Factors and Policy Measures Influencing Local Economic Development: An Overview of the Conceptual Framework

MÁRTA KISS & KATALIN RÁCZ

Abstract The aim of this paper is to survey a wide range of publications[1] in order to identify the factors influencing Local Economic Development (LED). We offer a classification of the drivers of LED, including local endowments, collective and institutional behaviour, autonomous economic processes and policy measures implemented by public, private and non-profit stakeholders for promoting LED.

Keywords: • factors of LED • settlements • endowment • planning • policies • co-operation

CORRESPONDENCE ADDRESS: Márta Kiss, Ph.D., Assistant Professor, Corvinus University of Budapest, Institute of Sociology and Social Policy, Közraktár utca 4-6, H-1093 Budapest, Hungary; Hungarian Academy of Science, Széchenyi István tér 9, 1051 Budapest, Hungary, email: kiss.marta@uni-corvinus.hu. Katalin Rácz, Research Institute of Agricultural Economics, Zsil u. 3, 1093 Budapest, Hungary, email: racz.katalin@aki.gov.hu.

https://doi.org/10.4335/978-961-6842-91-4.5 ISBN 978-961-6842-91-4

Available online at http://www.lex-localis.press.

1 Towards a standard conceptual framework of local economic development

Qualitative research, based predominantly on case studies, is the most frequently applied method of analysing local economic development (LED).

Capková (2005) has compared and assessed the local economic development practices of settlements in a wide range of Central and Eastern European countries. In doing so, she identified certain major groups of features and research questions which cover both the political-administrative background and financial-economic dimensions. In her analysis, LED involves measures and incentives in the following major policy areas: attracting external investment and developing the local business environment. Capková (2005) highlights the importance of strategic planning and partnerships by taking into consideration the differences between urban and rural localities and the role of EU subsidies. Capková (2005, 5) has called for the systematic collection of data about LED.

Wong (2002) attempted to develop a quantitative LED indicator system using a 'valuative-theoretical approach' method that was developed along three (social, economic, and physical) dimensions. The author defined an analytical framework consisting of 11 factors (which was later supported by the relevant 11 indicators), the purpose of which was to promote the definition and formulation of policy issues and to facilitate the process of planning and decision-making. The first group of factors is formed by 'traditional' factors such as physical factors, location, human resources, finance and capital, infrastructure, knowledge and technology, and industrial structure. The factors of institutional capacity, entrepreneurial culture, community identity and image, as well as quality of life, are called 'spiritual' (i.e. softer, less tangible factors) by Wong (2002).

Wong (2002) notes that the theoretical and empirical justification of soft (intangible) factors is weaker because the cause-effect relationships between these factors and LED processes are generally unclear, so their measurability is more difficult. She also notes that the exact content of the factors (indicators) is very different from country to country. A corresponding piece of empirical research, an expert survey among LED operatives, was carried out in Great Britain. One of the lessons learnt was that LED practitioners as a rule expect immediate results from traditional LED factors, and activate soft factors only afterwards. Human resources were considered the most important of the former factors (Wong 2002).

Mezei (2008) investigated Hungarian settlements and evaluated domestic local economic development practices and development tools with the help of indicators developed specifically for Hungarian conditions. Her data were collected using a questionnaire method by applying a system of six evaluation aspects, as follows: LED planning, financial situation, enterprise development, partnership, institutional system, and infrastructure development. Here, the investigation of partnership relations was a new

element compared to Wong's criteria (2002) and, according to the results of the research, proved to be a highly influential factor.

Kiss and Racz (2019) evaluated LED strategies of Hungarian settlements using a qualitative case study method. The system of criteria used in their paper is partly based on current theories of economic development and partly on recent trends in evaluation (Wong 2002). In particular, their analysis uses a method characterized by five groups of LED factors which are supported by additional indicators for each of these factors. The following part of this paper offers an overview of these factors.

2 The first group of LED factors: main characteristics of the settlement

These factors are as follows:

- The size of the settlement with special respect to its relative size considering the region's characteristics;
- Determining geographical/locational features, such as the distance from the center of the region, access to labour markets, access to other markets and to suppliers;
- Infrastructure and other physical factors, such as the amount of available land, the accessibility and quality of roads, sewerage and other utilities;
- The determining social characteristics of the settlement and population, such as the number of enterprises, educational level, economic status of the population, etc.

