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**Strategy Development in Learning Cities**

From Classical Rhetoric towards Dynamic Capabilities

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From Classical Rhetoric towards Dynamic Capabilities

Markku Sotarauta



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# 1

## Introduction

This paper examines the answers to such questions as ‘what kind of approach on strategy development might serve best promotion of urban development especially from learning point of view’, and therefore also questions “how regional development policies can respond to the challenges of global, informational and networked economy’ and ‘how development processes could be directed by strategy development’. My point of departure here is that the globalising economy and the rapid technological progress, among other things, have challenged us to find not only new policies, but also new ways to organise policy-making and to manage policy processes. Therefore, we should have a more profound understanding of the way in which various incidents, people, institutions, and strategies among other things influence the course of development. Policy-makers are not left alone in their search for answers to above posed questions. Much has been written about strategic planning, knowledge management, networking, projectmanagement, etc., and how they support regional and local development. Indeed, there is no lack of studies and consultants teaching us new ways to guide and organise regional development, and as Collins states, now...

“learning is the new sex. Countries, regions, firms and individuals are talking about it, wondering whether they are getting enough, enough of the right kind, with the right people, for long enough. And those who don’t want learning ALL THE TIME, well they’re just ‘odd’.” (Collins 2003.)

If in the 00’s learning is the new sex of countries, regions, firms and individuals, strategy, or strategic planning, strategic management, strategic thinking (you name it) was the new sex in the 60’s, has been The Sex for some time now, and step by step different branches of business have adopted its vocabulary and methods, and it may not be an overstatement to say that most of the firms in one way or another, better or worse, apply some kind of strategic management. Now, in the early 00’s, it seems that the once so exciting new sex has become a compulsory and sometimes dull routine.

In the Finnish development policies, for example, in the 80's strategy was an interesting new acquaintance to flirt with but not to go further, and there was no actual need to it the System as a whole "being the strategy". Strong belief in comprehensive systems included a strong belief in the possibility of directing economic and societal development, of exerting influence over the future and of controlling it by rather centralized decision-making. In the municipalities and regions there was no true space for strategic management and/or strategic planning in their real sense. In the 1980s it was the words and concepts which came, but modes of action did not actually change as much as vocabulary. Deep recession of the early 90's, joining European Union, advancing internationalisation, among other things, changed the context almost over night and suddenly there were huge demand for new strategies in public sector and strategic planning became the new sex of the Finnish municipalities, ministries, regional development policy-making, etc., and Finland became inundated with strategic development programs. Only in the 1990s did real strategic thinking and planning have the necessary conditions to take root in activity.

Strategic planning, however, has not turned out to be such an efficient producer of success as the handbooks and consultants indicated. At times it has been difficult to shape that very own, unique comparative advantage, scenarios have remained at too general a level divorced from action, SWOT analyses have been augmented by many important matters without an awareness of what was to be done with them. Strategic programs have frequently not progressed beyond the general level, simplistically put, it has been decided in these "to support all that is nice and beautiful and to avoid all that is nasty". Thus with good will almost all activity can be interpreted as supporting strategy or going over the lines depending on the perspective and goals of whoever is making the interpretation. This means that often intended strategies are everybody's and nobody's. For this reason they do not embed themselves in the actions of the organizations. Strategies easily remain floating, they continue to be paper among more paper. The credibility of the main tenets of classic strategic planning is also undermined by the fact that very frequently in strategic planning existing and incipient patterns are recognized, to be legitimized with the help of strategic planning, and sometimes all unfinished business is compiled into strategy papers and futures oriented strategies have been implemented in a year. And, after all, when the time to make decisions comes, the strategy papers have been forgotten, the world has changed, "and now is not the time to make strategies, now is the time to balance next year's budget." (see e.g. Sotarauta 1996; Sotarauta & Lakso 2000; Sotarauta 1999.)

The brief introduction to fallacies of strategic planning faced in the regional development policy-making given above is pessimistic, cynical but above all it is one-sided and narrow, partly wrong. Strategic planning has not produced only failure. It has caused actors to take a broader view of things from different perspectives; greater and more profound consideration than before has been given to futures; actors have recognized their own strengths and weaknesses and learned to understand them better; excessive preoccupation with detail has been avoided; sectoral boundaries have been transcended; activities have been pursued consistently and persistently etc. Strategic planning as a part of policy-making is like human life itself - some good, some bad - and always plenty to learn.

Even though strategy development is quite largely based on US and British business literature and applications drawn from them, it is context dependent. Strategy development differs from country to country and region to region depending on the culture, institutions, people, etc. in question. Therefore, in this paper, I do not aim to outline a picture about strategy development in the case countries of the Critical-project, it is beyond my capabilities. Instead I first outline the policy-playground of strategy development, i.e. the basic features of governance, secondly I elaborate strategy development from classical, processual and communicative point of views aiming to raise the basic issues related to them. Thirdly I raise the main dilemmas of strategy and show how the various approaches are in practice not contradictory but complementary in an ongoing strategy processes. Fourthly, I raise the need to focus more on capabilities to utilize resources and create new ones, and therefore dynamic capability model for regional development is presented as a tool in combining the many sides of the strategy coin together.

## 2

### Setting the context - towards governance of ambiguity

Many observers argue that globalisation tendencies are one of the most important sources of overall changes in the world, and thus one of the key contextual factors for evaluating and planning regional futures (e.g. Castells 1996, Asheim & Dunford 1997). In an industrial society, borders between nations, institutions, organisations, city-regions, etc., largely determined the position of city-regions; in a global economy, however, borders are fuzzier than ever before. It is quite generally believed that now the positions of both organisations and city-regions are determined by their competencies and skills to learn and develop themselves in a continuous process. Consequently, local initiatives and an enterprising disposition is becoming more and more important in regional competitiveness, institutional and innovative capacities of city-regions are highly stressed, scarce resources need to be channelled and allocated more efficiently than before, and new operational models need to be created to achieve a sustainable, competitive position in global economy. Strategic planning is one of the most important tools in these endeavours.

My rather Castellan (see Castells 1996) understanding of the globalizing world and its effects on city-regions, is here based on the Network Society thinking. A brief examination of its basic tenets is needed also here because the network society has challenged governance practices and thus its reflections on strategy development needs to be taken into consideration here.

In the network society, activities and processes are increasingly organised in networks and participation in the networks and network dynamics are critical sources of power. In the network society and its space of flows, capital, information and innovations move faster than ever from one place to another. As Thrift states, the globalising economy and its flows do not only erase the many borders but they also change the rhythms; a global economy has become hyperactive. (Thrift 1995), and thus it seems that networks and flows may constitute places in similar ways as

cities and villages in the industrial society. Ever more frequently and to more and more actors the networks set the scene for social interaction. They constitute the daily structures of social and economic activity. The interaction that governs our actions increasingly takes place in the networks made possible through the development of information technology. However, an overwhelming majority of people live in places and so they perceive their space as place-based. These places do not vanish; their logic and significance merge into the social networks. (Castells 1996.)

In a search for new modes of governance competition, self-guidance, networks, learning, interaction, communication, etc. are placed increased emphasis on, and at the same time the ideal of symmetry turning into the need to accept asymmetry opens up a great challenge to public organisations. This may be one of the key reasons why there is a major general level transition facing policy-makers in a shift from government of uncertainty to governance of ambiguity.

Simplistically put the system European countries have adopted during the last decades can be called government of uncertainty. Its roots are to be found in the Age of Enlightenment, which left behind three phenomena which had a profound effect on Western societies; democracy, a belief in reason and a linear conception of time. Simultaneously thoughts arose on the possibility of planning social life, of exerting influence over the future and of controlling it. Alongside this there developed one of the most highly refined arts of the modern West, the art of breaking things down. So skilled are we in this that we frequently forget to put the pieces back together again. Breaking things down relies on the conviction that social problems are 'tame', that they could be delineated, cause and effect identified and explained.

In the government of uncertainty the system became centrally coordinated and sectorized. It is assumed that goals could be clear, or that they could be defined and clarified in the preparatory work preceding the decision-making. In policy-making attention is paid to the process in which the best possible means is supposed to be selected by decision-makers using consultation, mathematical models, reports and surveys etc. so that a precisely defined problem can be solved by the best possible means. Earlier it was also believed that resources would be forthcoming in ever-increasing abundance, and thus political attention centred on their allocation. Existing structures and functions were not called into question.

In Europe, generalizing crudely, the creation of the public administration systems were not necessarily in practice perceived so much as government of uncertainty than as the administration of the channelling of ever-growing resources for the needs of the business and people. However, elaborating a little the basic theoretical assumptions in the background shows the grand objective of various systems was to eliminate uncertainty from activity, and uncertainty was ultimately seen as lack of knowledge and information. It was believed that development could be kept under control by goals and means derived from scientific deduction. However, as Dryzeck states, planning based on scientific objectivity is virtually impossible because 1) the general laws of society - on which it is believed the strategies of public actors can be based - are difficult to define in a watertight way, they are almost unattainable, 2) social goals are rarely pure and simple. Values are usually open to question, vacillating and many-sided, 3) the intention of actors may override the causal generalizations of the policy-makers and planners. People may simply decide

to do things differently, 4) interventions aimed at the course of development cannot be empirically verified without the intervention being realised. (Dryzeck 1993, 218.)

The basic assumptions of government of uncertainty began to crumble in the 1970s and 1980s, but this process went even further in the 1990s. The 1990s saw further emphasis placed on self-guidance, learning, interaction, communication etc. Although in many European countries public administration has been aimed to take closer to the new ideals through decentralised power and by emphasising the self-guidance on the one hand and cooperation on the other, the procedures of the government of uncertainty continue to have their effect in structures, processes and attitudes. The rigid attitudes and structures of government of uncertainty persist and cause problems because contemporary problems are the result of several inseparable factors and their root causes cannot be traced back to individual factors. Many problems are common in one way or another and no organization has sole power and means to carry through programmes to solve them. In order to really grasp the contemporary problems it has been generally accepted that it is necessary to be able to transcend various institutional, sectorial, territorial and mental borders as barriers.

It has also been increasingly realized that the problem of the policy-programs of centralised and sectorized government of uncertainty lies in the fact that the networks and contemporary wicked issues refuse to be bound by administrative or regional limits. Decisions concerning one network or issue are made in several different organisations, both public and private. Different programmes and decisions may be contradictory because they split various networks without perceiving the whole.

