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City of Playford South Australia

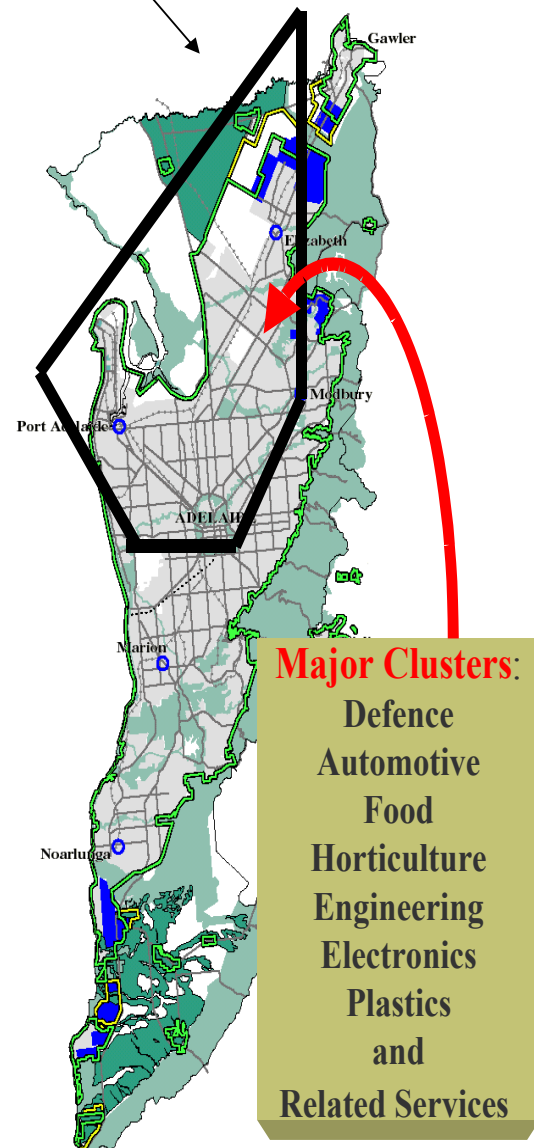




Northern Adelaide and the CBD account for 70% of South Australia's manufacturing output and most of its R&D.

It is the engine room of SA's economy.

The City of Playford is home to GMH and other major exporting companies.



1. EXECUTIVE SUMMARY

It's the afternoon rush hour. As the train pulls out of the station a band of men and women armed with laptops sit down to discuss the latest in technology and what their friends in London and Boston are up to.

No, we're not in Silicon Valley or crossing the Sydney Harbour Bridge into the high tech precinct of North Ryde. We're in Elizabeth, in Adelaide's northern suburbs.

Our laptop carriers have just finished work at the DSTO, Australia's largest scientific research facility. They could just as easily have been from any of the other high tech offices in the northern suburbs.

Stretching from Port Adelaide to Elizabeth, the northern Adelaide region including the pivotal City of Playford, accounts for 70 per cent of South Australia's manufacturing output and generates a major part of South Australia's knowledge intensive manufacturing exports.

Similar stories on key industrial areas can be found in other Australian cities.

The following case study is about the contribution our industrial regions such as northern Adelaide and the City of Playford make to national prosperity and the development of Australia's competitive advantage, and why we need an alternative policy approach to support them.

This case study finds that because our industrial regions have specific characteristics and needs, policy that is devolved to the local level, if well executed is more likely to meet these needs and maximise their unique characteristics.

The case study outlines the City of Playford's innovative governance structures and cluster methodology that have led to successful investment outcomes such as the creation of a \$230 million global company as part of Council's food cluster program and a \$90 million high tech advanced manufacturing and engineering hub that have been at the heart of its industrial regeneration approach. Playford has in fact been active in helping to transform traditional engineering firms into state of the art advanced manufacturing firms competing in new markets such as robotics and automation.

So it may come as a surprise to some to learn that industrial areas such as Playford, which traditionally have been seen as part of the problem, in fact are part of the solution.

While Playford is only a small council with a population of around 70,000, it is home to some of Australia's most important manufacturing companies such as carmaker Holden employing around 5,000 people. Despite living with the legacy of the structural adjustment years of the 1980s and 1990s that led to significant unemployment, which it still with the community to this day, it has shed its image as a region in decline. And in the process achieved international recognition. The case study sets out why.

2. MEETING THE CHALLENGE (POLICY ENVIRONMENT)

Introduction

The following section of the case study explores why manufacturing regions are important and how Playford developed a new lens through which to look at its economic and industrial structure. It then goes on to explore the emergence of a new policy environment coming out of OECD research on local governance and devolution. The case study outlines the impact of this new thinking on Playford's approach to regional economic and industrial development. Of particular importance were the development of governance structures which embodied the OECD's principles of metropolitan governance. It was this thinking that framed the development of a unique cluster approach that led to significant investment outcomes, and political and local and national media recognition for Playford's approach.

Industrial regions are critical for the knowledge economy

Industrial regions all too often are thought of as rust belts with intractable problems. But is this really the case?

As I outline in the book *Manufacturing Prosperity* (Federation Press, 1998), elaborately transformed manufactures (ETMs) such as electronics, information technology, automotive, engineering and pharmaceuticals continue to be one of the fastest growing areas of world trade. The production of ETMs, in fact, is often at the very heart of our industrial regions.

For example, as reported in Melbourne's *The Age* newspaper, research from the United States suggests that Chicago, long dismissed as a rust belt area, now has more high tech jobs than Silicon Valley. The reason is quite simple. In sophisticated industrial economies, manufacturing accounts for around 65 per cent of all research and development (R&D). So in traditional industrial cities it is not surprising to find a new generation of manufacturers, researchers and service industries combining in knowledge intensive industry clusters to generate wealth and prosperity.

The next time you sit down to coffee and the morning press and read headlines like 'Australia becoming a banana republic', remember that it may be the industrial regions of our cities that will safeguard our future. They are critical not only in reducing our current account deficit, but also as part of the solution to Australia expanding its knowledge intensive industries. And understanding the dynamics of growth is also about getting to know our cities better.

Cities, CBDs, clusters and the dynamics of growth

Australian cities generate around 75 per cent of the nation's wealth.

They do this because it is in the cities and their associated industrial regions that primary value is added and knowledge economy activities occur.

If the importance of the Australian cities needs further proof, there is no better place to begin than the Property Council of Australia's excellent discussion paper *Recapitalising Australian Cities*.

Successful cities are powerful cities, centres of finance and corporate headquarters. They have a thriving multicultural metropolis and are home to new emerging industries such as biotechnology.

