

# Regional Development and the Role of Leadership

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## *Abstract*

*Regional Australia is undergoing considerable change, much of which is driven by global market forces. Some of the key drivers of change include the emergence of Free Trade Agreements (FTA) phyto-sanctions, demands for quality assurance and improved environmental management, demographic changes and lifestyle factors. These changes have embedded regions in a highly competitive global economy. Now regions as opposed to States are regarded as the economic drivers of the nation's economy. The global connectivity and competitiveness of the region is paramount to their long term economic sustainability (Blakely 2004).*

*The challenges these global trends and drivers are placing on regions is compounded by such issues as an aging workforce, sea change and lifestyle choices (ABS 2004) and the perennial issue of attracting and retaining services and professionals (SCORD 2004) as well as the more insidious issues such as climate change (IPCC 2001).*

*The capacity of regions, their communities and enterprises to survive and thrive in today's competitive environment was initially thought to be totally dependent on their social, economic and environmental capital (Cavaye 1997). Today, however leadership, innovation, creativity, connectivity and business acumen are emerging as the key ingredients for success and sustainability.*

*This paper explores the issues influencing the competitive status of Australian regions and examines the role that leadership can play in ensuring the ongoing competitiveness of our regions in a rapidly changing global environment. The paper also discusses the benchmark work of McKinsey (1994) on the competitive status of regional Australia and examines pathways towards achieving a more sustainable and globally competitive regional development.*

## **Introduction**

For many regions throughout the globe their future is seen as extremely challenging and is often quoted as being “just one damn thing after another”. This is reflected in the picture for much of regional Australia as the regions grapple with the changes brought about by the globalisation of the economy and world trade. This complexity is compounded by technology and the need for innovation, micro-economic reform, changing demographic patterns, labour market reform, government regulation and deregulation, and the real time environmental challenges (Ruthven 2005). The list goes on.

To further complicate matters regions are grappling with the emergence of virtual corporate structures and businesses, market protection such as phyto-sanctions as well as quality assurance (QA). These changes and community affluence are also influencing the way in which people value *work and play*. The changes in the community beliefs and values as well as social reforms are stimulating the sea change and tree change. All of which are driven in part by changes in lifestyle, the use of technology and the effects of an aging

population. These issues interact and are interdependent. Accordingly, it is not difficult to appreciate that these changes impacting significantly on the idealised framework on which Australian regional communities were built a few short decades ago. The success or otherwise that regions have in accommodating and capitalising on the changes seems to be intimately linked to the capacity and capability of the regions social capital (Cavaye 1997).

Social capital is defined and distinguished from the other forms of capital such as financial, human, physical, and environmental (Cavaye 1997). Social capital as encapsulated by Coleman (1988) is “as inhering in the structure of relations between actors and among actors”. While there are many other definitions of social capital the central ideas of networks, trust and norms or values remain common to all. The different forms of community capital work together such that the social capital increases the efficiency of the other forms of capital. High levels of social capital can empower citizens, increase the decision making capacity of communities and improve cooperation (Cavaye 1997). Similarly, the OECD definition of social capital is defined as the ability to gain access to resources through social networks.

While social capital is a key dimension, to proactively meet the business needs of regional Australia in the twenty first century there are a range of complex interdependent issues that need to be considered and reflected in the way communities develop, the role of government, how government policy is formulated and how government delivers support and services to regional Australia. This paper explores some of these issues and presents a position that leadership development can play a pivotal role in securing the future prosperity and vitality of Australia’s regions.

### **Regional growth and development**

The McKinsey & Company (1994) study, *Lead Local Compete Global* explored the private investment and growth potential of Australia’s regions. The report was well researched and is now regarded as a benchmark of Australia’s regions capacity and capability. The report found that the key to successful regional growth lies in strong industry, civic and government leadership and concluded that it is critically important to create a learning environment, to improve leadership and that throwing dollars at the problem is not the solution. The solution was deemed to be in developing leadership. The report recognised that the role of government has changed and had shifted from doer to stimulator and facilitator of change and development.

However, SGS Economics (2002) identified that no previous analysis of business development in regional Australia had placed so much emphasis on local communities helping themselves through focused leadership. SGS Economics (2002) thought it tempting to speculate that, to a large extent, this policy prescription was influenced by the American regional business experience. In the American context, virtually any business has a very large market on its doorstep. However this is not the case for Australian businesses in regional areas. Regardless of this difference, several Australian researchers working with local communities have shown positive results using the model on leadership development as outlined within the McKinsey (1994) report (Kenyon and Black 2001a; Kenyon 2005).