Consequently we need such approaches in which the point of departure is not necessarily the search for right answers, as it is in government of uncertainty, but rather how people contending against wicked issues from different sides and perspectives can join forces in the search for new questions and new answers. This entails the admission and recognition that power is shared. Bryson and Crosby (1992,13) describe a world of shared power and define it as “shared capabilities exercised in interaction between or among actors to further achievements of their separate and joint aims”. Actors may in this case be individuals, groups, organizations or institutions. Governance presupposes a striving on the part of those involved to a common understanding in a situation characterised by differences of opinion, different objectives, ignorance, different views of the future and lack of information. The ability for governance implies a tension between conflict and order, and that this tension be put to good use.

Contemporary policy processes are more ambiguous than before, sometimes it is difficult to say what the goal is, or can any clear goals be perceived at all? Rather we can perceive a series of goals, series of goals of individual players all the time evolving. At the same time teams are changing, new coalitions emerge and old ones wither away. At the simplest level governance is concerned with co-operation which transcends various borders, takes many goals into consideration and is constantly evolving combinations of teams according to situations. Therefore combinations can not only be determined on institutional or regional grounds, but rather on the basis of shared interests and issues, regardless of administrative borders.

Despite this Western policy-making is still commonly perceived as planning procedure in which an effort is made to produce programmes guiding the development for various areas of society. The main tools for bringing influence to bear here are guidance, control and regulation. (Stenvall 1993, 64.) In the governance of ambiguity it is typical that faith in exerting influence on societal development by direct means has diminished, thus governance of ambiguity depends on the interaction of several actors and on a selection of combined indirect and direct means which are not planned in advance by any unit, but as Royall (1993,51) states, modern governance stresses supporting the emergent models. The forces constantly seeking for equilibrium are for most of the time self-sustaining without any need for special attention from public administration, or, as Dunsire (1994, 170) states, the total amount of governance is far greater than the total amount of administration. Thus governance of ambiguity should not be seen as mere processes of public administration and planning. Leadership, management and planning through increasing interdependence and plurality presuppose the ability to act as part of a cooperation network in the midst of a pluralistic and overlapping field of actors which is no more private than public.

Governance of ambiguity can thus be seen as emerging from sociopolitical processes on the basis of interaction of relevant actors. Kickert (1993,195) states that in governance it is essential to see that the 'ruler' of the complex systems is not some external third party, an actor bringing to bear influence from above and outside, but the effect of different actors on each other and on themselves. Interaction does not only reflect complexity but also is in itself complex, dynamic and pluralistic. Thus in the old sense models of governance cannot be set up, they live and change with the situations.

As the government of uncertainty crumbles it would appear that we have been moving from centralized, highly coordinated practices towards a more self-guiding, decentralized and pluralistic systems. It seems that we still are in the midst of a process of emergence of a system of governance that leads to a multiple overlapping negotiation system between various actors (both in the public and private sector) at and between different levels. It seems that the best way to cope with the current pace of changes is to accept and benefit from an increasing interplay between various actors at different levels. In this case there is no monolithic centre which exerts extensive governance over factors determining development, and thus formal and hierarchical policy-making no longer has such an important role in the formation of development as it once had.

TABLE 1. Characteristics of government of uncertainty and governance of ambiguity (Sotarauta 1996)

	<b>Government of uncertainty</b>	<b>Governance of ambiguity</b>
<i>Development view</i>	<ul style="list-style-type: none"> <li>- Linearity, predictability and continuity.</li> <li>- Shared world views and conceptions of future</li> <li>- Cause-effect relations</li> </ul>	<ul style="list-style-type: none"> <li>- complexity, discontinuity, unpredictability</li> <li>- Different world views and diverging conceptions of future</li> <li>- Cause-effect relations blurred over time</li> </ul>
<i>Structure</i>	<ul style="list-style-type: none"> <li>- One dimensional</li> <li>- Centralized integration</li> <li>- Hierarchies</li> <li>- Division into units</li> </ul>	<ul style="list-style-type: none"> <li>- Multidimensional</li> <li>- Decentralized integration</li> <li>- Networks</li> <li>- Entities and parts</li> </ul>
<i>Governance processes</i>	<ul style="list-style-type: none"> <li>- Top-down</li> <li>- Unilateral dependence</li> <li>- Strong “do-it-alone” dependence principal</li> <li>- State-dependent</li> </ul>	<ul style="list-style-type: none"> <li>- Both top-down and bottom-up</li> <li>- Multi-dimensional</li> <li>- “Do-it-together” principal emphasized</li> <li>- Dependent internationally, nationally, regionally and locally</li> </ul>
<i>Planning</i>	<ul style="list-style-type: none"> <li>- Formal and hierarchical</li> <li>- Separation of planning and implementation</li> <li>- Approaches and analyses based on averages, from rules to exceptions</li> </ul>	<ul style="list-style-type: none"> <li>- Network management, institutions framing processes, interpretative management</li> <li>- Planning, decision-making and implementation differences blurred</li> <li>- Approaches and analyses for each situation, from exceptions to rules</li> </ul>
<i>Core</i>	Reducing ignorance and lack of information by developing comprehensive system and breaking things down.	Harnessing versatility, multidimensionality and ambiguity to further learning, creative tension and the futures seeking strategy process’.

What is interesting in the Table 1 is not the new forms and contents of public policy-making themselves, but the fact that the development view is changing, that entirely new qualitative relations are in the making between policy-making and communities. Table 1, and a versatile and thorough scientific and pragmatic discussion it is based on, questions also the dominant approaches of strategic planning and in a way they come full circle. Frequently the question behind strategic planning, drawn from the thinking patterns of government of certainty, has been ‘how to govern and reduce multidimensionality and ambiguity with the help of strategic planning’. In the governance of ambiguity the question is ‘how can multidimensionality, ambiguity and short-term thinking be harnessed to further the futures seeking strategy process’.

In all its manifestations also regional development is an extremely diverse entity, its practices are varied and institutional set-up usually quite complex, it is multi-actor, multi-value, multi-actor, etc. and thus quite straightforward classical strategic planning do not suit the world of shared power, political game going on within policy-making in which there are no turns for

making moves, in which teams and combinations change in the course of the game, and in which the difference between opponent and team-mate is fine indeed. This kind of regional development policy-game requires the understanding of the logic of a pluralistic and multi-objective dynamic network. Classical strategic planning, however, still plays an important role in regional development, and next I scrutinize the roles of strategy development from three different perspectives; classical, processual and communicative/ network management. First, I define the basic concepts of the strategy world as I see them.

## 3

### Some basic definitions

First of all, it must be stressed that, in spite of the huge literature, there is no single, universally accepted definition of strategy. Different authors, planners and managers use it differently. Nor is there a single standard approach to strategic thinking, planning or management (Mintzberg 1994), even if the classical strategic planning based approach has been in many spheres of policy-making. Before dealing in more detail with classical, processual and communicative/networked approaches, some basic definitions is clarified.

Henry Mintzberg provides a very basic distinction between *intended strategies* and *realised strategies*. According to him, it is also possible to distinguish *deliberate strategies*, where intentions that existed previously are realised, from *emergent strategies*, where patterns are developed in the absence of intentions, or despite them. Thus, strategies may go unrealised, while patterns may appear without precondition. For a strategy to be truly deliberate would seem to be unlikely. Precise intentions would have had to be stated in advance by the leadership of the organisation, these would have had to be accepted as is by everyone else, and then realised with no interference from market, technological or political forces. A truly emergent strategy is again unlikely, requiring consistency in action without any hint of intention. (Mintzberg 1992, 12-14.)

*Strategy* can basically be seen as a guiding pattern for the everflowing stream of single actions and decisions. It gathers them under the same “umbrella” and leads them in the right direction. According to this definition, strategy is consistency in behaviour, whether intended or not intended. Intended strategies can be used as mirrors to guide consistency of behaviour, to make emergence a little bit more intended.

*Strategic thinking* (as an overall concept) is an ability to think on an abstract level, to move freely from imaginary issues to real, and vice versa, it is an ability to combine intuition with analytical thinking. It should be seen as an ability to see through things, to perceive them as they

really are. Thus, the strategist should take unknown, irrational and unpredictable factors into consideration as well as tangible things; money, technology, products etc. In other words, strategists should develop the ability to anticipate events, plan for them and attempt to control them by linking operative actions to the long-range view through strategic consciousness. Thus, the true nature of strategic thinking is *not* that of *a set of procedures* to be carried out to obtain desired results, it is more open in its scope.

Strategic thinking is an individual attitude and ability, a way of seeing reality and its subjective, constantly-changing and complex nature. In thinking strategically, the individual is forming his/her personal cognitive map, i.e.<sup>1</sup>. a) how he/she sees the world, what is his/her conception of it, b) how information concerning the world and the flow of events is obtained, c) what his/her values are - what the world should be like. A strategically thinking individual is on the one hand, creating his/her cognitive map, and on the other hand transforming this into consistent and persistent action. Thus it can be stated that strategic thinking is the *art* of combining intuition, reason and feelings. In essence it is about making sense of a complex flow of events.

*Strategic planning* is a collective and organised mode of strategic thinking. It specifies strategic thinking by using different analytical methods. It is a collective way of making sense of a complex flow of events. *Strategic management* is a constant effort to reconcile intended strategies with the organisation's structure and culture. It is the ongoing management of the development processes, and thus if strategic thinking is an art, strategic management is a craft<sup>2</sup>.

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<sup>1</sup> Based on Niiniluoto (1993)

<sup>2</sup> See Mintzberg (1989)

## 4

### Classical approach on strategy development and its traps

The two approaches to strategy to be scrutinised first differ fundamentally especially along two dimensions: the outcomes of strategy and the processes by which it is made. The first dimension measures the degree to which strategy either produces profit-maximising outcomes or deviates to allow other possibilities to intrude, and the second considers processes, reflecting how far strategies are the product of deliberate calculation or whether they emerge by accident, muddle or inertia. Both dimensions include a variety of different combinations. (Whittington<sup>1</sup> 1993, 2.)

The classical approach considers profit maximisation (i.e. the possibility of having a monolithic goal) as a natural outcome of strategic planning. The processual approach is more pluralistic, seeing other possibilities than profit. Processualists see strategy as emerging from processes governed by chance, confusion and conservatism. Classical theorists see it as deliberate. (Whittington 1993, 2.) The proponents of both of these approaches have their own views of what strategy is, how it should be created and how it should be used.

The classical approach is based on the idea of rational planning and its methods. For classicists, strategy is an essential part of shaping the future. Profitability is the supreme goal and rational planning the means to achieve it. (Whittington 1993, 11.)

The basic assumptions in the classical approach are founded on economics and military conceptions. The approach used in the regional development policies is quite largely based on the classical approach. However, it is not classical in the sense of profit maximisation, but is more or less based on the idea of rational planning and its methods. When strategic planning

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<sup>1</sup> Whittington has identified four approaches, in which evolutionary and systemic approaches are not included in this article to simplify the categorization.

started to attract public policy makers, the methods of the classical approach provided them with an appealing ordered and clean view of strategy making. It was dissimilar enough, but still similar enough to previous rational models to their attention. It is no wonder that they preferred the classical to the more modest and practical, and perhaps too realistic, processual view, that often sees organisations and evolution as incoherent and muddled phenomena. (Sotarauta 1996.)