Each year thousands of tourists flock to these global cities such as New York, London, Paris and Sydney. They want to be part of the action and share the cultural energy these cities generate.

But where does this leave Adelaide, Brisbane, Perth, Hobart - and even Melbourne?

Unfortunately, there is a perception that a business cannot legitimately be part of the knowledge economy if it is not located in the CBD or surrounds of a global city.

In reality, however, this is not so. The knowledge economy depends on other factors. It is defined spatially through the connectivity between services and manufacturing. Modern industry tends to cluster, with established success attracting new investment. New companies want demonstrated infrastructure and to be close to other companies they do business with - to share ideas and develop new products for global markets. It is not so much that we are moving from an industrial economy to a services economy, but rather from one form of industrial economy to another where the dynamics of growth are changing.

Clearly this means our cities need to be viewed through a very different lens. The CBD is no longer about purely processing information and providing professional, business, property, educational and government services, while industry is confined to the urban fringes. Rather, it is about the level of integration between the two and the global dynamics of growth that sculpt local competitive advantage. Our challenge is to redefine traditional conceptions about the economic and cultural roles played by our CBDs, industrial hubs and the regional centres that support them.

The time may have arrived to question the passive role played by regional centres and instead examine how we can move beyond the traditional planning view to a more dynamic one where regional centres are legitimately seen as hubs which embed investment and connect our citizens city wide. Our regional centres, particularly in the industrial north and south of the city, which are home to our knowledge intensive industries, need to be seen as more than just shopping centres and sleepy dormitories. (In South Australia the metropolitan planning system defines a hierarchy of regional centres, beginning with the CBD. The next level down are 5 regional centres across the city, following by shopping centres and ultimately local neighbourhood centres.) Adelaide, with a population of one million, needs to marshal the creative energy of the entire city to ensure that our city performs and feels like one city. To connect the different energies across our city is to celebrate the achievements of all our citizens so that they may continue to invest in our future prosperity.

This dynamic is more pronounced in small industrial cities such as Adelaide, where head offices move off shore and industry continues to experience adjustment pressures, both positive and negative. We need to remember that there are only a few global cities, while not forgetting that there are many successful knowledge based regions that are emerging. These industrial and knowledge intensive cities and regions are globally connected in their own right, and are at the centre of high growth, high performance hubs, even if they don't fit the definition of a global city. It is the global connectivity that drives investment considerations, connections that extend deep into the companies that are often located in our industrial hubs such as the City of Playford. And this why from a policy perspective new bottom up governance, and regional and economic development architectures such as the Playford Partnership described below are required.

Devolution and policy traction

Our world changed forever when Prime Ministers Bob Hawke and Paul Keating opened up Australia to global competition. From the intense hardship experienced during the 1980s and 90s, Australia now has one of the best performing economies in the Organisation for Economic Co-operation and Development (OECD), or club of industrial nations.

But despite this stellar performance, Australia's research and development effort is lacklustre compared with other leading OECD countries. At the same time our vital industrial regions continue to experience social disadvantage and acute shortages of skilled labour, despite significant resources being directed to overcome these problems. Clearly, the real difficulties lie deeper.

In Australia, Canberra holds the purse strings, the States are poor and mendicant second cousins, and local government is increasingly left to pick up the pieces.

It is obvious that new policy architectures are required if communities and business are to prosper in the knowledge economy.

There is much talk of joined-up government, but this has not resulted in joined-up solutions between actual programs on the ground. For instance, instead of a multitude of national and State education and training programs delivered at a regional level, why not a knowledge formation strategy unique to the region that builds business investment and export markets? This would involve bundling resources and expertise to create projects of sufficient size to make a genuine difference.

Our challenge is to develop projects of significant magnitude that are transformative in their own right. We need projects that make a long-term difference to the community.

The opening up of the Australian economy delivered a competitiveness dividend that we now enjoy. But we cannot rely on past achievements. When the Australian dollar surges over US\$0.70 for a protracted period, our competitiveness drops and our exports suffer.

As a nation we cannot afford to rely so much on our exchange rate. It leaves us far too vulnerable to external shocks. We have to take advantage of developments such as the rapid advance of the Chinese economy, which offers great opportunities if we make the right choices. At a time when WalMart in the US, for example, is purchasing around 1 per cent of China's total gross domestic product, Australia's future prosperity will depend on expanding its knowledge intensive industries.

Developing lucrative natural gas deals with China is only one part of the equation. Just as the Scandinavian economies provide many of the "smarts" for the rest of Europe, we must position ourselves to provide the "smarts" for Asia. And this requires new approaches, new thinking.

Genuine collaboration is required between each tier of government, business and the community to develop visions that aspire and inspire, visions that lead to transformational change. To have the political courage to develop joint indicators and targets to measure success that can set the strategic directions for region. Responsibility must be shared to inform accountability and action. Collaboration that unlocks the energy of the community and marshals the resources of business – this is what generates change.

This may sound fanciful. But countries in the European Union are moving down this path. They are focusing on developing local visions for flexible and networked institutions, communities and business. They understand that economic development is based on strengthening industry clusters and promoting training for the knowledge economy while emphasising entrepreneurship, human capital and social cohesion.

A recent OECD report, *Globalisation and Devolution (Paris, 2001)*, clearly articulates the challenges facing national and local/regional authorities as they struggle to develop appropriate policy architectures in response to global pressures.

The OECD concludes that the regime of top-down policy development and implementation is failing us at the local level. This is because “macroeconomic policy tools that were relied on heavily in the past are now more difficult to use”.

The OECD, therefore, suggests that “devolution provides an opportunity for institutional and policy innovation that should be seized. Cities and regions that develop strong institutional capital and distinctive development policies are more likely to be successful in the globalising economy”.

The Playford Partnership: innovative approaches to governance - why bottom up works

At the heart of Playford’s successes are strong partnerships with local and international companies, neighbouring councils, State and Federal government departments, and community and industry associations.

The Playford Partnerships initiative has driven this process and has long been recognised as one of the most successful initiatives implemented by the City of Playford. Established in 1999, Playford Partnerships is a model for the management of the local community, with a 10-year plan to provide sustainable services that help achieve the city’s strategic goals of economic prosperity, environmental care and community wellbeing.

It was developed as a way of identifying local issues and creating sustainable services and outcomes that address the needs of the entire community – and it embraces not only Council but all levels of government, not-for-profit sectors and community service providers to do this.

Playford Partnerships has evolved into one of Australia’s most recognisable collaboration models within government for achieving positive community results and implementing innovative projects.