According to the relevant literature, the size of a settlement is a major factor in LED (see e.g. Bennett 1991; Capková 2005; Mezei 2008). Bennett (1991) distinguishes between four types of LED in an international context, whereby settlements are classified according to their size, the focus of LED, and the development model that is followed. In particular, Bennett (1991, 25–26) uses the following classification: 1. Large cities and world cities; 2. Metropolitan areas; 3. Central places with specific hinterlands or peri-urban commuting areas; and, 4. Dispersed rural areas with no accessible local market. Capková (2005, 14) demonstrates that large urbanized cities are much more committed to economic development compared to their smaller counterparts, and this can be explained by their better access both to a wider scope of expertise and to greater financial capacities.

Surveys of Hungarian settlements and the associated analysis have shown that the size of local government determines to a large extent both the possibilities and the practice of local economic development (Mezei 2008; Ritter and Nagy 2017; Molnár *et al.* 2017).[1] In larger settlements, classical economic development programs are being carried out as a rule, while the competitiveness and attractiveness of smaller settlements tend to be facilitated by so-called 'special economic development' programs (Mezei 2008, 57). Settlements in Hungary depend strongly on development resources. Regarding access to development resources, as a rule larger settlements are in a worse position than smaller ones, therefore they are compelled to spend relatively more on economic development

goals from their own budgets. The research also states that co-operation with local businesses is largely dependent on size: the smaller the settlement, the more unlikely and uncertain the partnership between local government and local businesses. Moreover, business-to-local-government relations additionally depend on the social characteristics of the settlement (educational level of the population, labor market characteristics, number and nature of enterprises, etc.) and on the partnership-building skills of local management (Mezei 2008, 53–55). Social characteristics also depend on the history and traditions of the settlement; for example, there are settlements which in the past were populated predominantly by agricultural laborers, and these differ in many respects from other settlements which have a significant entrepreneurial past.

Location-based factors such as access to product markets and suppliers are frequently mentioned in the relevant literature (e.g. Wong 2002, 1837). In Hungary, besides these geographical location factors, labor market conditions are important as well. Location-based benefits are also influenced by the availability of infrastructure, such as transport and communication networks.

3 The second group of factors: resource endowment

This group consists of the following factors of local development:

- The financial resources of the settlement, such as own incomes, state aid, and EU support;
- Human resources, such as qualified administrative or management experts;
- Institutions and organizations engaged in LED such as NGOs, cooperatives, etc;
- Technological resources such as incumbent local industrial installations.

Capital investment is a major driver of LED (Wong 2002; Capková 2005), in spite of the fact that in most cases the flow of finances lies outside the control of local governments. Instead, in this age of globalized finances and all-pervading information technology, significant decisions about investment are taken by transnational corporations (Wong 2002, 1841). Although the exact relationship between financial decentralization and economic development is still unclear, it can be stated that greater financial freedom facilitates local development (Capková 2005). The former author therefore sees a certain level of financial autonomy as one of the most important factors in LED practice. If expectations about increased social responsibilities are coupled with scarce local financial capacities and limited autonomy, this combination of circumstances will result in tension, emphasizes Capková (2005).

Wong (2002) demonstrates the difficulties of assessing institutional capacity and recommends the application of qualitative methods for this purpose. The results of his expert survey show that human resource allocation and institutional capacity are among the most important LED factors. However, some researchers doubt that greater

institutional capacity results in better or more progressive decision making (see e.g. Clarke 1995; Wong 2002).

Capková (2005, 197) notes that local government capacity and the efficiency of policy decisions are more closely related to socioeconomic factors (education, poverty, etc.) than to geographical location. She considers the existence of administrative capacity as one of the key factors of LED because, according to the author's research, the capacity of local government is greatly influenced by the quantity and quality of available local human resources (skilled officials and professionals) (Capkova 2005). Typically, there is an abundance of potentially less skilled employees, but a scarcity of people with adequate qualifications. Therefore, the education of a local professional team should be the focus of economic development. According to Getler and Wolfe (2004), the knowledge management of local society depends on the means by which local actors and institutions meet, and the depth of their communication and co-operation with each other. For an institution to learn, reflexivity and feedback is needed.

Overall, it can be concluded that the availability of institutional and technological capacity and a certain level of qualified human resources are essential for successful economic development.

4 The third group of factors: strategic planning, projects, programmes and other policy instruments of LED

This group consists of the following factors:

- Supporting measures of the central government, e.g. subsidized projects;
- Various forms of strategic planning, e.g. long-term planning or plans associated with ad hoc programmes / projects;
- Adjusting the application of various development instruments to the selected direction of development objectives (community-focused / business-focused / holistic).