Mintzberg (1994, 38-39) identifies the basic premises of what he calls “the design school”, which is classical in the sense meant here.

- Strategy formation should be a controlled conscious process. It is not the action that receives the attention so much as the reason; action is assumed to follow once the strategies have been formulated. Strategies come out of the design process fully developed, and they should be made explicit and, if possible, articulated. The first premise derives quite directly from the notion of rational economic man.
  - In regional development discourse and practice strategy usually refers to consciously developed outcome that is presented in written form in a “regional development plan/programme” or in a “regional development strategy”.
- Once the unique, full-blown, explicit strategies are fully formulated, they must be implemented. Thus, implementation is seen as a distinct phase in the strategy process.
  - This premise is reflected many ways in regional development, and planning phase and implementation phase being separate is deeply rooted in public policy-making.
- Responsibility for the process must rest with the chief executive officer, that person is the strategist. This premise reflects both the individualism and the military notion of the solitary general at the top of the hierarchy. Strategies in this sense are strategic orders for the organisation to carry out.
  - In regional development it usually is not possible to identify “the leader”, and usually it is not possible to identify the organisation that alone has a leading role either. It is rather aimed to create some kind of collective to take responsibility over regional development, and therefore if in corporate world strategy can be seen as a general level “orders” to the organization, in regional development strategy can be seen as one of the tools in trying to create some kind of inter-organizational management for city-region.
- The model of strategy formation must be kept simple and informal.
  - In principle this often is the aim in regional development efforts too, but in practice complexity has often replaced clarity, and comprehensiveness has replaced cohesiveness in strategic plans, and in the process so many interest groups are involved that managing the process is quite a complex and demanding task.
- Strategies should be unique: the best ones result from a process of creative design. They are built on core competencies.
  - Basically regional development strategies aim to achieve exactly this, i.e. to create something distinctive and unique for the city-region, but in practice it seems that strategies in different city-regions across Europe resemble each other, and thus I propose hypothetically that the differences between city-regions can be more found in abilities to implement all the nice idea presented in the strategies, actual resources, capabilities of the city-region as a whole and especially of its key-actors.

(Mintzberg 1994, 38-39; and reflections to regional development drawn from Roberts 1993; Linnamaa & Sotarauta 2000; Sotarauta & Linnamaa 2001; Sotarauta & Mustikkamäki 2001; Sotarauta & Lakso 2000; Baker & Wong 1999; Mastop & Faludi 1997.)

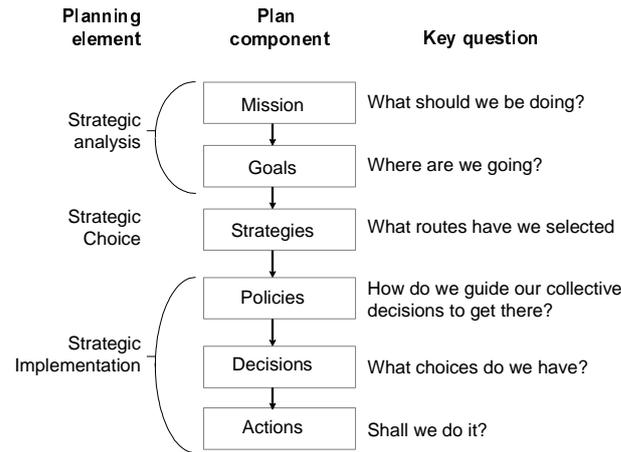


FIGURE 1. A simplified exemplary model of classical strategic planning process (see e.g. Robson 1997, Bryson 1987)

As I stated in the introduction the use of classical strategic planning in public policy making has not been free of problems. Major shortcomings include such issues as, *firstly*, poor abilities in conceptual and abstract thinking, i.e. the people involved have not been able to understand the complexities of development and the overall organisation and its environment, nor have they been able to see things from different perspectives or to look beyond the status quo. *Secondly*, managers and counsellors lack time and knowledge to participate in the strategy processes coordinated and organized by specialist planners. *Thirdly*, a turbulent environment tends to make plans rapidly redundant, and in times of rapid change, this question is relevant because truly creative strategies are seldom designed in formal planning procedures. Usually the strategy formulation has really been strategic programming, in which existing strategies and visions are articulated. *Fourth*, complexity has often replaced clarity, and comprehensiveness has replaced cohesiveness in strategic plans; strategic planning has therefore been divorced from the process of implementation. From time to time, planners have too readily assumed that, once delivered, their plan would automatically be the subject of implementation. They still are trained to place emphasis upon the production of the plan, rather than managing interactive and communicative process. (see Choo 1992, Roberts 1993, Mintzberg 1994, Sotarauta 1996.) On the basis of his criticism of the classical way of seeing strategy, Mintzberg argues that strategic *planning* must be recognised for what it is: a means, not to create strategy, but to programme strategy already created. It is analytic in nature, based on decomposition, while strategy creation is essentially a process of synthesis. (Mintzberg 1992, 112) Based on our earlier studies it seems that also in regional development policy-making existing strategies are programmed, and in the emergence of strategies both unconscious emergence and conscious design play a role. (see Sotarauta & Lakso 2000.)

Experience has shown that a strategy document (a plan) is relatively easy to formulate, but that its implementation is rather difficult in its planned form. This frustrates people involved in the process. In many cases, the function of strategic planning has been to provide reassurance as much as guidance. Strategic planning has provided breaks in the midst of operative functions by

giving an opportunity to discuss visions and other abstract issues. Many decision makers have found strategies incorporating many nice thoughts and principles, but they have had difficulties comprehending their real essence in terms of the organisation or city-region. They have had difficulties *combining abstract thinking with operative matters*.

Above briefly elaborated shortcomings are factors of a trap of classical strategic planning (see Pettigrew & Whipp 1994 too). I postulate that many of the shortcomings faced in the public policy-making are largely due to the fact that policy makers have had too strong a faith in basic assumptions of classical strategic planning, and thus there is a danger of falling into the classical strategic planning trap, that is based on too well established belief that...

- planning and implementation can be separated,
- the quality of strategic analyses guarantees the quality of intended strategy,
- the quality of intended strategy contents guarantees its implementation,
- it is possible to get various organisations fully committed to the regional strategies already in the planning phase, and
- it is possible to distinguish on the one hand the strategic level that is responsible for formulation of regional strategies, and on the other hand the operative level, that is responsible for implementation.

The question is not about trap de facto, but rather the question is about not entrusting the planning for the future for classical strategic planning methods only, because if it is overemphasised the quality of everyday process is easily neglected, i.e. the preconditions of learning, communication, assessment of past experiences, etc. Classical strategic planning provides policy-makers with many good tools and thinking patterns, but quite often designed strategies fade away and disappear to a “black-hole of classical strategy development”.

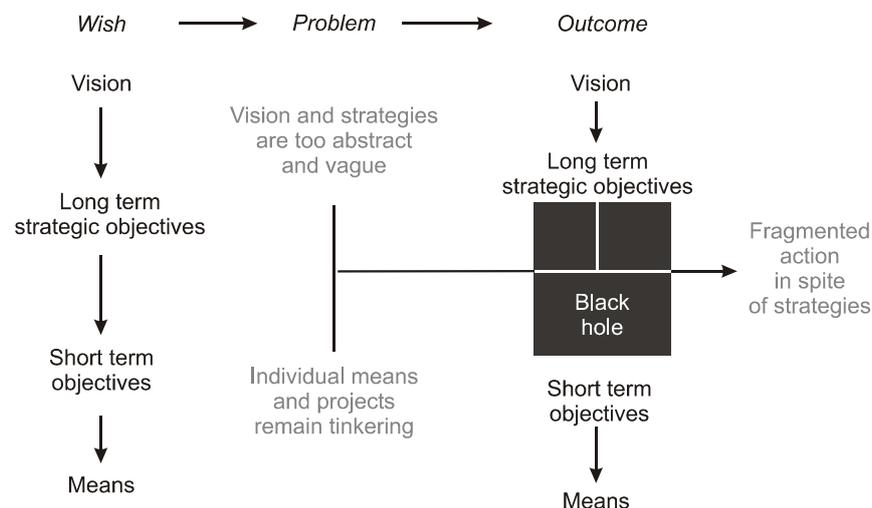


FIGURE 2. Simplified illustration of the black-hole of classical strategy development

In efforts to formulate regional strategies using the methods drawn from classical strategic planning the multidimensional nature of regional strategies has too often been forgotten. Next I elaborate the nature of regional strategy and raise the need to focus more on processes and communication too, not only defining intended strategies.

## 5

### The nature of regional strategy

In many European city-regions it has become habitual to adapt to conform to the framework of EU regional policy and it could be said that at the same time the importance of strategic planning in promotion of regional development has increased. In addition the principle of partnership has been used to stress that behind regional strategies there are several organisations that should participate in the promotion of regional development and formulation of regional strategies. The regional strategies created on the basis of the classical model, however, do not readily lend themselves to the use of many organisations. In practical situations the interaction between many organisations is not without difficulties guided by regional strategies.

Generally the strategy applied in regional context means that a) the strategy should be based on the shared objectives of several organisations (common will and vision), b) the strategy should guide activity of many organisations, and c) strategic analysis concentrates primarily on the characteristics of the city-region while the characteristics of the organisations carrying out the strategies are ignored. Thus there is a clear tendency in regional strategies to seek for a common will based on shared objectives and on which the different actors are believed to take their stand. Behind regional strategies there is frequently the idea that wide participation at the planning stage enables a shared vision to be created, promotes collective development activity, directs activities of many organisations and commits them to the development of the city-region. But is it possible to guide the activities of several organisations through regional strategies?

When classical strategic planning is applied regionally there emerges the question as to whose activities the strategy should guide. The most probable answer is that regional strategies should guide a) the activity of the regional development agencies, b) the activity of the municipalities and other local authorities in the city-region in their development efforts, and c) the activity of

the other organisations participating in the strategy work or receiving project funding or support (i.e. universities, firms, etc.).

In order to gain control over development or change in a given city-region it would be necessary for all actors to be of one mind with regard to issues and strategies and their solutions. Furthermore, they would need to implement regional strategies by their own actions. Efforts have been made to unify the actions of different actors with the help of regional strategies, i.e. it is hoped that regional strategies will guide a maximum number of regional actors either directly or indirectly.