While the McKinsey (1994) report provided considerable insight and understanding of regions, the study did not however explore the type or styles of leadership required or the processes necessary to develop and stimulate regional leadership and professional

development. This is now the subject of a major research proposal between a number of Regional Universities and the Australian Institute of Management (AIM) to be tabled for consideration by the Federal Government and will be dealt with elsewhere.

While providing a significant start and a useful benchmark the McKinsey (1994) report is now over 10 years old and much has changed. At a national level Australia has experienced a decade of sound economic management which has resulted in sustained growth with low interest rates, reduced national debt, and a dramatic fall in unemployment. However, this is far from the case for many regions. At the same time, there have been significant population changes in a range of regions over the last ten years. While opportunities abound in some regions, in others new economic and new social challenges have occurred. In short, the regions have changed and new challenges are emerging.

These challenges were explored by Keniry (2003) who investigated and made recommendations on the options for encouraging growth and investment and included considered debate on the impediments to business growth, the effectiveness of current government assistance programs in regional Australia and international best practice. The recommendations made by Keniry (2003) were categorised under business, government, people and infrastructure. Of particular interest in this study is the identified need to deal with the attraction of skilled people to regional Australia, increasing the commitment of skilled and unskilled people to regions and in the fostering of regional leadership.

As part of the Keniry (2003) investigations SGS Economics (2002) identified three areas of regional business development literature. These were the seminal literature, international practice and recent literature in regional business development and went on to interpret the recent literature and experience elsewhere.

The seminal literature included the contributions made by Jacobs (1984), Romer (1986), Porter (1990 and subsequently Saxenian (1994), McKinsey & Company (1994), Florida (2003). However, as already identified many of these authors focused their research on regions in the USA and Europe. These regions have a large population base and a ready local market. However, in Australia many of our regions have sparse populations. Business development relies on industry's ability to export. This is even more evident with inland regions. However, work by Kenyon (2005), Kenyon and Black (2001a, 2001b) support the community approach regardless of population size and the need for a large local market.

Jacobs (1994) identified and argued for the need for cities to grow through import replacement and for regions as a whole to become more economically versatile and focus on the relationships between similar regions globally. However, it is of note that Jacobs' (1994) also explains that supply regions distant from cities do not necessarily benefit from the various forces unleashed by cities undergoing import replacement activity. Jacobs (1994) concluded that only regions that can grow import-replacing cities will be prosperous in the long term. Regional economic expansion according to Jacobs (1994) stems from the ability of a region to provide goods and services for the region. Once a region can do this, it can use the lessons it learns from the process to build a more sophisticated export base.

This is supported in many ways by the work of Romer (1986) who suggests that regional growth is largely determined by technological change. Romer's (1986) work

is further supported by Saxenian (1994) who compared the development paths of two different high technology regions in the United States – Northern California’s Silicon Valley and Boston’s Route 128. Saxenian (1994) demonstrates how these two regions have taken different paths but have resulted in a similar end product in terms of global competitiveness. Lee *et al* (2000) however suggests that the Silicon Valley’s structure is a unique compilation of culture, a few key entrepreneurs, universities and infrastructure and that this mix cannot easily be replicated in another loci or geographic area in what is now a changed global environment.

Porter (1990) argues that the competitiveness of a region is determined by a number of independent variables which differ between industries and even industry segments within a region. This is supported by Keniry’s (2003) work with the added focus on the need for well placed infrastructure and access to finance. In other work Porter (1996a, 1998) took this further and explored the development and need for clusters of firms in the same region to create synergies in production and economies of size and scale to generate enhanced competitiveness in a global economy. This model is supported in some Australian regions where a cluster of related industries exist – for example around mining and primary industries.

Porter (1996) also proposes that business must choose a positioning strategy in the market place to compete effectively. The business must deliver goods that are of consumer value competing on price or quality (differentiation) or a unique combination of the two. This is needed in order for the business to have a sustainable competitive advantage in the market place. This will usually only accrue to businesses that have a consistent development strategy and through ones which reinforce this through the organisation of their value adding activities.

### **Liveability and regional development**

An alternative but very important perspective to regional development is illustrated by Florida (2003). Florida identified the importance of liveability and cultural tolerance and other social attributes. This was defined in the context of an important feature which provides for openness and variety of the region to act as a talent magnet in the presence of available technology. In this instance it is about the importance of soft infrastructure that supports liveability, community connectedness and lifestyle (Keniry 2003). Infrastructure provision, both hard and soft, is key to the provision of an attractive environment for business to establish and grow in a region (Hugonnier, 1999).