International studies have shown that providing support for private investment and creating jobs are the most typical economic development activities of local governments. However, as recent research shows, there is a growing trend for local governments to initiate activities beyond their traditional role to serve wider social interests, such as supporting minorities, disadvantaged groups, and other vulnerable target groups of local policies. Another example of an LED objective that goes beyond economic growth is striving for a fairer distribution of the costs and benefits of economic development (Morgan 2009, 2). In Hungary, local economic development initiatives are characterized by a strong social orientation (Czene and Ricz 2010; G. Fekete 2011). Frequently, these initiatives are institutionalized as social land programs or social cooperatives (Kiss and Racz 2019).

Local governments can choose from a very wide range of measures to develop the economies of settlements. Surveys conducted on an international level have revealed that the most typical areas of activity are the following: infrastructure development, using real estate for private sector development, supporting businesses, facilitating cooperation and networking, lobbying for settlements, promoting local agendas at the national level, developing and implementing LED strategy, and supporting LED with specific planning exercises and business case development (Pugalis and Tan 2017).

Leight and Blakely (2017, 139–141) identified four roles for local government: coordinating various actors; facilitating action and events that improve the cohesion of the local community; stimulating and promoting the creation of local businesses; and, finally, local governments sometimes also become entrepreneurs or developers themselves. An efficient activity of many local governments is using common land or buildings for economic purposes in order to benefit the community. On the other hand, Capková (2005, 10) has identified the following types of LED instruments: financial instruments, property-related instruments, marketing, infrastructure development and providing technical and information assistance.

Research on approaches to LED in the settlements of Eastern European countries has revealed that most settlements have organized their development concepts around a single project or a few items from projects, but the resulting plans lack a strategic approach and do not serve as an organic and sustainable basis for the development of the local economy (Capková 2005; Mezei 2008). Some researchers have called this approach 'ad-hoc project-based development,' and contrasted it with strategic, 'programme-based development' (e.g. CCG 2012; Kiss 2018). On the other hand, Bennett *et al.* (2004), following an examination of the new tendencies of the economic development strategies of the United Kingdom, outlined three main directions: 'community-focused strategies' which build on the needs of communities, 'enterprise-focused strategies', and a combination of these two approaches, also called the 'holistic approach'.

5 The fourth group of factors: co-operation and co-ordination

This group consists of the following factors:

- The range of local actors involved in LED, such as local government, local businesses, professional associations, civil organizations, etc.;
- The extent and type of co-operation within the municipality and with external stakeholders, and the duration of these forms of co-operation (e.g. long-term co-operation, or co-operation limited to a specific project);
- The methods used to promote co-operation (e.g. top-down, bottom up);
- The styles and means of co-ordination (e.g. paternalistic, and the business approach).

Ritter and Nagy (2017) have identified the range of local actors involved in economic development as follows: local government, local businesses, professional associations, civil organizations, central government, local population, external experts and consultants, higher educational institutions and research centers in the region. According to their results, the actors most involved in local development agree that the key to success is to rely on the expertise of external specialists (such as the government and universities). In practice, the organizations of central government typically cooperate with local governments and with local or regional companies in the field of economic development, while relationships with universities are rare.

The success of local economic development depends on the co-operation of those who control the resources, according to Mezei (2008).

Bennett *et al.* (2004), from an analysis of LED in Great Britain, also highlight the importance of building partnerships. However, the authors also point out that cooperation is not always successful. According to their observations, partnerships between local governments and socially engaged non-profit organizations are more frequent than partnerships with businesses.

Frequently, it is the responsibility of local governments to co-ordinate a wide range of stakeholders of LED. Leight and Blakely (2017) have pointed out that local governments coordinate predominantly the local activities of government agencies, local communities and enterprises. The aim of coordination is to ensure that the above-described stakeholders follow identical aims, and that projects are consistent with state and local policies. According to the authors, coordination between state and local governments in issues of LED is more efficient on a regional level than on a local level; and regional organizations of local governments can be catalysts in this process (Leight and Blakely 2017, 140). Capková (2005) emphasizes two types of governance: 'paternalist', and the 'business' approach. In her opinion, the latter approach is more desirable. However, case studies of LED strategies investigated in Hungary have proved that a paternalistic approach to leadership can work under certain conditions (Kiss and Racz 2019).

6 The fifth group of factors: innovation and sustainability

This group consists of the following factors:

- Innovative LED methods, solutions, and processes;
- Factors and predictors of sustainability (identification of needs, long-term strategies, a combination of funds, the improvement of participants' knowledge and competences, networking, mobilization of the local community, monitoring of innovative solutions).