So how is it possible to be flexible and fast to react (as is nowadays often stressed) and at the same time enable the widest possible participation in strategic planning? How is it possible to create strategies focusing on the future needs of the city-region as a whole in a negotiative process of compromise and conflict comprising numerous actors?

Until now the dilemma has been solved by approach based mainly on classical strategic planning, and *partnership is therefore often assumed to occur within the regional strategy*.

The basic idea of regional strategies, that the many organisations operating in the city-region should realise shared strategies based on a shared vision, is very tempting. It would make things more manageable. However it is more likely that different organisations would nevertheless seek first to realise their own strategies.

In the best case the creation of regional strategies can provide a good forum for the making the goals and measures of different organisations more parallel, but in the worst case there is the danger that strategies will not progress beyond being papers among a host of other papers. Every organisation has its own ambitions and strategies, which in that organisation are stronger than regional strategies. This may mean that the intended regional developmental strategies are everybody's but nobody's. Thus they never become part of what the organisations are doing. At their most efficient regional strategies are backed by the organisations' own objectives and strategies and vice versa.

Regional strategies are supposed to guide the activities of the organisations, but in practice it seems to be clear, and only natural, that different organisations participate in strategy-making in order to ensure that their own needs and the ideas of their backers are included in the strategies thereby safeguarding their own territory, and also in order to see what notions are uppermost in the minds of the organisations responsible for strategy making. (see e.g. Sotarauta & Lakso 2000.) It may be stated that partnership and classical strategy do not go particularly well together. The ideal of classical strategy does not work in regional application as it does not enable us to make a long-term, enduring combination of different action logics and the differing strategies and objectives emerging from these.

Thus I propose that the assumption that partnership could be achieved *within* regional strategies is hard to implement, but if we accept that organizations and individuals are selfish and always approach regional development from their own point of view, we could make an assumption that true partnership is achievable *between* strategies.

When partnership is achieved between strategies diversity is accepted and also the options for cooperation and conflicts arising from it. If partnership is achieved between strategies the search

for theoretical bases for strategic planning and concrete forms of it is pursued in the direction of the processual and communicative features of strategy too.

Here the point of departure is that promotion of regional development is by nature more political than technocratic. If a definition of regional strategy is sought on this basis, it may be defined to be...

a communicative process, in which different aims and strategies of many actors are *reconciled*, and various interests *balanced*, and touching-points and concrete means between many objectives are constantly looked for and *co-ordinated*. During this continuous process, various goals and strategies of individual organisations are made as parallel as possible by communication and negotiation. (Linnamaa 1996.)

Here the mission of the formulation of a development programme and the regional strategies therein proposed is not to directly guide different actors, but to be itself the arena for discussions, battles and quarrels (Healey 1992). There should be no fear of raising problematic issues; attention is also focused on the culmination points of cooperation between organisations.

The classical view stresses that discussion takes place in the planning process, after which the various actors made a commitment to the result of strategic planning and set about implementing it. In the actor- and communication centred approach commitment has a new content. No commitment is sought to the idea created in the planning process; rather there is a constant search of commitment from different points of view for shared projects requiring and enabling commitment. Moreover, the strategy continues to live and change apace with circumstances. In a way it is constantly being recreated.

Although modern intended regional strategies are goal and analysis oriented in keeping with the assumptions of classical approach, yet they are affected to an increasing extent by communicative features; what is especially important is who says and what is said, but also to whom it is said and to whom it is not said. Although statistical averages might make the city-region appear homogenous, diversity and plurality may be important characteristics for development if only people are allowed and able to think independently in formulation of regional strategies. Diversity is an advantage in development, not a disadvantage. Thus in a world of dispersed power regional strategic development is based on the making many strategies as parallel as possible.

Many basic assumptions about strategy work acquire a slightly different content. Table 2. presents both the basic assumptions regarding strategic planning emanating from classical approach and the basic assumptions derived from softer approach in strategy drawn from the basic features of governance of ambiguity.

TABLE 2. Basic assumptions of promotion of regional development from the perspective of strategy

<i>Present basic assumption</i>	<i>Basic assumption of soft strategy</i>
Strategic development based on shared vision and shared strategies - action within shared strategies	In a world of dispersed power promotion of regional development is based on the making many strategies parallel – action between many strategies
Several organisations’ decision-making and activity directed by regional strategies	Formulation of regional strategies is an arena for discussion, arguments and negotiations. It is the arena for the creation of strategic consciousness and identifying strategic intentions. Strategic planning is a way to halt the everyday toil and effort, take distance from it and seek new directions
Present basic question concerning commitment: “Why do they not commit to the regional strategies?”	Question according to soft strategy “Why should they commit, why is it worthwhile to commit to regional strategy?”
In strategic planning new, creative and unique strategies are created	In strategic planning existing strategies are identified, new ones spring up like weeds in a garden. Strategic <i>planning</i> should be recognised for what it is: a means, not to create strategy, but to programme strategy already created. New strategies emerge from an interactive processes.
Strategies are created ready-made in the planning process, planning and implementation are separate stages	Strategies are never complete – planning and implementation dovetail into a continuous process. Process management becomes important.

The basic assumptions behind the present assumptions reflect a particularly strong belief in the abilities of the individuals to identify and create new strategies, see new competitive advantages. Diversity and needs of rapid reaction to flow of changes, however, are hard to manage with a classical strategy making. Despite this regional strategies are needed, but they are by nature communicative processes in which one part comprises classical analyses and planning processes. In the best case classical strategies yield splendid results, in the worst case they have no meaning. What is essential is to perceive them as parts in a continuous process, as moments in the flow of action and development. In this case classical strategic planning may be seen as an arena for quarrels, discussions, differences of opinion and negotiations. It is also one of the arenas for the emerging of strategic consciousness and for the definition of strategic intentions.

There are thus many objectives and endeavours in the networks of the city-regions. Even the question “What is development?” may prove hard to answer. Moreover, such questions as “What are we aiming at?”, “How are we acting together?”, “How are resources to be channelled?” may be very difficult to answer as each of the various organisations contemplates development from its own perspective. In the promotion of economic development there is generally no single strategic management to set goals single-handed and formulate the strategies. In this case management of the networks is essentially a question of the ability to utilise local, national and international resources in the promotion of development of one’s own city-region, to mobilise local actors for

development, i.e. the ability to get people moving. In this case what is essential in management is not formal position or management of resources, the emphasis is rather on skills in negotiation, communication, persuasion, “wheeling and dealing”, intermediating and envisioning.

Even though city governments play an important role in urban development, they are in no position to direct or control the strategies of enterprises, organisations, families etc. The management of the city-regions cannot be described as “top-down” or “direct and control” models, nor is strategic management able to easily define and implement “objectives to serve the common good”. Strategy preferences must be formed and reformed by balancing different interests and seeking third solutions. Often they emerge from dynamic processes and are thus also dependent on the logic of the situation and political judgement as to what is feasible and what is not. (see Healey et al 1995.)

If we accept the notion that strategy targets organisations together with the diversity of the city-region, we must also accept different organisations and groups in promotion of regional development from their own perspectives. We accept the difference in their natures, the different goals and strategies of their own. At the same time we see the diversity of commitment, the many reasons for making a commitment.

The strategy processes of the city-region are thus not the straightforward implementation of goals set in advance, but rather interactive processes with many reasons, which are molded and realised in a network of mutually dependent actors. In the networks, however, the danger exists that development activities will become fragmented, that there will be lack of coordination. In a study focusing on regional strategic planning (see Sotarauta & Linnamaa 2001), we made a conclusion that it may be that diversity of the city-region ceases to be a strength in development and it may become a weakness, if the many development activities are not managed so that it supports both creative differences of opinion and coordination. The networks need fine-tuning and network management in order to seek directions, to plan and carry out complex projects, to manage conflicts and aberrations and to acquire information, create it and disseminate it in the networks.

One of the basic problems is that regional strategies has been seen as plans, and hence in large cooperative network, complexity easily replaces clarity and comprehensives have replaced cohesiveness, or as is often the case, strategic plans remain in too a general level and their power to guide the actions of many organisations is poor. Strategic planning therefore is easily divorced from the process of implementation. In times of rapid change it may be that the implementation gap cannot be reduced linearly simply by “formulating better strategies” and committing ourselves better to them; we have to be able to find policy-making models that recognize the non-linear nature of strategies. They should more often be seen as overall processes based on continuous learning. Strategies develop constantly, and, in a way, they are never realised. As Morgan states, managers of the future will have to learn to ride turbulent conditions by going with the flow, recognising that they are always managing *processes* and the flux rather than stability defining the order of things. (Morgan 1991, 291.)

## 6

### Processual approach in strategy and its traps

Processual approach on strategy has, more or less, emerged from the criticism of the classical view on strategy, from the attempt to avoid the trap of classical strategic planning. The proponents of processual approach have adopted different kind of starting-points and basic assumptions for strategy.

Processual approach is less confident about markets' ability to ensure profit-maximisation as classical strategists. For processualists both organisations and markets are often incoherent and muddled phenomena. Strategies emerge with much confusion from the incoherence and in small steps. The best that can be done is not to strive after the unattainable ideal of rational fluid action, but to accept and work with the world as it is. Here it is essential to abandon the idea of rational economic man. (Whittington 1993, 25.) Mintzberg (1994) has described the basic idea of the processual approach interestingly: "real strategists get their hands dirty digging for ideas and real strategies are built from the occasional nuggets they uncover". Processual view also stresses that strategic management does not carry out the strategy, it builds an organisation capable of carrying out the strategy. It intervenes and, if effective, then withdraws. The art of strategic change is where ever possible to work with the strength, for to work against it uses organisational energy in often frustrating endeavour.

According to processualists what matters in strategy is the long-term construction and consolidation of distinctive internal competencies. In this view, strategy becomes a patient inwardly conscious processes that stresses simultaneously experience, internal competencies and constant learning. Whittington finds four points where this approach differs radically from the classic perspective: *Firstly* strategy may be a decision-making heuristic, a device to simplify reality into something managers can actually cope with, *secondly* plans may be just managerial security blankets, providing reassurance as much as guidance, *thirdly* strategy may not precede action but may only

emerge retrospectively, once action has taken place, *fourth* strategy is not just about choosing markets, clusters, i.e. what to focus and then policing performance, but about carefully cultivating internal competencies. Thus, many of the basic premises of classicists are put in jeopardy. As Whittington puts it: “suddenly, it seems that goals are slippery and vague, long-term policy statements vain delusion, and the separation of formulation from implementation a self-serving top management myth.” (Whittington 1993, 27.)

Above assumptions are not so unfamiliar in regional strategy practices, and processual approach is able to avoid many of the shortcomings faced in the classical strategic planning, but at the same time there is a danger of going too far, a danger of falling into the trap of processual strategy. *The trap of processual strategy* is based on too well established *belief* that...