Playford’s elected members, administration and community also realise that they are part of a wider region and rely on working with neighbouring councils, State and Federal government authorities for the provision of services ranging from education and health to road and communications infrastructure.

This is why Playford has also been at the forefront of establishing the Wakefield Group. Comprising several mayors and CEOs – all part of the Federal seat of Wakefield, stretching from Salisbury in the south to the Clare Valley in the north – the Wakefield Group represents a new force to tackle some of the region’s most pressing issues.

By working collaboratively across the region, the councils can mobilise resources and energy to tackle projects that can transform the region.

Through such collaboration between councils, and through the forging of equal partnerships with other government agencies, it is possible to reduce duplication, improve long term planning and ensure that the community benefits from the provision of improved and better coordinated services.

For example, through the Playford Partnership comprises elected members from the federal, state and local level come together to determine the “city’s” key measures and targets, extending far beyond the “Councils” traditional role. The aim of the exercise is to achieve whole of government consensus on what the major issues are, and how they need to be tackled. What makes this even more distinctive is that the Playford Partnership comprises elected members from both sides of politics. In the past, on issues of say community or economic development, one tier of government could accuse other tiers of government of not delivering. Such behaviour is increasingly becoming a thing of the past. And in a region of high unemployment, the Playford Partnership is ensuring that “government” actually works as one team and can ensure more effective planning and service delivery.

A rapidly changing world demands that new ways of “thinking” and “doing” are actually implemented. Playford is meeting this challenge by developing a more integrated approach to service delivery.

With all this new thinking come steep learning curves, risks and, inevitably, some setbacks. But, through Playford's commitment to developing genuine partnerships and often taking two steps forward followed by a step backwards, it has learned much through the Playford Partnership process. It now shares a growing confidence within the Partnership as it strides forward in step with the needs of the community.

Playford also benefits from a progressive, entrepreneurial city administration and dynamic civic leadership through its elected members.

In the global economy, knowledge is the difference between success and failure.

From an industrial or commercial development perspective, the great advantage local councils have is they know their companies first hand, are involved with the local sporting clubs or community organisations, and on a day-to-day basis they get to know the aspirations of their companies and community.

These are aspirations that, with strategic guidance, can be turned into reality while creating new local jobs, business opportunities and improved services to local residents.

The success of the Playford Partnership can be found in a leadership model that is about patience, participation and focussing on what needs to be done. And like all dynamic models, it is constantly evolving. The unfolding each new project generates new governance demands, new forms of thinking and doing. But most of all it builds trust. So rather than being driven by the top down, it is driven through active involvement that break down traditional hierarchies and create a collaborative environment that are conducive to activating new approaches.

Bottom up works - because we're the ones building long term foundations for future prosperity.

Playford Partnership: implementing bottom-up approaches and joined-up solutions for the knowledge economy

The distinctive bottom-up approach with joined-up solutions is at the heart of the City of Playford's economic and industry development effort. Our focus has been on developing regional and inter-regional industry projects, incorporating whole of government initiatives.

The knowledge economy is about a networked economy. At the local level this demands leadership, excellent research, policy innovation and a commitment to action. For instance, our work on industry and food clusters stretches over four regions and is aimed at building industrial capacity and capability.

At a time when Federal and State industry development programs are often at arm's length from business and the regions, Playford plays a strong facilitation role locally and provides the necessary interface with government, as well as the stewardship to build long term partnerships with business.

But providing this stewardship requires new governance architectures. At the local level Playford's *Economic Forum* is bringing together several economic agencies to develop regional flagship projects that will be well resourced and transformative in nature. Our approach is about bundling up small and under resourced projects into ones of significant magnitude. In short, we will create bottom-up approaches and joined-up solutions to complex local and regional issues.

Playford's approach is succeeding because rather than creating yet another sclerotic layer of regional government, we are letting what needs to be done determine our strategy and the structure of our institutions.

The outcomes are virtual governance structures that are about doing. Instead of competing interests, our economic development is driven by the formulation of one strategy and implemented by one team. This is a team that has one strong voice. It is credible, authoritative and driven by business outcomes.

From small things big things grow

In September, 1999, former South Australian Treasurer, Rob Lucas, officially launched the City of Playford's Economic Plan, *An Innovative City*. At the heart of the strategy was an ambitious plan to develop new export markets, build on the region's innovation system and tap into the national innovation system.

In January 2001, Playford received international recognition for its innovative work on developing industry clusters. It was invited to present its work on clusters to the OECD/French Government's world congress on *Local Clusters* in Paris.

Later in the year, Rob Lucas was joined by his counterpart, former Federal Industry Minister and now Finance Minister Nick Minchin, to launch an interim report of Playford's research, cluster and investment outcomes. This included a number of significant business networking outcomes arising from this project. For a newly amalgamated local council the response was overwhelming. Front page headlines of *The Advertiser* read - "World Takes Notice of Northern Adelaide". But the best was reserved for the editorial:

"People used to the old ways, values and assumptions may be quite startled to learn that the City of Playford ... has attracted the approving attention of the OECD, club of industrialised nations...But Australians have never been strangers to innovation and it only takes a few moments' thought to see why the northern suburbs of Adelaide are a natural location for bright ideas, energetically implemented."

The City of Playford's work over the past two years has received national and international recognition for the vision and leadership it has provided. This includes winning the Department of Transport and Regional Services' national local government award for Australia's most innovative economic development program and governance structure in 2002 and 2003 respectively.

Playford followed this up by winning an international award in the Netherlands for Planning for the Future. This was against competition from cities as powerful as Chicago.

The City of Playford, through hosting Clusters Asia Pacific Inc between 2001 and 2006, which shared joint secretariats in Playford and Canberra, is a member of the Paris-based OECD Local Economic and Employment Program. This gives it contact with leading international experts in regional development and other like-minded regions around the world. And most recently Playford was chosen to participate in the OECD's Global Value Chain Project and singled out by the Danish authorities as global best practice local economic development, and was invited to be a keynote speaker at the Danish National Regional Development conference held in Copenhagen.

Playford is increasingly being viewed as a council in an industrial region that, as set out earlier, is now being seen as part of the solution rather than the traditional view of being part of the problem.

The City of Playford in its report, *Innovation and the Knowledge Economy (Dec 2003, 450pp)*, describes its first steps toward meeting its strategic objectives of an integrated and whole of government approach to local and regional development.

Playford is building its regional and industry development initiatives on an understanding of the dynamics of growth and regional innovation systems.

Innovation and the Knowledge Economy explores the new global challenges facing local government and how the City of Playford has tailored the use of cluster approaches to meet the demands of the new economy.