Technological innovation and knowledge infrastructure are important competitive forces in economic development (Schumpeter 1934; Wong 2002). Empirical research has

demonstrated that regions and settlements where the competitive advantage of actors is based on innovative ideas maintain their position permanently in the long term. On the other hand, in the competition between territories those actors which rely on outdated technologies, sectors, institutions and organizational processes fall behind (Bajmócy 2011; Lengyel and Bajmócy 2013).

From an analysis of innovative methods, solutions and processes for LED, Bajmócy (2011) highlights that the content and focus of local innovations always appear as a specific combination of local challenges and endowments. Lengyel and Bajmócy (2013) emphasize that local governments involved in local development play a key role in coordinating the interactive learning processes of local actors and in disseminating innovation.

G. Fekete (2013) investigated innovative LED solutions in the EU. According to her overview, innovations can be embodied:

- In new partnership agreements;
- In tailor-made training;
- In new ways of promoting training activities and institutions;
- In the resourceful organization of advocacy and public services;
- In novel approaches to employing and re-employing unemployed persons;
- In creating jobs for members of vulnerable strata of society (e.g. for disadvantaged people in local public institutions);
- In the promotion of self-employment by setting up consultancy services;
- And in facilitating non-market modes of local exchange and trade, e.g. developing markets and services of the social economy.

Keller *et al.* (2016) investigated the conditions of the long-term viability of community economic development programs and found that the sustainability of these types of local development programs depends essentially on the structure and size of the associated networks of stakeholders. Complex programs with multiple goals and complex systems have greater potential for sustainability if the network of participants is powerful and heterogeneous. Németh (2014) evaluated local development programs that proved to be sustainable in the long term and found that such programs had in the first place responded to local challenges and had met local needs by using local resources.

Picciotti (2017) examined the conditions of sustainability of social enterprises involved in local economic development. In particular, he investigated the mission statements of these organizations and found that organizations that proved to be sustainable were those which actually succeeded in contributing to solving the problems which gave birth to the organizations in the first place. Sustainable social enterprises were able to generate additional local development projects and became the driving forces behind sustainable local development. According to the author, sustainable operations are primarily driven

by the following factors: the accurate identification of needs, continuous improvements in participants' knowledge and competences, efficient networking, mobilization of the local community, and continuous learning about organizational solutions, models and developmental pathways from other organizations.

Notes:

[1] The following publications offer a wider overview of LED: Syrett (1995); Bartik (1991); Bennet *et al.* (2004); Pearce and Mawson (2003); Tello (2010); Pugalis and Tan (2017); Capkova (2005); Mezei (2008); G. Fekete (2013); Ritter and Nagy (2017).

[1] Molnár *et al.* (2017) point out – among other things – that farm size and expertise are related to each other: in the case of economic development programs for employment in larger settlements, there is already a need for a type of expertise (managing people and small businesses) which is usually not provided by an ordinary mayor or office worker.

References:

Bajmócy, Z. (2011) *Bevezetés a helyi gazdaságfejlesztésbe* (Szeged: JATEPress).

Bartik, T. J. (1991) *Who Benefits from State and Local Economic Development Policies?* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research).

Bennett, R. J. (1991) Overview, In: Bennet, R. J. (ed.) *Local Government and Market Decentralization* (Tokyo: United Nations University Press), pp. 24–32.

Bennett, R. J., Fuller, C. & Ramsden, M. (2004) Local government and local economic development in Britain: an evaluation of developments under labour, *Progress in Planning*, 62(4), pp. 209–274.

Capková, S. (2005) The Changing State of Local Government, In: Capková, S. (ed.) *Local Government and Economic Development* (Budapest: Open Society Institute), pp. 191–211.

CCG (The Cornerstone Consulting Group) (2012) *End Games. The Challenge of Sustainability. The Annie E. Casey Foundation* (Pitsburgh: The Cornerstone Consulting Group), available at: https://folio.iupui.edu/bitstream/handle/10244/81/end%2520games.pdf?sequence=1 (March 15, 2019).

Clarke, S. E. (1995) Institutional Logics and Local Economic Development: A Comparative Analyses of Eight American Cities, *International Journal of Urban and Regional Research*, 19(4), pp. 513–533.

Czene, Z. & Ricz, J. (eds.) (2010) *Helyi gazdaságfejlesztés. Ötletadó megoldások, jó gyakorlatok. Területfejlesztési Füzetek, 2* (Budapest: VÁTI Nonprofit Kft. Területi Tervezési és Értékelési Igazgatóság Stratégiai Tervezési és Vidékfejlesztési Iroda).