- the continuous strategy process is able to create its future paths by itself without adequate attention in inventing, and proposing possible and probable futures,
- it is possible flexibly and rapidly to react and adapt to the surprises of the turbulent environment without adequate foresight, and
- in the grass-root level grows continuously new strategic initiatives that benefit the whole without adequate support and guidance from the management.

If one sinks into the processual strategy trap, one believes too much in the prevailing system, and many potential and necessary societal innovations may easily be covered by the daily fuss, i.e. by the conflicts, problems, meetings, appointments, etc. and probable and possible future options are easily not seen, and interconnections of daily actions and emergence of the future is not seen.

Based on discussion so far, a tentative answer to the question posed above - on what kind of approach we can build our practices in regional development - can be given. To be able to avoid the trap of the classical strategic planning we need characteristics of processual approach to emphasise learning, bargaining, negotiations, i.e. process qualities. On the other hand to be able to avoid the trap of the processual strategy we need methods and analyses of classical strategic planning to be able to stop the process, to stop the daily fuss, and provide actors with possibilities to discuss about strategic issues, their own intentions, and probable and possible futures of the respective city-region.

To summarize: the need to design strategies still exists, but at the same time strategies should be allowed to emerge; a dilemma - yes, but is it possible to benefit from this kind of process?

## 7

### Dilemmas in strategy development

The point here is that if we look for strategies only at management groups, let them be organisational or inter-organisational in the context of regional development, most of the organisations' or community's potential is neglected. In addition truly creative strategies are seldom designed in planning rituals, and usually the strategy formulation has really been strategic programming, in which strategies and visions that already exist are articulated. (Sotarauta 1996.)

During the government of certainty strategic planning was left only for the élite of organisations and communities, or for the central government, and the rest of the organisation was there only to implement designed strategies. However, in the contemporary governance thinking strategy is no longer about “giving strategic orders” or using direct power. If strategy is still seen as classical, the outcome is easily the divorce of strategy formulation from the process of implementation that is always dependent on independent organisations and a range of different partners. Strategy designers should therefore not assume too readily that once formulated strategies are automatically the subject of implementation, but see the interdependent nature of strategies. Strategy becomes a two-way process.

As Mintzberg (1994) states, deliberate strategies are not necessarily good, nor are emergent strategies necessarily bad. “Good” strategies are thus not *either* designed *or* emergent. Both qualities are needed, since every effort must combine some degree of flexible learning with some degree of cerebral control. As Hampden-Turner (1993, 328) points out, it is no use to see designed strategies and emerged strategies as clearly distinct, but as a dilemma within a strategy loop (Figure 1.). The point here is that the loop does not start at any point (except when a new organisation is founded).

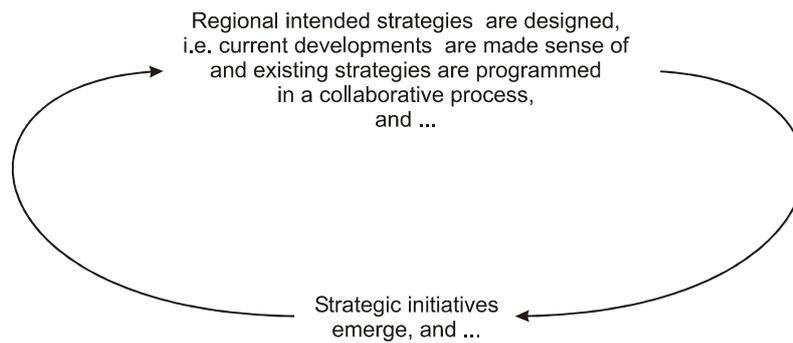


FIGURE 3. The dilemma within strategy loop (see Hambden-Turner 1993)

Figure 3 suggests that designed and emergent strategies are in a dynamic relationship with each other, and strategic management becomes essential in a constant attempt to finetune this dilemma. Thus, strategy is consistency in development behaviour, whether intended or not. The effort is made to balance and reconcile the variety of interests, service provision forms, development efforts and the needs of citizens and firms, i.e. regional development governance-community interactions. And here is the crucial point. Being processual in nature it is easier to open the strategy process for various stakeholders in different phases of an ongoing process, and let the strategy emerge, not for the people and firms, but with and by people and firms.

To elaborate this view little further, we face the second dilemma, strategic fit vs. strategic intent.

Hamel and Prahalad (1989) have introduced another crucial dilemma in the organisational context relevant in regional development too, namely the dilemma between strategic fit and strategic intent. If strategy is seen as a best fit, it can be interpreted as the relation between the city-region and changing economy, and as such it is an important question in contemporary regional development policies. However, in a democratic institution content of intended strategies can never solely lie in search of best fit as adaptation, strategic intentions are always needed too. Hamel and Prahalad (1989) contrast strategic intent with strategic fit as follows:

TABLE 3. Strategic intent and strategic fit (Hamel & Prahalad 1989, see also van der Heijden 1993, 141)

<i>Strategic intent</i>	<i>Strategic fit</i>
Search for new rules	Search for niches
Portfolio of competencies	Portfolio of businesses
Core-competencies/relationships	Products/channels/customers
Accelerate learning	Find sustainable advantage
Leverage resources to reach goals	Trim ambitions to resources
Strategic challenges	Financial targets

Van der Heijden (1993, 141) points out the basic message of Table 3 which is avoidance of being unconsciously curtailed by traditional concepts. Strategies need to be grounded in an innovative

ideas, which is not to be found in the traditional thinking of strategic fit, but which needs to be invented. Let us follow the thinking of Hamel and Prahalad (1989) to clarify the essence of strategic intent: “Strategic intent sets a target that deserves personal effort and commitment... the emphasis is on leveraging resources to reach seemingly unattainable goals... whereas the traditional view of strategy focuses on the degree of fit between existing resources and current opportunities, strategic intent creates an extreme misfit between resources and ambitions. Management then challenges the organisation to close the gap by systematically building new advantages.” They see strategic intent as an obsession to be the best, and to create a new space that is uniquely suited to the organisation’s strengths, space that is off the traditional map.

Fine-tuning this dilemma is to both adapt and create the future, simultaneously. Thus, rather than being marginal adjustments to the present and programming existing strategies, strategic intent would be *futures seeking*, but not, like most classical methods *future defining*.

The view drawn by strategic intent suits the strategic regional development rather well. The gap between unattainable goals and resources is easy to achieve, that kind of situation being the normal condition in most of the regions. Regions are usually faced with the endless flow of demands directed at the development policies exceeding available resources. The idea of strategic intent suggests using this phenomenon to benefit the strategy process by challenging the community and the personnel of development organisations, and not letting scarce resources to suppress thinking and the development efforts.

Strategic intent is thus a manifestation of the strategy designers about a) the desired leadership position among regions, b) the position of development agencies in development efforts and c) the establishment of the criteria to chart the progress.

In this view strategic intent may resemble vision, but grounded more on action and benchmarking, its potential may be better. The question behind strategic intent is not “what will the future be like”, but “what must we do differently”. Through strategic intent decision-makers and the whole development network are provided with an essential part of what I have called strategic consciousness (see Sotarauta 1996 and 1999). Utilisation of this kind of approach needs management that values strategy as a craft, as an art. Wisdom is the word.

Wisdom is the word, because usually strategy is defined primarily in terms of competition. In regional development strategy should never be rooted in competition alone. It is serving the citizen’s real needs, taking a look at the various groups in a community, services, and ways to organise and manage the network of services. Even if competition has entered the world of regional development too, strategies are to emerge from the real needs, and strategy means deep understanding of what the communities are, and what the role of development efforts are in midst of it is.

These considerations develop the strategy loop further...



FIGURE 4. The strategy loop elaborated

Fine-tuning ongoing strategy processes requires good skills in communication, network management and leadership.

## 8

### Fine-tuning strategy process - communication and network management

Policy-making and classical strategic planning have been deeply rooted in the scientific thinking, and if policy makers are locked in the too instrumental view and if illusion of objectiveness prevails, planning practitioners will be left, as Forester (1993) states “all too often as frustrated Machiavellians, technicians, or rule-mongering bureaucrats; what we are missing and what we are in the planning and policy fields anxiously, if not desperately, need, is the illumination of questions of ‘how to’ with a politically and ethically articulate and critical sense of ‘what for’. And this is the danger, since classical strategic planning is instrumental in nature (see Sager 1994, 46), even if its basic models stress participation in the strategy formulation phase.

Basically processual approach stresses intraorganisational learning, and thus in the regional development context it is intellectually linked to the discussion about communicative, interactive and negotiative planning, that stress (among other things) interorganisational learning, and both the planning, policy-making and strategic thinking literature have for some time now been retreating from classical, longrange, topdown and formalistic approaches to planning and strategic thinking and are stressing argumentative aspects of planning and seeing organisations as containing important social, political and cognitive elements. (see e.g. Healey 1992, Fischer & Forester 1993a, Sager 1994) As Healey (1992, 153) has stated: “A communicative approach to knowledge production - knowledge of conditions, of cause and effect, moral values and aesthetic world - maintains that knowledge is not preformulated but is specifically created anew in our communication... We cannot, therefore, predefine a set of tasks which planning must address, since these must be specifically discovered, learnt about and understood through inter-communicative processes.”

In communicative planning, for example, as can be deduced from Healey's quotation, it has been emphasised that analytics' and policy makers' arguments should not be considered "truth" as such, and that every argument is not as valid as some other argument. Various arguments presented in the policy process may be rhetorical means to defend policy-makers' status and power. (Fischer & Forester 1993b, 3.) The objectivity of policy-making has been questioned, and therefore questions to be posed are - not only *what* is said - but *who* said, to *whom* the argument was addressed, and *how* it was addressed (based on what arguments, whose arguments, and on what point of view). Throgmorton even maintains that all policy-making is based on rhetorical activity. Various analyses are not only objective knowledge providing methods, but rhetorical metaphors in essence. They give persuasion power, and they are always addressed to some other actor, and thus the audience becomes a noteworthy concept. Often various policy statements are responses to some other policy statements. (Throgmorton 1993, 120)

Rather than being marginal adjustments to the present (processual strategy) and programming existing strategies (classical strategy), communication and interaction oriented strategic planning would be futures seeking. If we are in interpersonal and interorganisational communicative process continuously seeking futures, not defining or forgetting them as earlier, we end up to ask once again: what is the role of strategic planning in wider development processes? Forester (1989 and 1993) states that we need a critical pragmatism, pragmatics with vision, and planning cannot anymore be seen as a technical problem solving, but as he states, planning can be seen as a questioning and shaping attention, and organising it. He has put forward a rather plausible theory about a shift from strictly instrumental to practical-communicative action based planning practice (Table 4.).