Florida (2000) describes the traditional economic development model as one of lifestyle and professional development benefits derived with companies that lead to attractive jobs. Florida’s position is supported by Miles *et al* (2004) in identifying the needs for professional development in regional Queensland and Lee *et al* (2000) in asserting a need for a high quality of life. The balance between work and leisure and the liveability of a region are now critical determinates of where people will live and work (Miles *et al* 2004).

A common theme in much of the regional development literature is that of the role of technology, particularly ITC. Porter (1998) uses ITC and other high tech examples to demonstrate a point that, “*Today there is no such thing as a low-tech industry. There are only low-tech companies*”. In Porter’s words, “*any company in any industry can*

*be more productive and more competitive by using technology well*'. This is clearly demonstrated in Australia's agricultural sector where technology has played a major role in reducing the gap between the value of the commodity and the production per unit input (Barr *et al* 2005). Good examples of the use of technology and its role in regional development are also demonstrated in the mining industries and their ability to continue to compete globally with minimal tariff support compared to the European community.

The European literature is highly urban focused. In the European Union attention has long been given to both rural and urban contexts in different parts of the European Community's policy framework, without a blanket bias against either at any particular time (Expert Group on the Urban Environment, 1998). From this research it is evident that there is a need for a strong implicit recognition of the importance of the city-hinterland relationships for the overall wellbeing of member states and the Union. This principle must also be considered and applied in the Australian context for regional vitality to be truly realised (Directorate-General for Regional Policy and Cohesion, 1996). It is from this context that rural regions have received a large share of the regional support funding from the Federal Government in the past few years (Directorate-General for Regional Policy and Cohesion, 1996).

### **Regional connectivity and leadership**

Globalisation has a major influence in regional economic development (AHURI 1998). As mentioned earlier this is one of the key drivers of change and a very difficult one for regions to effectively deal with in isolation. One approach that has been adopted is for regions do things smarter by collaboration, using a strategic approach to alliances and partnerships and the sharing of resources to gain a market edge or operational efficiency. The value of this strategic approach is recognised and shared by many authors including Stilwell (2000), Nijkamp van Oirschot and Oosterman (1994) and is also included in the collaboration model espoused by Cohen (2000). Some examples of this are present in the creation of larger bodies, regions or clusters often with a different name than the individual entity or businesses (AHURI 1998; Boody 2000; Enright and Roberts 2001). This model also applies to environmental issues. A complex example of this is given in the creation of the Murray–Darling Basin Commission - a range of organisations across state boundaries with a shared or common interest.

A further response to the pressure of change on regions created by globalisation has been to focus on the development of trade. According to McGovern (2004), trade may or may not benefit a region but it is evident that much of Australia's regional trade development is from agriculture which is one of the economic anchors of Regions (Cavaye 1997). While attracting large new businesses is legitimate and an important part of diversifying regional economies, of equal importance is the ability to sustain and foster the investment that already exists in regions and for many regions this is agriculture (McRuvie 2004).

Another dimension to consider is that the current view for regional development to be sustainable and effective is that while governments must be interventionist (O'Connor *et al* 2001) they also need to support not only a top down but a bottom up (National Economics 2000) approach to regional development and this more than the provision of money (McKinsey 1994; Roberts *et al* 1996; Lennon 2001).

In this context regional economic restructuring since the 1970s has created a new economic geography in Australia and there are identifiable causes as to the relative success and growth of some regional cities and towns compared to the decline in others. These causes of the growth or decline has included the location patterns of firms motivated by low cost alternatives to traditional locations and the changes in production towards a national and international export focus. A number of regional cities and towns have proactively promoted low establishment costs and low cost infrastructure and services to new industry. This has had the effect of attracting many new export oriented industries to regional centres and are now seen by many as the prerequisite conditions for the growth of regional cities (Beer *et al* 1994). However, this is also colloquially known as smoke stack steeling and is sometimes regarded as short term. Successful development also requires regions to actively market themselves and their competitive advantage (Beer 1997).

Mouritz (2001) demonstrates the power of harnessing local cooperative investment to generate business development (and subsequently economic growth) within a regional township. In his work he suggests that to create local business development, regions need to identify and capitalise on the opportunities that are presented in the town. This includes the need to organise people with vision, confidence, good marketing and communication skills while working together to share and foster ideas. These are similar to the ideas of Business LINC (1998) and Ferguson (2001) who promoted leadership, team building, profit development and material support during start-up periods for small businesses.