It refers particularly to the way in which business to business e-commerce is transforming global supply chains and the implications this has for local economies as companies compete to enter global markets, or re-enter existing ones.

Working in partnership with Professor Graeme Sheather, Director of Manufacturing and Management at the University of Technology, Sydney, the City of Playford has developed practical methodologies to measure enterprise best practice and supply chain performance. Results are reported from a study of 44 original equipment manufacturing (OEM) firms and their 143 first tier suppliers in the electronics and related industry sectors operating in the region.

This industry intelligence has been employed to create a number of networking and clustering initiatives in the region. New market and export development opportunities are in train, along with the prospect of facilitating technology diffusion among companies in the food processing and electronics sectors. Results of this work over the past three years have begun to yield important commercial breakthroughs as discussed below.

3. THE CITY OF PLAYFORD'S INDUSTRY CLUSTER METHODOLOGY AND APPROACHES

Clusters – myths and realities - but for all this talk of clustering – does the hype match the pundit's claims?

The problem is that cluster approaches have come to mean different things to different governments, policy makers and business leaders.

Fashionable as it is, there are some who see clusters as an answer to everything from industrial renewal to the creation of emerging industries, while ignoring broader economic factors. For instance, one should not overlook that the devaluation of the US dollar was a key factor in its industrial renaissance and restoring the competitive advantage of its manufacturing industries. A similar story can be told in Australia. A low dollar contributed to the improved export performance of manufacturing, especially our advanced manufacturing technology goods.

But cluster analysis can galvanise a broad armoury of government industry policy measures and initiatives to strengthen firms and regions competing in global markets. A good example is the Netherlands which was the first country to introduce cluster policies in 1991. It is now formulating second generation cluster strategies to promote innovation and integrate a broad cross section of policy initiatives from science and technology to education and training (see, *Innovation and the Knowledge Economy*).

Benneworth and Charles (2001) in "Bridging Cluster Theory and Practice" argue that, at the micro level, cluster policy is often implemented as a way of "joining up existing policies...In these cases, the choice of instruments is limited by established governmental practice. This means that what actually takes place under the rubric of cluster policy is tightly conditioned by a wide range of government systems from technology, economic, utilities and scientific policy areas...[therefore] ...Policy innovation is a prerequisite for the introduction of successful cluster policies." Without such policy innovations a region may well be left with "joined up problems", thus inadvertently perpetuating policy failure.

Regions and planners may be inspired by the successes of others, but they cannot simply transpose the industry policies of others. As researchers of the OECD warn in *Innovation Cluster Drivers of National Innovation Systems*: "We cannot emphasise enough...that there is neither a standard cluster approach, nor a fixed recipe for implementing the cluster approach in practice...Every country or region has its own selection of clusters and specialisations with different characteristics and role in the economy". This is because the cluster dynamics of innovation and growth differ between countries and between industry sectors.

Whether clusters are in emerging or mature industries has a strong bearing on policy and cluster development. Clusters are shaped by distinctive historical experiences and particular regional and national characteristics. Clusters differ according to the level and type of knowledge intensity. Their dynamics may be informed through tacit or codified knowledge, as detailed below. Clusters are also distinguished by different networking practices and supply chain relationships. Clusters also span regions and nations leading Green et al (2001) to coin the phrase 'boundary-less clusters'. They pose the question "can there be national/regional clusters for a technology that is developing by definition on a global scale?"

The City of Playford's cluster approach

The City of Playford's approach is grounded in rigour.

The same cannot be said of far too many cluster approaches being implemented elsewhere in Australia. For example, the approach of identifying a commercial opportunity for a sector through a workshop, and then calling it a cluster, should be called into question, especially when the expenditure of public sector resources is then used to fund such quasi or unstructured approaches to economic development as an end in itself. Without analytical rigour, public policy is captive to 'old economy' sectional interest groups and old mates networks!

Pim Hertog et al (2001), the OECD's leading cluster analysts, even went as far as stating:

“The danger of working with an analytical concept such as clusters – as with any concept – is that its flexibility is put to the test and wishful thinking comes into play. Sometimes the concept is abused such that random selections of firms are labelled clusters just for the sake of it. If a hammer is the only tool available, then everything looks like a nail!”

We could not agree more. In line with Hill and Brennan (2000) we support the contention that clusters can be characterised as driver industries. Driver industries exhibit a combination of the following six characteristics:

1. Export a large proportion of their products (indicates competitive advantage).
2. Ship a disproportionate share of the region’s exports i.e. they operate from a strong export base and have a strong outward orientation.
3. Exhibit significant economic multipliers, ie they are drivers within an industrial complex. (For example, Northern Adelaide has a strong advanced manufacturing cluster, providing knowledge intensive and engineering rich inputs that underpin efficiencies and productivity of the region’s food processing and defence clusters - ie keeps them at the cutting edge of new technology).
4. Demonstrate high levels of productivity (this also indicates competitive advantage).
5. Show large location quotients (this also indicates a strong outward orientation).
6. Have an increasing share of national employment in that industry, as well as increasing export share.

Driver industries can also found in emerging industries such as the environment, management, product and services industries (see Genoff and De Leeuw 2001 for a discussion of the environment cluster industry prepared for the former Emerging Industries Branch of the Federal Government).

Analytically, the City of Playford’s approach has been to recognise the difference between clusters and clustering, i.e. the difference between understanding and measuring clusters and their development. The strength of Playford’s cluster approach has been to integrate the analytical aspects of cluster identification with the cluster process itself.

Once the economic analysis has been conducted, Playford’s approach is to map actual “real time” input/output or buyer/supplier relationships and identify the strengths and collaborative nature of these supply chain arrangements. We define the very forms of collaborative behaviour that exist in various supply chains, so that appropriate industry development strategies can be put in place. For example, developing collaborative relationships in vertical and hierarchical supply chains call for different approaches from those fostering joint ventures, where there is a high level of social cohesion and collaboration between the companies. That is “...thinking of the management of innovation at the cluster level in terms of ideal types and best practice is destined to fail, as individual clusters are likely to differ in many aspects. Cluster specificity implies the need for customised sets of policies to promote innovation clusters” (Hertog et al, 2001). Hence Playford’s attention to detail and utilisation of a number of analytical devices and tools that inform the development of tailored cluster strategies.

Once this information has been gathered it is then used to identify:

1. Gaps within the industrial fabric.
2. Opportunities for supply chain enhancement.
3. Networking opportunities to build new products or services, and/or export markets.
4. Links between the regional innovation system, knowledge infrastructure, and national innovation system and global supply chains.
5. Development of cluster opportunities based on the dynamics of growth and the competitive strength of that industry.