In practical-communicative view on policy-making, process is not seen as an input, but as a framework constituting within which politics and policies are taken place, and thus policy-making becomes as...

"...the capability to define the nature of shared meanings; it is a never ending series of communications and strategic moves by which various actors in loosely coupled forums of public deliberation construct intersubjective meanings. These meanings are continually translated into collective projects, plans, actions, and artefacts, which become the issues in the next cycle of political judgement and meaning constructions and so on. (Hoppe 1993, 77)"

TABLE 4. A reformulation of planning practice: A shift from strictly instrumental to more practical-communicative action (Forester 1993, 28)

<i>Instrumental</i>	<i>To</i>	<i>Practical-communicative</i>
processing information	to	shaping attention
problem solving	to	problem reformulating
seeking detachment to further objectivity	to	seeking criticism to check bias and misrepresentation
gathering facts	to	addressing significance: gathering facts that matter and interact
treating participation as a source of obstruction	to	treating participation as an opportunity to improve analysis
informing decisions	to	organising attention to formulate and clarify possibilities
supplying a single product, a document with "answers"	to	developing a process of questioning possibilities, shaping responses and engagement
reinforcing political dependency of affected persons	to	fostering policy and design criticism, argument and political discourse
passing on solutions	to	fostering policy and design criticism, argument and political discourse
abstracting from social relations	to	reproducing social and political relations

Fine-tuning strategy processes from the practical-communicative point of view requires also good skills in network management. Network management refers to activity, which endeavours to promote interactive processes, serving as an intermediary in interaction between actors and steering activities towards seeking for goals and enabling co-operation. It may be seen as the effect of actors on one another and it may be that the network has several managers. In theory every actor in the network may be a network manager. (Kickert et al. 1997.) Thus in principle no actor in the network ranks any higher than any other. However, this does not mean that all actors have the same amount of power on the network. In practice some participants may carry more weight and dominate more than others due to possession of important resources, crucial information, networking skills, and so on. Although the network manager may be any one of those participating in the development process, it is still probable that certain functions of network management (such as changing the urban development network and reducing the number of anomalies of the development networks and actions towards removal) fall frequently to public sector actors. On the other hand visionary characteristics may be the province of representatives of educational and research institutions or enterprises. Different actors may have different roles and tasks in network management. Some actor may even manage the network without being aware of it.

There is no need to elaborate network management further here, but the importance of perception in fine-tuning process is however worth raising. *Perceptions* refers to differences and similarities in actors' values, goals and perspectives on a given issue. Including perceptions as a focal point in network management is based on the fact that actors do not react directly to reality

but to internally constructed perceptions of reality. (van der Heijden 1996.) Actors generally have different perceptions of problems, other actors, dependency relations and the benefits and drawbacks of working together. Such perceptions are hard to change, but in joint activity they gradually reform and are reconstructed. Actors are not even always willing or able to modify their perceptions. In such situations there is a risk that the development process will become a “dialogue of the deaf”, with the same arguments reiterated ritualistically with nobody willing to have his/her view put in an unfavourable light. Management of perceptions seeks to prevent such deadlocks or to resolve them by maintaining/creating conditions for open debate. In such discussions an effort should be made to accept that there is no “best” perception as such, and that for successful cooperation the existence of differing perceptions is more use than the elimination of differences in interpretations (Termeer & Koppenjan 1997.)

Management by perceptions does not therefore aim at consensus but at creating a common base for joint decisions while accepting and respecting the positions and perceptions of other actors.

So, communication is stressed, the need for network management raised, but there is, however, as inconvenient trap in communication and network oriented approach as in processual and classical approaches. The trap is based on too well established belief that...

- by creating proper forums and by developing communication channels the policy problems are solved, and thus
- too much time and recourses are easily spent in interaction, perceptions, etc., whereupon strategy contents and intentions are forgotten to background.
- This leads to the notion that efficient and determined carrying of strategies is neglected, and in overly communicative and interactive network nobody is bearing responsibility of many operative laborious tasks.

As was the case in other traps too, communicative planning trap is not a trap de facto, but a too well established belief in some features of policy-making.

### *8.1 Why to programme strategies, what are their roles?*

As stated above, most of what has been written about strategy deals with how strategy should be designed or systematically formulated. However, as we have seen, strategy is both formulated and emergent, and planning cannot usually generate truly innovative new strategies. Thus, the question of why programme strategies can be posed?

In regional development world, strategic planning is usually seen as a guidance of various actors, but as stated above, a shift from classical view to a conception of a plan as a part of a process of argumentation is taken place. Thus, intended strategy, a plan itself, is seen as an arena of struggle, with different interests competing to determine its content, to determine the outcome of emergence. (see Forester 1989, Sager 1994 and Healey 1992, 1994; Sotarauta 1996.) In a way, “local strategy” (i.e. a set of organisational strategies) is a sequence of choices made by many actors, thus the local strategy process can be seen as a quest for strategic consensus-building transforming set of intents and visions and knowledge into action through an unbroken sequence

of interpersonal and interorganisational relations. The question is about finding natural touching-points between strategies of many organisations, and not about having one strategy for many actors. In this kind of setting, as Healey points out, the critical intent should not be directed at the discourses of the different participants (not: we are right and you are wrong) but at the discourse around specific actions being *invented* through the communicative process. One way is to acknowledge the diversity and the dilemmas, and strategies may then have many roles, they can be...

- tools of network management and therefore essential parts of network power
  - As Castells (1997, 359) states, the new forms of power lies in the codes of information and in the images of representation around which societies organize their institutions and people build their lives, and decide their behavior, and thus strategic planning emerges as one of the processes in which dominant interpretation is sought and created.
  - Understanding the roles strategic planning play in network power is important, because power concerns itself with defining reality rather than with discovering what reality “really” is. This does not imply that power seeks out rationality and knowledge because rationality and knowledge are power. Rather, power defines what counts as rationality and knowledge and thereby what counts as reality (Flyvbjerg 1998) and strategic planning is in its essence about defining reality.
- tools in power games between power holders, tools in stabilising power-relations between key-actors and/or tools in excluding some of the actors, and a means to direct the attention of other players towards the front
  - In strategic planning the relationship between rationality and rationalization is often “front-back” relationship. The front is open to public scrutiny, but it is not the whole story and, typically, not even its most important part. Backstage, hidden from public view, it is power and rationalization which dominate. A rationalized front does not necessarily imply dishonesty. It is not unusual to find individuals, organizations, and whole societies actually believing their own rationalizations. (Flyvbjerg 1998.) Could it in some cases be the case that rationalization presented as strategies and visions is a principal strategy in the exercise of power? Could it be that various visions and scenarios are the front and the real players shaping urban futures are somewhere behind them?
- important parts of strategic planning and development programmes. They give guidance, a sense of direction.
- tools in strategic discussion and deliberations
- tools in rehearsing futures
- messages from some actor to some other actor, and thus futures images (e.g. intended strategies) can be seen as mirrors

Whatever the role of strategic planning and its visible outcomes, it appears to be self-evident that strategic plans are not about direct guidance of various actors, but in spite of that the need to programme strategies exists. Next I make an effort to find an answer from a mirror in four dimensions. Programmed strategy can be seen as a mirror in four dimension.

First of all planning can programme strategies already expressed, it can make them operational, and thus *the first dimension*, focused inwards, is to programme for co-ordination, to ensure that everyone in the networks pulls in the same direction by providing the personnel of the development organizations with a mirror of the strategic intent and intentions of strategy designers. Thus, emerging strategic initiatives are in proportion in intended strategies. The *second dimension* is

focused on regional development funds and decision-makers. In this case intended strategies help the decision makers in posing the right questions and in dealing with new demands and ideas in relation to the desired future and strategic intent. Strategic management takes the bearings of operative matters in relation to strategies.

Strategy programme is also a mirror outwards, which provides us with dimensions three and four. An outward targeted mirror can be used to gain tangible and moral support from influential outsiders; central government, the EU, other financiers etc. Programmed strategies are a manifestation of the regional development network for other actors expressing its intentions, future prospects and potential. This dimension is gaining importance, because there are numerous institutions, both national and international, with full-time professionals observing the forms of European mainline development. They may be those who grant funds for development projects, or those who write influential reports about ongoing efforts to promote development, or those who are looking for partners for Europe-wide development efforts. The basic message in this kind of mirror is: “yes, we have problems, but as you can see we have potential and innovations to handle them, would you like to participate in our efforts.” This is *the third dimension*.

Last, but not least, *the fourth dimension* is also focused outwards, the mirror is for the inhabitants and firms of the community. The ideal situation is that strategies are designed with people and firms, but usually either temporary or human resources do not support this kind of approach. Strategy designers should use as wide a base of information as possible when designing strategies. However, the processual nature of strategy and the fourth dimension of a mirror keeps the strategy process open. The need to involve citizens in the design process is not so urgent, because strategies are renewed and developed at the same time as they are implemented.

The basic message in the fourth dimension of the mirror is: “yes, we have designed strategies, here are they, but let’s find their practical forms together. If designed strategies are not good ones, let’s change them if you can make a good case. Of course, we are grateful for comments on the strategic issues too, but if you like we can concentrate on those issues that are near you”. Here, the process of getting feedback, discussing with citizens and firms should be a continuous process in aspects that are important for the group or individual in question. Every citizen and a firm do not have an opinion about the strategic direction of a community, and why should, but usually almost everybody has opinions about issues that are close to them. This is a reminder that in regional development strategies small things are as important as broad strokes, and the process should necessarily be a two-way process.

In this view of mirrors, intended strategy is not a plan to implement, and occasionally to rewrite, but a mirror, and a mirror is something to look at, to discuss, not something to implement as it is written. This kind of view on programmed strategies, planning document, requires well established strategic consciousness. Mirroring allows different views and is of assistance in discussions, and thus strategy is open to changes, but only after discussion and a good case.

These considerations elaborate our figure further (see Figure 3.).



FIGURE 5. Strategy loop elaborated once more

By mirroring intended strategies are renewed at the same time as they are implemented. This is an effort to benefit from the emergence and to make it a little more intentional. To summarise the view in strategy programmes as mirrors in four dimensions:

- Mirror for the regional development networks: “these are the most important things for us to do as a network, let’s make a joint effort”.
- Mirror for the decision-makers: “these are our strategic intent, goals and strategies for the city-region; are they still valid, does this particular decision support them...”
- Mirror for the external decision-makers, possible financiers, partners etc: “this is what problems we have, but we have potential and innovations to handle them. Let’s find points to co-operate on.”.
- Mirror for the citizens and firms: “this is what we are and what we think we should be, tell us what you think, if there are points that interest you, participate in our efforts.”