Fekete, G. É. (2011) Gondolatok a „helyi kezdeményezésű gazdaságfejlesztési programok vizsgálata" c. esettanulmány-kötet apropóján, In: Nándor, N. (ed.) *A helyi kezdeményezésű gazdaságfejlesztési programok vizsgálata* (Budapest: MTA Közgazdaságtudományi Intézet), pp. 445–447.

Fekete, G. É. (2013) *Helyi gazdaság- és foglalkoztatás-fejlesztés (Cross border training of economic experts in distance learning network" project)* (Miskolc: Miskolci Egyetem), available at: http://gtk.uni-miskolc.hu/files/5016/Helyi%20gazdas%C3%A1g-%20%C3%A9s%20foglalkoztat%C3%A1s-fejleszt%C3%A9s.pdf (March 15, 2019).

Getler, M. S. & Wolfe, D. A. (2004) Local social knowledge management: Community actors, institutions and multilevel governance in regional foresight exercises, *Futures* 36(1), pp. 45–65.

Keller, J., Rácz, K. & Váradi, M. M. (2016) Közösségi gazdaságfejlesztés a vidéki Magyarországon, In: Kovács, K. (ed) *Földből élők: Polarizáció a magyar vidéken* (Budapest: Argumentum), 331–359.

Kiss, M. (2018) A fenntarthatóság dilemmái a hátrányos helyzetű térségekben, *Magyar Tudomány*, 179(3), pp. 331–341.

Kiss, M. & Rácz, K. (2019) *The Role of Local Governments in the Development of Local Economy*, In: Futó, P. (ed.) *Contemporary Drivers of Local Development* (Maribor: Institute for Local Self-Government Maribor).

Leight, N. G. & Blakely, E. J. (2017) *Planning Local Economic Development. Theory and practices* (Los Angeles, London, New Delhi, Singapore, Washington D.C.: SAGE Publications).

Lengyel, B. & Bajmócy, Z. (2013) Regionális és helyi gazdaságfejlesztés az evolúciós gazdaságföldrajz szemszögéből, *Tér és Társadalom*, 27(1), pp. 5–29.

Mezei, C. (2008) *The Role of Hungarian Local Governments in Local Economic Development*, Discussion Paper 63 (Budapest: Centre for regional studies of Hungarian Academy of Sciences), available at: https://discussionpapers.rkk.hu/index.php/DP/article/view/2402 (March 15, 2019).

Molnár, G., B. Bazsalya & Bódis, L. (2017) *A helyi foglalkoztatási kezdeményezések központi támogatásának elosztási mechanizmusai*, available at: http://real.mtak.hu/87002/1/MTDP1827.pdf (March15, 2019).

Morgan, J. Q. (2009) *The Role of Local Government in Economic Development. Survey Findings from North Carolina* (North Carolina: School of Government).

Németh, N. (ed.) (2014) *A helyi kezdeményezésű gazdaságfejlesztési programok vizsgálata. Esettanulmányok* (Budapest: MTA Közgazdaságtudományi Intézet, KTI Könyvek 14).

Pearce, G. & Mawson, J. (2003) Delivering devolved approaches to local governance, *Policy & Politics*, 31(1), pp. 51–67.

Picciotti, A. (2017) Towards Sustainability: The Innovation Paths of Social Enterprise, *Annals of Public and Cooperative Economics*, 88(2), pp. 233–256.

Pugalis, L. & Tan, S. F. (2017) *The Role of Local Government in Local and Regional Economic Development* (Sydney: University of Technology).

Ritter, K. & Nagy, H. (2017) Analysis of Local Economic Development Capacity in Hungarian Rural Settlements, *Acta Universitatis Sapientiae, Economics and Business*, 5(3), pp. 57–70.

Schumpeter, J. A. (1934) *The Theory of Economic Development* (Cambridge: Harvard University Press).

Syrett, S. (1995) *Local Development: Restructuring. Locality and Economic Initiative in Portugal* (Avebury: Ashgate Publishing Company).

Tello, M. D. (2010) From national to local economic development: theoretical issues, *Cepal Review*, 102(3), pp. 49–65.

Wong, C. (2002) Developing Indicators to Inform Local Economic Development in England, *Urban Studies*, 39(20), pp. 1833–1863.

EMBERI ERŐFORRÁSOK MINISZTÉRIUMA