The City of Playford’s approach has also centred on keeping the development of cluster strategy and clustering (i.e. the cluster process) as integrated as possible. We have not divorced theory from practice.

For example, Playford’s Economic Development Unit provides a leadership role in both cluster strategy formulation and the bringing together of companies and key stakeholders to activate investment, export and market development outcomes. Input from the Business SA cluster program, membership of

Clusters Asia Pacific Inc (now part of The Competitiveness Institute) and the OECD Local Economic and Employment Development program, has also broadened Playford's approaches to cluster analysis and development.

Unfortunately, all too often the cluster process is broken into two phases, undertaken by two different teams. This can result in lack of integration between theory and practice, which can quite easily translate into policy and political failure on the ground.

Many actors may participate in cluster policy development and implementation – government agencies at different levels, business groups and contracted consultants. But a common problem is a lack of a coherent approach or a shared vision. Enlisting the participation and commitment of the firms and all other stakeholders is vital. Without this sense of ownership, economic development initiatives will be one-off, fragmented and fail to meet business and community aspirations. Indeed, such setbacks can have longer-term consequences, dissipating good will for future endeavours.

This is why Playford's approach is to undertake both the development and implementation of the cluster strategy. It ensures that the actual cluster strategy that has been developed is implemented on the ground. And that one team is responsible for managing both processes.

The City of Playford's strategic industry approach – working with what you have

McKinsey's catch phrase of 'lead local and compete global' has been embraced by the City of Playford to maximise local employment and investment opportunities.

It is therefore not surprising to increasingly find cluster analysis and development as the focal point of economic and industry policy. As Porter (1998) put it:

“Clusters, broader than industries, capture important linkages, complementarities, and spillovers of technology, skills, information, marketing and consumer needs that cut across firms and industries ... fundamental to competition, to productivity, and especially, to the direction and pace of new business formation and innovation. ... Viewing a group of companies and institutions as a cluster highlights opportunities for coordination and mutual improvement in areas of common concern without threatening or distorting competition or limiting the intensity of rivalry.”

Playford's strategy is not about picking winners, as much as working with what you have and building upon the local dynamics of growth. It draws on Porter's thinking on the policy architecture required to build clusters and strengthen competitive advantage from the enterprise through to the industrial and regional level. These include:

- Collection and dissemination of industry intelligence.
- Export promotion.
- Development of specialised factors.
- Science innovation and technology policy.
- Regulatory and market reform.
- Attraction of foreign investment.

The major strength of Playford's approach is a significant investment in the collection and dissemination of industry intelligence. The gathering of industry intelligence on enterprise capacities and capabilities is instrumental in the City's clustering approach and allocation of scarce resources to create new jobs and investment opportunities.

Clustering activities focus on developing export opportunities that can result in sustainable and longer-term growth. Growing the market pie and returns to shareholders has been the strongest motivating factor in generating collaboration between companies. In other words companies participate because they can directly increase profits by accessing new markets. And with Playford's strong track record on delivering investment outcomes, companies are more than willing to participate providing a genuine business opportunity exists for them.

Perhaps the City of Playford's most significant move has been to foster a collaborative approach to the development of inter-governmental relations to reduce government duplication, and maximise efforts to create projects which can make a difference.

In summary, Playford's approach is to build connectivity through formal and informal local/regional business and community relationships. Collaborative cluster strategies are directly contributing to building the competitive strengths of the local industrial complex. At a time of great need, Playford's approach is to focus on greater integration to marshal energy and resources right across the community and business. The result is a new culture of collaboration and partnership building.

Understanding What You Have: Measuring The Capacity And Capability Of Clusters

It is imperative that the dynamics of growth are understood, so that policy makers ask industry the right questions to get the right data. Only with sophisticated industry intelligence can informed policy directions be taken and resource allocation optimised.

In this respect the City of Playford's cluster methodology involves:

- Economic modelling;
- Analysis of Technology Diffusion Clusters (TDCs); and
- In-depth company interviews to assess best practice manufacturing, operational performance and supply chain connectivity, this helps us to understand the capacity and capabilities of our companies, and just how competitive our clusters are.

Why Technology Diffusion Clusters are important

In the following section of the case study we seek to explore an additional dimension of the dynamics of clusters through measuring the contribution TDCs make to our major industrial regions and high performance growth hubs.

Understanding supply chain relationships and developing cluster strategies to develop strategic supply chain relationships is critical to move companies up the competitiveness ladder. However, the industrial dynamics of regions are more broadly determined through the level of integration not only within industry sectors but also between sectors.

Technologies become bunched together in clusters of complementary and integrated activities. The OECD has defined five basic technology diffusion clusters (TDCs): Transportation, Consumer Goods, Materials, Fabrication and Information. (The Information TDC is a key enabling cluster within the economy as a whole).

For example, the Transportation TDC comprises the automotive and components sectors, shipbuilding and the aerospace industry. Technological advances in aerospace and microelectronics are important in the development of fast ferries, with spin-offs into the automotive industry.

To these classifications or categories we have added:

- The **Knowledge Economy**: comprising industries that are involved in or use high and medium technology, as well as business and financial services and education. As a result, it includes a diverse range of industries such as those involved in publishing (both at the manufacturing level and also the distribution stage), computer based industries including higher technology business services such as architectural services and computer services, industries involved in the manufacture of high technology equipment, and tertiary education.
- **Consumer Services**: tend to be those industries not elsewhere covered that specialise in providing clients with a service. It includes a diversity of industries such as mining and construction services through to telecommunication services, retail services, wholesale, recreation and personal services such as hairdressers and funeral directors. It therefore covers the section of each industry that provides the service component, such as surveying for the construction industry.

- **Supply/Government:** covers the utility industries, general government services including defence, the construction sector (excluding services to construction) and health, such as hospitals, chiropractors, nursing homes and veterinary practices.

These additional categories round out the OECD's definitions and drive the dynamics of high performance growth hubs – dense spatial concentrations of knowledge intensive manufacturing and related services competing in global markets.

Understanding these technological flows and the dynamics of growth is a key feature of the City of Playford's industry development framework.

The City of Playford analysed the regional strengths and weaknesses Northern Adelaide presents in each of these TDCs and compared them to high performing growth hubs around Australia.

Based on this broader economic analysis, Playford interviewed 44 original equipment manufacturer (OEM) firms, leading to an understanding 143 first tier suppliers and 120 end-users and customers – key companies that go to make up the industrial fabric of the region.