Of course, these ideas raise a lot of practical questions. Until further efforts I leave these questions open.

As shown above, strategy development and strategies have many possible approaches, many roles in regional development, and plenty of benefits, but also plenty of disappointments and traps. One of the most important questions emerging from above discussion, how and based on what kind of approach, it is possible to make good use of strategy development and avoid its traps. I make an effort to combine the many faces of strategy development in regional development by dynamic capabilities.

## 9

# A tentative dynamic capability framework for urban economic development

All organisations and all city-regions have resources of some kind, but by no means are all of them capable of utilising these efficiently. Mere resources are frequently not enough to generate competitiveness, let alone to create a sustainable competitive advantage or to generate local buzz and pipelines to global knowledge. Creating a competitive advantage generally needs the ability to make good use of resources, i.e. many kind of *capabilities*. I have argued that even though policy-makers are nowadays more and more promoting expertise and learning based knowledge economy, they have not been able to improve their own capabilities to meet the new demands, and therefore there is an urgent need to analyze and develop dynamic capabilities also in promotion of urban development, since the dynamic capabilities are both implicitly and explicitly embedded in the many development processes and are directed toward enabling or disabling economic change and evolution. These capabilities enable the city-region as a whole to reconfigure its resource base and to adapt to changing environment and to develop as an attractive hub vis a vis chosen flows. I suggest, as Teece et al. (1997) have done for the firms, that dynamic capabilities approach is promising both in terms of future research potential and as an aid to development network endeavouring to gain competitive advantage in increasingly demanding environment.

First and foremost capability is here seen as a measure of the quantity and quality of work a city-region can perform to promote economic development, i.e. it is an ability “to do something”. Capability is hence defined as the ability to handle a given matter and as the ability to utilise the available resources and to create new ones (Javidan 1998). Teece et al. (1997) define capabilities as the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments, and therefore they see dynamic capabilities to reflect an

organization's ability to achieve new and innovative forms of competitive advantage. Dynamic capabilities emphasise management capabilities and inimitable combinations of resources that cut across all functions (Lawson & Samson 2001, 379), and in the development policies they include building infrastructure, facilitating R&D, founding new development agencies, creating and brokering networks, developing human resources, etc. The main argument here is that in successful urban economic development policies a city-region as a whole needs a set of capabilities and the development network of a city-region should comprehend its capabilities in order to be able to utilise the resources available.

Behind the identification and development of dynamic capabilities there is also the assumption that these change more slowly than products and markets. Thus the competitiveness of a city-region should not depend on products and markets but on something more lasting, something which lies at the very core of the city-region's economic success. I argue that by focusing more on conscious development of dynamic capabilities in the context of urban economic development it might be possible to better identify, and utilize resources, and in addition to create new resources, and hence to improve competitiveness.

The basic policy response in knowledge economy is to create high level knowledge pool with strong internal links and pipelines to global knowledge the aim being to cultivate some specific differentiated and locally rooted knowledge and foster linkages with other relevant knowledge sources in the world. In addition intensifying knowledge links within the city-region and to help firms and other organisations to link with global knowledge sources is stressed. All this raise the question of what kind of capabilities is needed, and next I elaborate this question by using the model presented in figure 7.

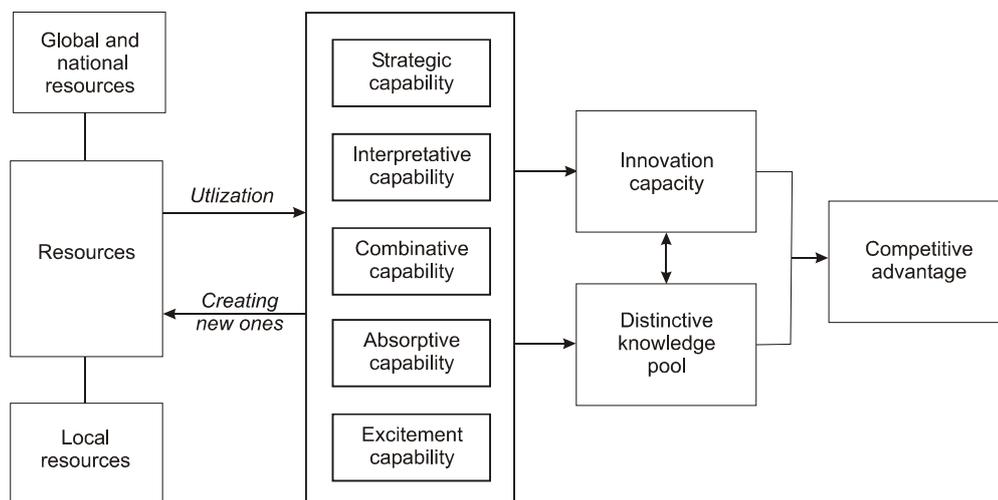


FIGURE 6. The capability model for city-regions

## 9.1 Resources

According to Javidan *resources* are inputs directed at the enterprise's value chain. Barney divides the resources into three; physical resources (e.g. plants, equipment, locations and property), human resources (e.g. labour, management, educational level and experience) and organisational resources (e.g. organisational culture and reputation). Javidan perceives resources as the building blocks of competence (Javidan 1998, 62). In this context, resources are seen as inputs directed at the urban economic development.

Among the most important key questions in the development policies are: a) what kind of resources are there in the city-region; b) are the city-region, i.e. its policy-makers and development agencies and firms capable of identifying regional resources and are they capable of creating new resources and of networking to external resources; and c) what is the overall capability of urban development network<sup>1</sup> to utilize resources? The spirit of the time usually shapes the development views that concomitantly influence agents to see some things as resources and not see some others. In an industrialized society, among the most important resources in the development of city-regions were raw materials, sources of energy, and logistical location. In a knowledge economy, a highly skilled labor force, universities and other institutions creating new knowledge, and expertise in general are usually seen as the most important resources. On a general level, resources can be grouped as follows.

- *Information and knowledge* – universities, other research institutes, firms, etc. and new knowledge produced in their interaction
- *Physical resources* – infrastructure, location, logistical connections, etc.
- *Firms* – their expertise, resources, contacts, etc.
- *Human resources* – highly skilled people in the firms and other organizations, research and educational institutes, etc.
- *Living environment based resources* – natural environment, built environment, private and public services, etc.
- *Financial and material resources* – funds for regional development work, venture capital
- *Connections* – good external networks, high-level social capital, and creative capital, etc.

In addition to utilizing local resources the ability to locate and utilize external resources is of utmost importance. Hence through skilful lobbying of external financiers and decision-makers and creative utilization of external funding (national, EU) it is possible to increase the resources to build on.

Managing resources requires at least following capabilities in the development agencies: a) the ability to utilize existing resources and to find new ones; b) the ability to direct resources according to urban development strategies and in that way influence the strategies and operations of various

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<sup>1</sup> Linnamaa (1998) refers by urban development network to those key actors who by their own actions and mutual cooperation have an effect on the development of the urban region. Municipalities, key enterprises, business lobbies, educational and research institutions, financial institutions, state's regional administration, citizens' organisations etc. may be members of such a network. There may be considerable regional variation in the tightness and network like characteristics of the urban development networks.

organizations; c) the ability to skillfully lobby to external financiers and decision-makers and to creatively utilize of external funding, and d) the ability to see different things as resources in regional development and to utilize them.

## 9.2 Combinative capability

In knowledge economy, it is increasingly recognized that knowledge and capabilities are distributed across a set of heterogeneous agents, and much has recently been written about collective learning and its role in regional development. In city regions, the quite a common policy response of the 00's is to try to combine strategies of many agents to attract additional resources and expertise in knowledge-intensive activities, with learning strategies targeted at a variety of groups within the city. Therefore one of the main tasks of the managers engaged in promotion of urban economic development is to create functioning development networks and to mobilize resources and expertise both internal and external to the city-region in question. I distinguish three types of combinative capability; institutional capability, networking capability and socialization capability.

*Institutional capability* in terms of direction, policies, procedures, and other explicit guidance are often used to integrate different organisations and their explicit knowledge. As Healey et al (1999) state, the notion of institutional capacity building is not a new concept. It has been used to highlight the need to build up individual capabilities (e.g. labour force skills, or entrepreneurial capability), and those of public development agencies. In the former case, the focus is on the institutions which help to develop such capabilities. In the latter case, the emphasis has been on the capability of particular organisations. The new thinking about institutional capability, however, focuses on the webs of relations involved in urban development policies, which interlink public development agencies, firms, and educational and research institutes in collective action, and thus institutional capability is here seen to be part of combinative capability.

Institutions frame the development policies and processes and give various networks and development activities their context, but they may have either positive or negative influence. On the one hand, they may represent continuity in a rapidly changing world and also provide actors with a clear and supportive playground. On the other hand, institutions may lock regions in past development paths politically, functionally and/or cognitively (see Schienstock 1999; North 1992; Hukkinen 1999), and therefore removal of institutional obstacles blocking processes and networks in order to make the change-over to a new development path possible is often crucial in institutional capability. Such obstacles may be prevailing thought and action patterns, organizational structures, administration, fear of losing acquired advantages, conflicts between organizations, etc.

At all events, institutions are among the most important factors rooting the city to a new path. For example city of Tampere is a prime example of a city that made conscious efforts to free itself from the past path and to create a new one by creating new institutions, by seeking out new resources to build on and by creating a new interpretation of the city-region, its current state and future prospects (see Kostiaainen & Sotarauta, 2002.). One of the reasons that the development work often proceed well is the fact that in the earlier phases of development new institutions and resources have either emerged or been designed that could be utilized later by a more systematic

strategic development approach. However, there are also examples, in Turku as well as Trondheim, of failed attempts and a closing-down of organisations that did not work (see Bruun 2002a; 2002c). The challenge lies in making these failures strength by admitting them, and learning from them. A learning city-region is a region which makes its institutional failures a resource for the future.

In conclusion it is possible to say that institutions provide urban development processes with a general framework and they have a major directing effect on processes. Therefore, consistency and clarity of institutional set-up is important in urban development. In a blurred and rapidly changing knowledge economy, uncertainty is not to be increased by unconsidered institutional transformations; institutions should reduce uncertainty, not increase it. Based on above considerations institutional capability refers to the city-regions abilities to create such an institutional set-up that supports in promoting urban competitiveness, and to abilities to remove the institutional obstacles and bureaucratic rigidities blocking processes and networks. It also includes such abilities as the ability to create and maintain flexible but at the same time persistent institutional set-up that supports networking and fluidity of development processes, that is, the ability to create institutions that provide organizations with as good and supportive national, regional and local development and innovation environment as possible.