### **Creativity, innovation and technology**

Malecki (1997) provides a comprehensive investigation into the relationship between technology, innovation and strategy as key drivers of economic development in regions. Malecki argues that technology is the essential ingredient in economic development and that it is behind the proliferation of all new products and services. Some of the arguments that Malecki (1997) proposes are that:

- ✓ Technology is an essential ingredient in regional economic development.
- ✓ Technology diffusion stimulates business investment and employment in a region.
- ✓ Strong inter-firm relationships are vitally important to stimulating investment and development in regions.
- ✓ Entrepreneurship and innovation drive regional development.
- ✓ Good governance is critical to the effective management of economic development in regions.
- ✓ Government policy should focus on means of increasing skills and education and training, embracing technological change and the development of critical infrastructure that is needed to support faster and flexible development in regions.

While this is clearly an important element other elements need to be considered. Pages *et al* (2001) summarised the findings of an inquiry into “*what policies are needed to help create more entrepreneurs and what will ensure that more entrepreneurs succeed*” as: A talented entrepreneur can succeed anywhere but they are likely to be more successful in areas that have diversity in sources of capital, an

enabling culture, strong local networks, supportive infrastructure and entrepreneur-friendly government. Feedback from the private sector suggests that governments should be more business-minded, by acting faster, and with transparency and flexibility. Further, an 'amenities based economic development strategy' should be pursued to encourage skilled knowledge workers to locate in regions that have lifestyle appeal which is also supported by Florida *et al* (2000).

Pages *et al* (2001) further argue the need for policy makers to ensure that there is a sound infrastructure and quality human services in regional areas. In addition, Government must facilitate and support private networks and create a regional commitment to leadership and entrepreneurial growth. Governments need to send out a clear message that they encourage and support entrepreneurship and educational institutions have a key role to play in regional development. Governments need to facilitate communication between businesses, entrepreneurs and education institutions to enhance the education sector's role in training, recruiting, and retaining quality students and workers in their region.

### **The importance of leadership**

The Department of Transport and Regional Services (2000) makes the point that one of the major obstacles to regional business development is a lack of adequate education and training. This is expressed as a major issue for regions and has resulted in the decline in the regional labour market which is reflected in the availability of a suitably skilled labour force. While a major issue is the attraction and retention professionals and skilled labour it is of note that most of the debate has targeted at skill development and very little has focused on the development of business acumen, leadership skills or continued professional development.

There are many authors that report on the need for education of the regional workforce and a number also report on the urgent need for strong leadership development (Enright and Roberts 2001; Mouritz 2001; O'Connor *et al* 2001; Cohen 2000). In addition, many investigations have examined the issue of skilling of the work force such as, Skilling Australia (Department of Science Education and Training 2005), Inquiry into Rural Skills Training and Research (House of Representatives Agriculture, Fisheries and Forestry Committee 2005) and Skilling a Season Workforce (Kilpatrick and Bound 2005). However, in these reports there is no mention of leadership development without which regional Australia will not advance (McKinsey 1994, Keniry 2003).

To reinforce this point from a practical perspective, job advertisements rarely ask solely for a set of skills. Employers want much more than just the technical skill as is pointed out by Richardson (2005). Even an apprentice today is expected to have initiative, presentation, communication and good literacy and numeracy skills. To be a sales manager, the qualifications are a university degree, and the personal qualities are spelt out in a long list which includes lateral thinking, initiative and desire to achieve, leadership and so on.

Professional development is a key in regional development. Today this is about life long learning. Lombardo and Eichinger (2002) identified that successful career advancement is strongly connected with continuously learning *to do what you don't yet know how to do*. They argue that continuous learning to do new and different

things and variety of experience pose the greatest challenges saying, “Few people have the requisite experiences needed in managing and leading in the world of change, and fewer still have any idea how to learn from them”.

The method of delivery of leadership and professional development is also changing and offering new methods of on the job training. Distant or on-line learning are now emerging as new industry standards particularly with the expanded access to internet and broadband services. Wondur Business and Technology Services (2004) in their extensive review of services in rural and regional areas found that the use of broadband for research, education and on line learning is a priority for agriculture and local government users and the development or deployment of new applications in this area creates a significant opportunity for regional Australia. This point is further explored and supported by the work of Standen and Sinclair-Jones (2004) who found e-work offered new opportunities for business and professional development in regional Australia.

To be a successful knowledge-based region, regions have to have a high concentration of access to e-based systems, leadership, entrepreneurship and access to highly skilled professionals (scientists and engineers) and global knowledge workers. These workers tend to migrate to regions with scale and diversity of social and community infrastructure and cultural and lifestyle choices (State of the Nation Report 2005). This view is supported by Florida (2003) and Miles *et al* (2004).