Data collection involved site visit interviews using a structured questionnaire covering competitive capability, technology and management programs, business performance, business alliances, supplier and buyer transactions, and details of company profile.

For the first time a region was able to ascertain which were its leading best practice companies set to take on global markets and introduce cutting edge technology, and conversely its lagging best practice companies, in danger of falling victim to the ongoing pressures of globalisation.

In summary the analysis identified best practice performance, supply/buy networks, and underlying structural relationships between firms operating in the regional electronics and IT communications industry. This research formed the basis for one of the most comprehensive industrial audits of manufacturing capacity and capability in Australia and informed considerable investment outcomes and cluster strategies developed through these empirical insights. (See, *Innovation and the Knowledge Economy* for a full report).

Creating supply chains and creating new business collaborations and strengthening industry clusters

Much has been written, and is available on the need for businesses, industries and regions to improve their competitiveness if they are to compete in the global market place.

To assist our companies with this process Playford prepared a handbook that has been written from the perspective of providing an overview of the collaboration process, particularly as applicable to Clusters and Business Networks together with Tools and Techniques that may assist businesses, industry sectors and regions in working cooperatively together to achieve outcomes that they may not achieve acting alone. This handbook forms a key part of Playford's book – *Innovation and Knowledge Economy*, and provides a working link between cluster theory and the practice of developing clusters.

The processes and tools contained in this handbook have been used with considerable success in the development of collaborative arrangements undertaken by the City of Playford

This section of the case study summarises the processes that are available to businesses and communities alike that wish to develop, are prepared to adapt to the new environment and grasp the opportunities created through globalisation of world markets.

Collaboration between businesses, industries and regions is fast developing as a primary strategy to meet the challenges that have been opened up by the new global economy.

Collaborative activities may take many forms, these forms are continually evolving to meet the particular needs of businesses, industry sectors and regions, enabling them to improve their competitiveness through the joining of forces in areas such as marketing, distribution, production, supply chain activities and servicing of each others customers.

Collaboration allows businesses, industry sectors and regions to focus on what they do best and at the same time capture synergies that enable them to:

- share risks
- reduce costs
- increase capability and capacity
- improve knowledge bases
- increase economic output and rewards

Rationale for collaboration

Many industrialised countries have implemented strategic economic development programs to help their Small to Medium Enterprises (SMEs) to become more competitive through the development of Clusters and Networks as a strategy to achieve business growth. Countries whose governments and financiers have supported collaborative arrangements have seen real bottom line benefits through an increase in exports, economic growth, new capital investment, business expansion and most importantly employment growth.

SME's today face a number of business realities, such as:

- Tariff reductions throughout the global marketplace has opened competition to all players, with technology used to reduce the time and distance between markets.
- They find that they are becoming more isolated in their traditional markets and must look beyond existing boundaries to develop new markets.
- They lack the necessary resources to exploit opportunities that exist in the global market place and have difficulty in developing the scale and scope of products and services demanded by the market place.
- The market place is now looking for 'turnkey' solutions rather than a multitude of single based products.

Due to their relative size, many SMEs do not have individual capability to take advantage of large-scale opportunities that are continually being presented. To be in a position to meet the demand created in the global market place these players need to consider the development of collaborative strategies that may enable them to compete effectively in the new economy.

Collaboration may take many forms. The handbook concentrates on building Clusters and Business Networks from the bottom up.

Forms of collaboration: Clusters

Clusters are concentrations of large, medium and small businesses that make up a particular economic sector, supported by various other enterprises that provide specialised technical and professional support such as critical social, institutional and physical infrastructure. These groups come together to form a cohesive critical economic mass in a particular industry or geographic area.

Clusters typically have strong forward and backward linkages with regards to products and services. This is achieved by the cluster being the central point for value adding by factoring in supply chain and related inputs of all types including down stream commercialisation and diversification. The objective is to create a central dynamic with a multiplier effect that will lead to additional start-up firms, suppliers, competitors, and cross linkages to other regional or business clusters.

Business management skills and technical skills are essential for the successful development of regional, industry or business clusters/networks. Business management skills and technical skills need to evolve rapidly with developmental and motivational strategies essential to success.

By their very nature clusters foster high levels of competition, with unique forms of inter-firm collaboration that exhibit strong sense of interdependence amongst the players.

The successful development of a cluster usually depends upon have the following principal components in place:

- Firstly, a group of businesses that are interlinked in their business affairs to an extent that all have a common interest in developing the economic output of the region, or industry sector.
- Secondly, the businesses forming the cluster should have strong relationships with supplier firms and professional services providers.
- Thirdly, there needs to be local/regional institutional and business support infrastructure such as government agencies, research and development laboratories, economic development commissions, development banks, business angel investors, venture capitalists, educational institutions such as universities and colleges that are able to provide high quality skilled labour and professionals.

As outlined in Section 5 the results of business investments arising from cluster approaches are indeed diverse. What has become clear from this experience is that each industry has its own DNA, culture and way of doing business. For example, wine makers have a strong history of collaboration and working in cooperatives or marketing associations, so the process of collaboration is not foreign to them. Consequently developing a network of 40 wine makers was quite straight forward. On the other hand, the developing joint venture and networks in the advanced manufacturing cluster has been based on developing, complementary business networks of engineering capabilities. And the more intellectual property or research and development that is involved, the longer the time needed to achieve an outcome.

In the end, it is the companies that guide and inform the type of collaboration being undertaken. Approaching companies in a predetermined or mechanistic manner is bound to lead to failure.

A Process for the Development of an Industry or Regional Cluster: (Summary from the City of Playford’s Cluster and Business Networking Handbook)

1. Undertake An Audit Of The Industry/Region To Determine
 - (i) Competitive pressures in the industry/ region
 - (ii) Scope and scale of products provided by the industry/ region, and audit enterprise capacity and capability
 - (iii) Extent of supply chain and networking activities being undertaken within the industry/region
 - (iv) Impediments, gaps and barriers that need to be address to allow collaboration to develop such as education, training, research, infrastructure needs
 - (v) Champions within the industry/region that will drive the collaborative development process
2. Survey Extent Of Existing Collaborative Activities To Assess
 - (i) Collaborative processes being used and the extent to which they are operating
 - (ii) How these activities may be leveraged to further expand collaboration in the industry/region
3. Survey Supply Chain Activities To Identify
 - (i) “Leader” firms around which collaborative activities can be developed
 - (ii) How other firms may be integrated into the supply chain to create a significant multiplier effect throughout the industry/region
4. Identify Steps Necessary To Support Collaboration Development
 - (i) Formation of a structured organisation with proper governance around which a formal process for inter-firm collaboration may be developed
 - (ii) Development of processes that tie the regional strengths to the proposed cluster
 - (iii) Identification of potential markets for the industry/region’s products
 - (iv) How may the industry/region’s capabilities and capacities be matched to meet the identified market opportunities