*Networking capability* refers to capabilities to forge trust, mutual dependency, loyalty, solidarity, trust and reciprocal support based horizontal co-operation between organisations and individuals. Hence it refers to the abilities to combine versatile and many-sided set of agents, and their competences and resources to be able to design and implement effective strategies and projects to promote urban competitiveness and to create distinctive knowledge pool to form a core of competitiveness. It also refers to the abilities to maintain and deepen the sense of mutual benefit that exists within the network by enhancing network connectivity, integration (mutual adaptation) and transparency. In networking capability it is also important to appreciate openness to extra-regional collaboration and resources to solidify the long term resource base of economic development, and hence also the ability to combine internal and external resources and competences together is stressed.

Networking capability includes such abilities as a) the ability to involve people and empower them to act as a network, b) the ability to make people work to reach joint and separate goals and renew them in an ongoing process, c) the ability to promote interactive processes serving as an intermediary in interaction between actors and steering activities towards seeking for goals and enabling cooperation, and d) the ability to connect various actors to the knowledge pool from their own starting points.

*Socialization capability* refers to the abilities to produce shared and often tacit knowledge that leads to social integration between agents that goes far beyond the institutions and networking, and thus the ability to network competently and efficiently to utilize informal relations emerges important. Therefore such ability as sharing of feelings, emotions, experiences, and mental models become important. (see Nonaka & Konno 1998.)

### *9.3 Absorptive capability*

Based on their study on the transformation processes of the machinery industry in Tampere Martinez-Vela and Viljamaa (2003) state that absorptive capability has been the key in the selective capability of the firms in their endeavour to detect and assimilate new knowledge, to prioritize development efforts and to make sense of emerging technological opportunities. Drawing on Cohen and Levinthal (1990, 569-570) and applying their definition to urban economic development, absorptive capability refers to the development networks ability to identify, assimilate, and exploit knowledge from the environment. Cohen and Levinthal have also argued that the ability to evaluate and utilize outside knowledge is largely a function of the level of prior related knowledge. Absorptive capability can be divided to potential and realized absorptive capability. Potential capability comprises knowledge acquisition and assimilation capabilities, and realized capability centers on knowledge transformation and exploitation (Zahra & George 2002, 185), and thus realized capability refers to capabilities to get things done and actually implement formulated strategies.

Absorptive capability is essential in strategic adaptation in which both adaptation to changing environment and a strategic choices of an agent play a significant role. It includes for example such abilities as ability to value, assimilate and apply new knowledge and to transfer vision and strategies into action.

### *9.4 Interpretative capability*

Mental model, cognitive map, development view, whatever we call "it", is a important factor in the urban development, since in a certain sense, we live in a world of mental models made up of thoughts, ethics, ideas, concepts, images, memories, plans, knowledge etc. Agents do not react directly to reality but to internally constructed perceptions of reality. We all have a development view of some kind. This kind of reasoning suggests that perceptions are playing a key role in development efforts, they refer to differences and similarities in agents' values, goals and interpretations on a given issue. Agents generally have different perceptions of problems, other actors, dependency relations and the benefits and drawbacks of working together. Such perceptions are hard to change, but in joint activity they gradually reform and are reconstructed. By interpretative capability it is sought to prevent such deadlocks or to resolve them by maintaining/creating conditions for open debate.

I have earlier argued that in urban development the conscious construction of collective strategic consciousness is one of the key-elements both in ensuring strategic focus, and the density and integration of development networks. Consciousness presupposes that an agent knows and recognises his/her/its own existence and environment. For the development of consciousness it is necessary that the agent have the ability to monitor and interpret events and to make sense of them. Consciousness expands to be strategic when the agent and/or agents have the ability to find the strategic issues essential to developing and development from the long-term perspective. The assumption then is that as strategic consciousness grows so does the absorptive capability.

(Sotarauta 1999.) The conscious construction of collective strategic consciousness is one of the key-elements both in ensuring strategic focus, and in creating and maintaining the density and integration of development networks.

Strategic consciousness may make development work more effective, but it may also lead to a phenomenon called group think (Janis 1982). Group think may hinder learning and thus prevent key agents from being able to reshape their development view. In this case, the dominant coalition does not listen to any critical arguments and does not see how changes in the environment are changing the base of the strategies. Consequently, the dominant coalition focuses on defending selected strategies and it may cognitively lock into the past path. In the case city-regions referred briefly above, the development views and strategic consciousness of the key actors has been becoming more parallel than before which has made local economic development policies more effective, but on the other hand it has led to a situation where it has been difficult for policy-makers to see and think differently. There is a risk that coherence and homogeneity are prioritised at the cost of sound criticism. This might turn out to be highly problematic if the development activities evaluated with criteria that emphasize the moral as well as the long-term economic value of critical discourse. Such discourse, on the one hand, relates selected strategies to the respective city-region and its many other activities as a whole; and, on the other hand, uncovers possible weaknesses of selected strategies and thus critical discourse is also a source of continuous renewal. (Sotarauta et al. 2002.)

Openness and transparency are essential elements in the interpretative capability, and dynamic, network-based and process-oriented urban development policy should be grounded in the explicit maintenance of the moral and long-term economic value of social discourse critically utilizing, reflecting and weighing the spirit of the time, which has ensured the emergence of such a policy in the first place.

### *9.5 Strategic capability*

In order to gain complete control over development or change in a given city-region it would be necessary for all actors to be of one mind with regard to issues and strategies and their solutions. Furthermore, they would need to implement regional development strategies through their own actions. Efforts have been made to unify the actions of many agents with the help of regional strategies. In other words, it is hoped that regional development strategies will guide a maximum number of regional agents either directly or indirectly. Thus, until now strategies has been formulated by methods based mainly on classical strategic planning. Partnership is therefore often assumed to occur within the regional strategy.

Strategy determines the configuration of resources, processes and systems that the city-region adopts to deal with the uncertainties of knowledge economy. Strategic capability refers to ability to make decisions about what to focus on in urban economic development in long run, and thus to set the strategic direction for many development efforts. Strategic capability includes such abilities as a) the ability to define strategies and visions for the urban development in collaborative process, b) the ability to bring to fore visions of a different futures and the ability to transform

these visions into focused strategies and action, c) the ability to transform crisis-situations into something constructive, d) the ability to launch processes right and manage and lead them persistently in different phases, e) the ability to find correct timing for development work and seize the competitive advantage by being a pioneer, and f) the ability to bring forth big objectives so that they seem credible and attractive for the other agents.

Also the capability for bold and fast strategic decisions in the community is important in opening opportunities for a new path; if successful this capability may be institutionalised in the community and become a local pride and essential part of local culture. Previous successes or failures either strengthen or weaken capability for bold decisions.

### *9.6 Excitement capability*

It has often been stated that in urban economic development the most important issue is mobilizing resources and agents, and many of the above referred capabilities aims at doing exactly that, but in addition a separate set of capabilities that aims at giving birth to creative tension is identified here (for creative tension, see Sotarauta & Lakso 2000), since creative tension can make people genuinely inspired to create new products, processes, knowledge and concepts, and thereby to create a competitive advantage for the city region. Creative tension is an essential state for the urban development and it can be characterised by excitement and uncertainty about the consequences of future events and measures; the dominating thought and/or action patterns are questioned simultaneously by forces which are in mutual opposition or sufficiently different from one another. Creative tension may result in unprecedented, original products or in processes, thoughts, and action models, etc. It may come into being spontaneously or as a result of leadership.

Leaders need to be able to generate creative tension that makes people interested and motivated in development work and thus to create sense or urgency. Often the formulation of a vision or development program and, for example, receiving EU-funding provide a development network and a whole city region with a false sense of security, to avoid this pitfall development efforts need the sense of drama that can be found in a crisis, possible crisis, great opportunities, charismatic individuals, etc. It is essential to be able to raise the interest and motivation of individuals. It helps if key actors in the urban development project are regionally well-known and respected individuals, because the combination of enthusiasm and authority that they embody is likely to transmit a positive and regionally anchored view of the project to the general public. Visionary leadership and concentration of representative authority in the urban development network should be balanced with openness, transparency and goal consistency to guarantee the credibility and educational self-renewal of the network as sources of creative tension, i.e. exciting and inspiring processes that attract highly-skilled individuals, new knowledge and ideas.

Excitement capability refers to ability to capitalize on the creative tension between the inspirations of key individuals and the dominant thought patterns, and to ability to excite the agents to “development rebellion”; all this requires a good sense of drama.

Excitement capability includes e.g. such abilities as e) the ability to create and utilize creative tension in development work, and f) to create the sense of drama (presenting issues so that

people become enthusiastic and excited), d) the ability to get short-term success in order to sustain motivation in the network, and e) and to motivate people to participate in various development efforts.

## 10

# Conclusion

During last decades, and especially in the 90's, we have been learning a lot about studying and shaping futures utilising, for example, strategic planning. In spite of this, for some time now, I have been wondering where the diversity of human life, economy and our societies vanishes when the future is presented in the form of visions, scenarios and strategies. Suddenly the future seems to be either an exquisite and glorious or depressing and gloomy, often very confusing world relegated to the background, a future in which the political nature of decision-making is forgotten. Obviously I am simplifying, but nevertheless I feel that in our efforts to formulate development strategies we should be able to understand better the relationship between past paths, contemporary developments, futures and the nature of human action.

An excessively firmly established belief in instrumental rationalism-based planning models cannot meet the requirements of an ambiguous and rapidly changing environment, and the many more or less self-guiding networks and clusters. They cannot be directed by the rather straightforward, linear models we are used to, because societal problems are not so well specified as assumed, the goals or objectives are not clear, or it is even doubtful if they can be brought to clarity during predecisional work as assumed. In addition implementation is not a phase distinct from the planning phase, but strategy itself is rather a never-ending process, and thus it becomes a two-way process, in which intended strategies affect the functions of organisations engaged in regional development but at the same time people, events, actions etc. affect strategies, changing them. Recognising, acknowledging and using this phenomenon to benefit the performance of the urban development and learning may be one of the key issues.

At least some of the shortcomings faced in urban and regional development policy-making are due to poor quality of interactive strategy processes, and I would like to propose that strategy process of good quality is one of the major preconditions in successful collaborative strategy processes. I would also like to propose that if the quality of policy-process is poor urban and regional policy-making may become a rigid planning machine, and vice versa, i.e. if the quality is

good one, policy-making has a chance to become a form of dynamic governance of ambiguity.

Strategy development in city-regions cannot solely be based on classical strategic planning. It can neither be solely based on processual or some kind of communicative approach; strategic planning in regional development context is to be balanced by linking processes, communication and rational contemplations better together than earlier. In this paper, it is suggested that dynamic capabilities might provide both researchers and policy-makers with a fresh approach by which it might be possible to combine the many sides of urban economic policies together.

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