Media reports frequently talk of the crisis in the bush leaving urban audiences with the perception that it is always one crisis or another. This is not necessarily the true picture. Some regions are doing very well and have a justified interest in challenging overall assessments about regional disadvantage (Birrell *et al* 2000).

Barnwell (2005) points out however that, as a general rule regional business has a reduced access to finance, many have underdeveloped business skills and infrastructure that is in dire need of upgrading. These problems are exacerbated by a general negative perception of regional Australia which is costing regional areas large amounts of skilled capital and compounding the problem of skill shortages, entrepreneurship and leadership capability.

On the other hand Rees and Fischer (2002) and Graham (2005) outline the success stories of people and communities across rural and regional Australia. These are many and varied with many other published examples of successful individuals such as O’Toole (2001) at the Beechworth Bakery and Eady (2005) who provides case studies of successful Queensland women in regional business and Hyde (2000) who profiled 30 Australian champions from rural Australia. Other accounts of successful communities are identified by Cocklin and Alston (2003) and Plowman *et al* (2003) who studied a range of rural towns in Queensland identifying the characteristics of innovative communities. These all link to the ten common themes of passion and persistence; core values, idealism and vision; community connectedness, ownership and involvement; quality customer service; idea obsession, innovation and continuous improvement; leadership and skilled management principles and practices; staff pride, enthusiasm and involvement; product differentiation and quality; collaboration, networking and strategic partnerships; and innovative marketing and associated case studies of successful regional people and their business outlined by Kenyon (2005)



and follows from his work on small town renewal Kenyon and Black (2001a, 2001b). In all instances these success stories are underpinned by personal capacity, leadership and innovation.

## **Discussion**

Major impediments to regional business growth and development have continually been reported as inadequate education and training (Department of Transport and Regional Services 2000). This is reflected in the issue confronting rural and remote Australia in the difficulty with the attraction and retention of skilled labour and professionals. Governments at all levels are struggling on how best to address this and how best to establish and maintain a favourable regional investment environment. The ongoing focus on skills development and the attraction and retention of professionals is also now reflected in the need for strong leadership and the capacity development of regions.

Governments need to continue to assist in the development of regions by supporting them to manage the transition through the significant change induced by the global trends and drivers. The role of Government will need to be one of facilitator and service provider undertaken in a proactive and supportive policy framework. This will need to be done in a partnerships model with industry and members of regional communities (Blueprint for the Bush 2006).

Development funding programs that respond to the particular needs of Australia's rural and remote communities are needed and will have to be well targeted. The types and level of government assistance must be developed under this partnership approach and be applied and address real time issues. Regional development activities now need to be effectively coordinated between the three tiers of government. Outdated methods of offering business incentives by themselves have been shown not to work alone and these programs need to be reviewed and changed (Blueprint for the Bush 2006). Existing small business should be encouraged and supported as a priority but not in the absence of the need to address the soft infrastructure needs of today's vital communities. Efforts to encourage regional business development should engage the local community to ensure engagement and true partnership approach (Blueprint for the Bush 2006).

However, government programs targeted to specific industry sectors need to be flexible, be available to all regional residents and take into account the diversity of circumstances between regions. Government needs to encourage business partnerships such as industry clusters and networks and provide better coordination for business dealing with structural change. Therefore, governments should increase the provision of training, mentoring, skills development and advice on business planning. Government business programs and government provided business and industry assistance packages should be regionally specific and targeted toward improving business acumen and entrepreneurship (Department of Transport and Regional Services 2000).

In the successful regional case studies reviewed (Kenyon 2005; Kenyon and Black 2001a) and highlighted over 10 years ago by McKinsey (1994) it appears that leadership is still a critical element in achieving success.

A great deal of the research cited focuses on successful regional development through the acquisition of the resources and infrastructure, the role of government, good governance and management, and the many other components required for success. Leadership remains the rarely spoken about, but essential ingredient for success. It may well be that often management should be replaced by leadership. In the work of Plowman *et al* (2004), the authors refer to both the quality of management and leadership renewal.

While Blueprint for the Bush (2006) plots a pathway forward for rural Queensland it would not have happened without the high level of leadership on the issue provided by AgForce Queensland in bringing all the parties together to examine the issues, determine the needs and develop the plan. National evidence of a need is confirmed by the recent announcement of the financial and management pressures facing local government both in Australia and overseas (Commonwealth of Australia 2006).

An examination of successful regions will in all probability identify successful leaders. The question then is how to identify and stimulate the leadership resources in other communities to maximise regional development. The work proposed by a group of Regional Universities and AIM will hopefully provide some answers.

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