- (v) How may the collaborative venture be used to fill the identified “gaps” in the cluster
5. Develop Linkages Within The Industry/Cluster That
 - (i) Links people, businesses, governments to share knowledge and ideas
 - (ii) Improves the use of technology and communication throughout the industry/cluster
 6. Continually Create Awareness Within The Industry Sector/Cluster, Of The Benefits That Can Be Derived From Collaboration By
 - (i) Promoting activities that support collaboration between all stakeholders and elaborate on the benefits that can be achieved
 - (ii) Using success stories to demonstrate the benefits that have been achieved
 7. Develop A Business Networks Process Model That May Be Used By Groups Of Individual Businesses For The Development Of Their Commercial Collaborative Ventures

The process for developing business networks that underpin industry clusters includes the following five phases and the major tasks that accompany each phase:

Phase 1 - Identifying Opportunities: Major Tasks

- Understand the industry in which the business operates
- Be aware of changes and trends in industry such as out-sourcing, major new contracts, increased demand, or economic change
- Find ways to take advantage of opportunities presently outside the reach of the individual firms
- Plan to convert opportunities into business outcome through working with others

Phase 2 - Assessing Readiness: Major Tasks

- Determine business’s expectations from networking
- Determine each business’s corporate values
- Understand the core competencies of the businesses wishing to network
- Determine the business activity where networking will apply

Phase 3 - Finding & Selecting Partners: Major Tasks

- Establish criteria that potential partners must meet to achieve strategic fit
- Use intermediaries to search for potential partners; such as industry associations, Business Advisers
- Establish the strategic fit of partner(s) and how this will be used in networking

Phase 4 - Developing Networking Plans & Relationships: Major Tasks

- Establish trust -build and manage relationships between the parties
- Agree on business strategy and business model
- Undertake an feasibility analysis of objectives and the structural approach
- Establish Codes of Conduct, Ethics, Policies and Rules
- Develop legal agreements between parties

Phase 5 - Planning & Implementation: Major Tasks

- Develop an operational business plan
- Implement the business plan as a group
- Monitor and benchmark progress

Many of Playford’s business outcomes are informed through his broad approach.

4. BREAKING OPEN THE FINANCES – WHAT PLAYFORD’S INDUSTRY DEVELOPMENT PROGRAMS COST

The City of Playford’s Economic Development Unit comprises an Industry Strategist (Manager, Economic Development), Business Analyst and a part time Secretary.

It provides modest financial support to a Business Enterprise Centre (to support small business development) and the Virginia Horticulture Centre (to support the development of the region’s horticulture industry).

It has an operating budget for the development and implementation of economic and industry development projects of around \$90,000 (\$110,250 NZD) (2006/07).

Playford has heavily relied on Federal government grants, particularly from the Department of Transport and Regional Services that funds most of its employment, industry development and cluster programs.

For example:

- Playford’s Food Cluster Project: \$125,000 (\$153,125 NZD) (Federal grants), \$25,000 (\$30,625 NZD) (Playford contribution). This project led to the creation of a \$230 million (\$281 million NZD) company; Trade Missions to Asia; and a network of 46 food processors. The Food Cluster strategy that drove this project continues to inform Playford’s strategic directions. The company is successfully exporting while the food network has a manager which attracts external government and private sector funding.
- The Advanced Manufacturing Design Centre. This \$1 million (\$1,225 million NZD) project comprises the following financial contributions: \$275,000 (\$336,875 NZD) (Business); \$700,000 (\$857,500 NZD) (Federal grant); \$60,000 (\$73,500 NZD) (Playford’s contribution). Outcomes of this project include a network of 30 low to medium size engineering companies that utilise the centre; development of 3 new business networks that are in the process of developing joint ventures; income from the centre provides funds towards the management and running costs of the AMDC and engineering diagnostic services to companies.

The City of Playford’s Cluster Program is \$40,000 (\$49,000 NZD) per annum. Results from this funding (2003 to 2005) include:

- The creation of a global joint venture called Beyond Automation. This global joint venture is bidding for major turnkey projects in China and Europe. The initiative was supported by funding from the companies and Invest Australia (Federal government). Together they financed an investment mission to Australia and the City of Playford. The investment mission was auspiced by Playford and led to this joint venture.
- The creation of the Innovation Network, a \$90 million new tech hub which was facilitated through the Playford’s Cluster Program.

The key factors underpinning Playford’s success are:

- Highly targeted programs - Playford officers normally only work with several companies or business networks at any one time.
- Attention to detail - Playford has undertaken one of the most comprehensive industrial audits in Australia to help guide its cluster strategy.
- Use of external funds, predominantly from the Federal Government to employ specialist consultants rather than building empires! That is targeting financial resources to unlock investment opportunities rather than employing more project officers or staff to administer larger and unwieldy projects.

- This enables Playford's officers to be able to work quickly and with great flexibility to pursue and activate investment and market opportunities.
- Developing partnerships with other organisations and business associations in order to reduce duplication and maximise existing regional infrastructure and knowledge. For example, Playford does not have a complete database of all of its companies, rather it draws on the databases of other economic development agencies in the region and works closely with business and industry associations that have up to date databases of their companies.
- Undertaking the annual national *Manufacturing Prosperity* conference which Playford has held annually since 1999. This event is now the largest manufacturing conference in South Australia attracting some 350 manufacturing companies annually. It has been opened by the Prime Minister and is used to launch major initiatives and is well supported by the media, and often featured in front page newspaper articles. The *Manufacturing Prosperity* Conference is now supported through significant private sector sponsorship, and seen as a major networking event in South Australia and attended by interstate and overseas companies and CEOs.
- The development of regional governance architectures such as the Playford Partnership that underpin long term planning and establish targets and measures at a regional level that can underscore political processes and budgetary planning.

The success of Playford's cluster program arises from in fact being a smaller unit. It has control over the development of the cluster framework and its implementation. The staffing skill mix include expertise in industry policy, regional economic development, forging business networks and banking and finance. Funding from external bodies allows the council to engage additional consultants to support larger programs under the direct supervision of the Unit. Very little work out at a company level, ie developing new business networks or joint ventures is sub contracted out.

This ensures quality control and builds the trust of companies who learn from fellow CEOs and the media that the Council can deliver.

