on the double triangle aspect in combination with effects of the Global Value Chain on the local situation? Otherwise stated, how could a local university in Makassar be helpful for local shrimp producers in Pinrang regarding the manner in which they should bring their shrimp to market and an MNC interested in these shrimp? Graphically, we have added all of the elements in Figure 5 and also the output or result for the MNC at the right bottom of the figure.

References: