

The Compass of Local Competitiveness

A Performance Measurement Tool for Territorial Development Initiatives

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The Compass of Local Competitiveness is a tool to monitor and assess the strategic approach to and the progress of territorial development / Local Economic Development (LED) initiatives. It is based on the Balanced Scorecard (BSC) method. Whereas BSC has been designed for the use in companies and other organisations, the Compass is specifically designed to cater for the needs of territorial development initiatives.

The Compass of Local Competitiveness is a tool that gives you

- a clarified perception of the vision and objectives of territorial development,
- the identification of the critical success factors of a territorial development programme and specific initiatives within this programme,
- the definition of key performance indicators and specific targets you want to match,
- the definition of specific activities to achieve these targets.

Elaborating a Compass of Local Competitiveness can be the outcome of a single workshop, but it may be more practical to have a sequence of three workshops. The total duration of a single workshop would be between 1.5 and 2.5 days, the sequence of workshops would still be concluded within a week.

Elaborating a Compass of Local Competitiveness involves a reasonably representative group of stakeholders around the LED programme or initiative and a skilled facilitator with experience in applying the Compass. It presupposes the buy-in of these stakeholders so that they make the necessary time available.

1 Why use a Balanced Scorecard-based approach to LED?

It is a widespread phenomenon both in industrialised and in developing countries that LED is conducted with little concern for monitoring and evaluation (M+E). There are a number of reasons for this:

- It is often no easy to get LED activities going, an in particular it is a constant challenge to involve the private sector in LED. Accordingly, there often is little to monitor in the first place. If LED activities are going on, stakeholders are so busy managing them that little time and energy is left for proper M+E.
- LED is often conducted in a pragmatic and ad-hoc way that makes M+E difficult. It is not a constant production or service delivery process, like in a company, but rather a sequence of targeted individual activities. Once a given

problem has been fixed, the actors involved often don't see the point in monitoring and evaluating this.

- M+E takes time and effort. It can become costly, it can become bureaucratic, and ultimately it can distract from actually *doing* LED. Given the fact that they always suffer from time and budget constraints, LED players often prefer to devote their scarce resources to doing things, expecting that successes will speak for themselves and assuming that managing LED implicitly includes monitoring anyway.

Looking at these strong reasons against M+E in LED, we need very convincing arguments to persuade LED actors to do M+E nevertheless. Some such arguments are the following:

- We need convincing success stories of substantial outcomes of LED to get sustained support, including funding, for LED. We only get documented success stories if we do M+E.
- LED involves a learning-by-doing process. M+E provides us with the means to make implicit learning explicit and thus transferable, so that over time the effectiveness and efficiency of LED improves and experiences becomes transferable between individuals.
- Ongoing, revolving M+E provides us with evidence that helps us to cope with the 80/20 problem, i.e. the fact that we often spend 80% of our effort for activities that only deliver 20% of the outcome. M+E can help us identify those activities that have an unfavourable effort/outcome ratio.

Why do we suggest a BSC-based approach for M+E in LED? The main reason is that the BSC appears superior to conventional performance management frameworks. Elaborating and monitoring it is more efficient, and it is, well, balanced.

The BSC approach was originally developed for the corporate sector. It was based on a simple observation: Actors in an organisation behave according to the incentives they face. If their performance is measured against financial indicators, they will optimise such indicators – even if the short-term optimisation of financial indicators may come to the detriment of the long-term growth potential of the business. The key idea of the BSC approach was to introduce a wider, more balanced set of performance indicators that is not one-sidedly looking at financial indicators but also at other, more qualitative indicators that address the long-term growth perspective of the business.

The rationale for using BSC in public and public-private LED efforts follows the same line of reasoning. Conventional performance monitoring frameworks for territorial development tend to look one-sidedly at economic indicators, such as GDP

growth, business growth, start-up performance and employment growth. The problem is that newly launched LED initiatives take some time to deliver substantial results against these indicators. The indicators may even deteriorate despite a dynamic LED process, for instance in a region that suffers from the decline of old industries, or in a setting where macro-economic framework conditions are adverse. A BSC takes a wider perspective, including more qualitative indicators of successful LED. From a pragmatic perspective, it is important to note that a BSC can include a number of indicators that can be improved on a short-term time-line.

The objective of preparing a BSC for an LED effort is to define the critical success factors (CSFs) of the LED effort at large and of specific LED initiatives / projects and to work out the key performance indicators (KPIs) that permit us to assess the impact of our LED effort and specific activities. The purpose is not to come up with a complex set of statistical indicators that takes a lot of effort in gathering and updating, but rather a straightforward set of indicators that permit the assessment of the impact of LED.

In past approaches (like in the case of development assistance donor organisations) unrealistic or not clearly defined objectives (like “The SME sector is becoming more competitive”) were matched with indicators which primarily focused at activities rather than on impact. The BSC opens new pathways to the definition of impact-oriented indicators even for intangible factors.

2 What are the key elements of a Compass?

The conventional BSC, developed for use in companies, looks at four types of factors:

<p>1. financial indicators</p> <p>To succeed financially, how should we appear to our shareholders?</p>	<p>2. the customer perspective</p> <p>To achieve our vision, how should we appear to our customers?</p>
<p>4. the learning and growth perspective</p> <p>To achieve our vision, how will we sustain our ability to change and improve?</p>	<p>3. the internal process perspective</p> <p>To satisfy our customers and shareholders, what business processes must we excel at?</p>

The BSC concept suggests to address these four factors counter-clockwise: create proper incentives for learning and growth that will lead to constant upgrading of

internal processes that will satisfy the customer, so that you have a convincing financial performance as the ultimate outcome.

When translating the BSC concept from a corporate setting into the LED scenery, we introduce it as the **Compass of Local Competitiveness** with four core factors that are similar to the corporate BSC but better adapted to the reality of LED:

<p>Economic indicators (growth, business growth, start-ups, employment, ...)</p> <p>What is the impact we need to deliver to keep our voters happy?</p>	<p>Relationships with external players</p> <p>How do we need to interact with other stakeholders (other local stakeholders, investors, customers/tourists, funding agencies, ...) to make LED a success?</p>
<p>The learning perspective (alignment of understanding of LED, alignment of expectations, role definitions, ...)</p> <p>How can we make sure that we constantly upgrade our understanding of our economic reality and of LED?</p>	<p>The local process perspective (interaction between core players, governance pattern, ...)</p> <p>How do we have to organise our LED process and effort internally to assure its effectiveness?</p>

This compass should not only be elaborated for the overall LED effort but also for the specific initiatives:

- We want to have a top-level compass that addresses the overall LED effort in a given location. We elaborate CSFs and KPIs that are rather generic. For this exercise, we would need the involvement of political decision makers, since they are ultimately responsible for setting the goals that the LED effort is supposed to achieve.
- We would work downwards into specific initiatives, preparing a set of specific compasses. Each of them would look at the LED activities in a given sector, cluster, value chain or around a key catalytic project (landmark project). It is even possible to go one level further down and prepare a compass for each activity within a given sector, cluster or value chain; however, this may be exaggerated. Elaborating the compass at the sector / cluster / value chain level would force us to align the various activities in a given sector towards a shared goal and set of performance indicators. At this level we would involve LED practitioners, not the top political level.

In the elaboration of the compass, we would not elaborate the “strategy maps” in the way suggested by Norton and Kaplan. We find that the simple unilinear causality that they suggest does not reflect the reality of interrelationships and feedback loops between CSFs in the different quadrants, especially for organisations

or networks of actors who are primarily involved in production. We rather suggest the use of the paper computer to analyse the interrelationships between CSFs and identify the CSFs with the strongest leverage.

3 How does the Compass connect to PACA?

Two factors drove the development of the Compass. First, Jörg Meyer-Stamer learned about the possibility of using the BSC approach to measure performance in territorial development initiatives during an exchange programme between the state government of North Rhine-Westphalia and Scottish Executive and Scottish Enterprise in 2001; at that stage, Scottish Enterprise was just adopting and adapting the BSC to monitor its cluster initiatives.¹

Second, agencies that applied PACA increasingly started to ask for a tool to monitor and evaluate the outcome of PACA. We suggested a BSC-based approach because of the Scottish experience, but also because we felt that we would be able to transform it into a highly efficient workshop format, thus taking the approach that had evolved in PACA one step further. Let us emphasise that the Compass is perfectly applicable in a context where LED has been going on without PACA. But it is also a very effective tool in the follow-up to an initial PACA Exercise.



These pictures were taken during the first practical application of the Compass, addressing the LED programme of Ilembe District Municipality in South Africa. This exercise was sponsored by the GTZ BDS/LED Programme in South Africa.



1 See Grant McKenzie, Jörg Meyer-Stamer and Wulf Noll: Cluster Development in NRW and Scotland. In: Partners in Development. A Report on Structural Policy in Scotland and Northrhine-Westphalia (Germany), Edinburgh and Düsseldorf 2001 (available at http://www.meyer-stamer.de/2002/Scot-NRW_Cluster.pdf)

In order to elaborate the Compass, there are two options. First, it is possible to elaborate the Compass in just one workshop with local stakeholders. This workshop includes the following steps:

1. Clarify the objective of the exercise: Who and what exactly is it about?
2. Clarify the vision, i.e. the overall objectives of the object of the Compass
3. Brainstorming on critical success factors
4. Brainstorming on key performance indicators
5. Definition of targets and accountability
6. Brainstorming on activities related to each CSF

This format takes between 1.5 and 2.5 days.

The other option is the conduction of three distinct workshops:

1. Brainstorming Workshop: Step 1 to 4 mentioned before (1 day)
2. Technical Workshop: Core group revisits and defines KPIs and targets
3. Way-forward Workshop: Core group presents results to wider group of stakeholders (half day)

This format is adequate in settings

- where a number of LED activities is going on and the main purpose of the workshop is to match them with the Compass,
- where relevant stakeholders suffer from serious time constraints.

4 What are the practical activities involved in the preparation of a Compass of Local Competitiveness?

The elaboration of a Compass is primarily based on structured workshops with local decision makers and stakeholders. Before planning an exercise to elaborate a local Compass, the LED champion has to take key decisions:

- Will the exercise only address the public sector or involve both public and private / non-governmental players? This question may appear silly – obviously, LED must involve private / non-governmental players, and they ought

to be involved in any effort that aims at goal alignment and the elaboration of performance indicators. At the same time, there is the practical matter that non-governmental players are suffering from serious time constraints anyway and are unwilling to devote time to an exercise that ultimately aims at M+E. It may also be the fact that non-governmental players have not really bought into an LED effort, so that effective activities involve the public sector and beneficiaries; in this case, representatives of the beneficiaries would have to be involved.

- How far do we want to drill down? Do we want to elaborate the Compass at the top level and the sector / cluster / value chain levels, or do we want to go deeper, also looking at individual activities / projects? Or would we perhaps prefer to skip the sector / cluster / value chain levels and address the top level and the activity / projects level? One of the main criteria guiding this decision should be practicality: Looking at the ongoing activities, is it worthwhile / does it add value to spend between half a day and a full day on each of them to elaborate the Compass?

The organisation of the Compass Exercise can only proceed once these questions have been answered, since only then it is clear who needs to be invited to the different workshops. What is then going to be the structure of the workshops?

At the **top-level workshop**, we will need to set the stage for process of aligning the overall goals and expectations around LED. We had better not assume that the different stakeholders who are involved or interested in LED have a common understanding of what LED is all about. We need to allocate a serious amount of time to address this issue. We would hesitate to introduce a search for a vision, since the outcome is too often a generic “wealth & happiness for everybody” statement. We would rather ask: What do we want to achieve with our LED effort until the local government elections? And what is the medium-term goal of the LED effort, i.e. what do we want to have achieved by the subsequent elections? This would take us to the formulation of one or a limited number of goals. This would then be the basis for the elaboration of CSFs, and after that of KPIs. The next step would be the definition of activities and responsibilities to meet those indicators (to the extent that they are not yet in place or planned – which may take us back to a re-definition of KPIs and CSFs if we realise that we don’t have the resources to launch the activities needed to meet the indicators), as well as the definition of activities and responsibilities to actually gather the data needed to monitor those indicators. This workshop would go beyond the activities addressed as part of PACA activities. A realistic time frame for this type of workshop is around 2 days.

At the **sector or project workshops**, we would also address the issue of goals and expectations. However, at this level the discussion would be less political / philo-

sophical and more practical. Apart from that, the sequence of activities would be the same as above. These workshops may focus at the ongoing PACA activities and involve the actors identified and involved during the PACA Exercises. This kind of workshop can be conducted in 1 to 1.5 days.

The outcome of these workshops is the definition of a set of CSFs that can be used by the LED champion to monitor the ongoing LED effort. After the initial round of workshops, we advise to have follow-up workshops at a six- to nine-months-rhythm to involve the stakeholders in the assessment of progress and in the assessment of the Compass itself, as we would expect that stakeholders want to adjust CSFs as the LED initiative progresses.

mesopartner is a consultancy partnership which specialises in local and regional economic development. It was founded in December 2002 and registered in April 2003 by Dr Ulrich Harmes-Liedtke, Dr Jörg Meyer-Stamer and Christian Schoen.

Currently, the main product of mesopartner is PACA. This is a methodology to kick-start or refocus local economic development initiatives which has been developed by Jörg Meyer-Stamer. It has been successfully applied in a number of developing and transformation countries. The main objectives of mesopartner are

- to train PACA practitioners in various countries,
- to develop more specific PACA instruments, for instance for cluster analysis, value chain analysis and analysis of government-created obstacles to business,
- to develop and disseminate further methodologies and tools for local and regional economic development initiatives,
- to develop innovative concepts and tools to train practitioners in local and regional economic development.

Another mesopartner product is RALIS (Rapid Appraisal of Local Innovation Systems). As technology and innovation continue to be major preoccupations of local actors who want to create a localised advantage in a globalised world, we expect that there is a lot of potential demand for a tool like RALIS which addresses the most important obstacle for the leveraging of local innovation systems: fragmentation between local companies, agencies and organisations.

A further mesopartner product is GENESIS, a methodology for the rapid and participatory elaboration of a development strategy for a local or regional economy.

You find more information at our website, www.mesopartner.com