5. RESULTS ACHIEVED

Playford: creating public private partnerships that deliver jobs and investment

In areas where the City of Playford has a direct role in business development opportunities, industry intelligence the council has gathered has been put to great strategic use with pleasing results.

With more than 200 companies participating in several key projects, major outcomes over the past three to four years include:

- Creation of Produce Direct Australia Pty Ltd - an exporting network of companies employing 350 people, exporting horticultural products to Asia. This is the creation of a true global network. The network comprises Comit Farms Pty Ltd, winner of the 2000 Premier's Food & Fibre Award (Category - Horticulture Industry Achievement Award), Mercorella Group, with a turnover of \$100 million, and Freshway Farms, a new emerging local small to medium size enterprises (SME). Combined Produce Direct Australia has turnover of \$230 million and was created through Playford's food cluster strategy.
- Formation of an engineering alliance of 14 companies that is continuing to work to achieve investment and export outcomes. This project has been undertaken in partnership with the Engineering Employers Association of South Australia.
- Assisting in the formation of a grapegrowers' and wine producers' association with a membership of 40 companies. Some 20 of these companies are forming an export network. A new grape growing region for the Adelaide Plains has been registered and we will continue to actively work with this group in developing export markets. The Adelaide Plains Wine Region, with the support of the

council and the South Australian Government, has employed an Executive Officer to support its market development activities.

- Formation of a local engineering network comprising three companies. The council is actively assisting it to enter into new markets, including the US and the Middle East.
- Formation of an alliance between two engineering companies that has tendered for a \$5 million export contract for materials movement, storage and handling in South America. The alliance is also exploring contract opportunities in China.
- Fast tracking the \$90 million Innovation Network. A high tech hub comprising 14 local and global companies and spinning off new investment opportunities.
- Attraction of a \$100 million automotive investment to the City of Playford as part of Holden's expansion.
- Creation of Beyond Automation, a global automation and robotics company located at the Innovation Network in the City of Playford, brings together several of the world's leading automation, software, robotics and engineering companies as described below.
- Establishment of a \$1.0 million Advanced Manufacturing Design Centre, a CAD CAM bureau with a membership of 30 engineering companies.
- Playford will soon announce the creation of new engineering company – as part of its engineering networking program which brought together an engineering, CAD CAM and fabrication company. Together they will have the critical mass to bid for defence and knowledge intensive aviation projects in Australia and the United States. Playford will also shortly be announcing a new food processing factory which brings together a network of 20 growers, a food processor and sales and distribution companies for national and south east Asian markets. This project has been two years in the making and is a direct outcome of Playford's food processing cluster strategy.

The networking methodology is directly assisting companies involved in our project with business planning for growth and market development.

These activities directly contribute to long term and sustainable economic development in the region, arising from the development of new markets and export development opportunities.

Outcomes such as these have resulted in the OECD using Playford's cluster and investment outcomes as part of a flagship project in its Global Value Chain research project.

The OECD will focus on Beyond Automation, a global automation and robotic consortium comprising companies from the UK, Malaysia, Germany and a local Playford engineering company. The consortium was created through Playford's cluster facilitation process and was supported through an Invest Australia Investment Mission to Australia. It was officially launched by the Foreign Affairs Minister, Alexander Downer, at Playford's annual national Manufacturing Prosperity conference attended by more than 350 industry leaders.

The consortium is bringing together some of the world's leading automation specialists who will bid for turnkey projects in China, Europe, the United States and South America. (Results of the OECD study will be presented to some 40 employment ministers from around the world later in 2006). Beyond Automation is based at the new \$90 million Innovation Network hub at Elizabeth West in the City of Playford.

For local government, working locally and nationally is challenging enough. Working globally takes this one step further.

For Playford this has meant developing relationships with the companies we work with and other government agencies such as Invest Australia. (Such projects are time intensive and should only be undertaken if one is prepared to see the project through.)

For Playford, the development of Beyond Automation is an important project that is helping to transform the advanced manufacturing sector. Therefore it was a strategic priority for the Council.

The major obstacle was not the project itself but other tiers of government who firmly believed it couldn't be done!

But then as the philosopher Elbert Hubbard once said *“The world is moving so fast these days that the man who says it can't be done is generally interrupted by somebody doing it”*.

As important as these commercial initiatives are, these breakthroughs are also creating changes in culture – both in business and government. Without changes in culture and attitude like this, it is unlikely that we can fulfil the region's exciting potential to build new markets and sustainable employment opportunities for future generations. From a regional governance perspective, this means an investment in genuine public private partnerships and whole of government approaches.

Perhaps the most important shift in attitudes arising from these successes is that we now have a region that increasingly feels more at ease with itself and confident in its ability to deliver world class outcomes.

6. CONCLUSION - Turning Ideas Into Actions

Governments are often swamped with economic flavours of the month such as “clustering”, the need to foster “creativity”, “talent” and the like. All offer important insights and together they should be seen as forming part of a broader armoury of potential economic approaches, rather than seen as silver bullets.

The reality is that a region's economic development toolbox needs to be informed by an understanding of its history and the type of economic and industrial development activities that determines its key strengths and weaknesses.

The key to Playford's success is turning theory into successful strategies that lead to investment outcomes.

Economic analysis should not be seen as an end in itself - it helps us to understand a region's strength and weaknesses. Most importantly it guides us to building on economic strengths, developing industry clusters and lobbying for increase infrastructure investment and the like.

Economic analysis should also open the door to the process of engagement with companies; right through from an individual company level to a broader industry level. At the end of the day, one has to develop close working relationships with companies to get investment outcomes.

Companies need to feel that they can trust “you” and that you are there to help them realise “their” visions, “their” aspirations.

This requires patience and an investment in time, and indeed, emotional energy. There must be the commitment to forging and maintaining such relationships. Such relationships are essential to understanding a company's suppliers, potential markets and ability to be innovative. This is critical industry intelligence that can lead to significant investment outcomes. And developing an understanding of a company's capacity and capabilities that can lead to tailored initiatives that can support productivity improvements across a broad spectrum of business activities.

Finally, at a governance level thinking outside of political and jurisdictional boundaries is a must. Playford's successful food cluster project for example spanned 4 different regions and included interviews with companies right across Australia. Interregional and indeed international collaboration is required to get companies and their products into new markets. One has to be prepared to work with companies and other government agencies outside of one's own boundary, whether local, state, national or international. And governance structures like the Playford Partnership are about leadership and reducing competition between levels of government, and/or government agencies – all vying for ownership.

Such competition results in political and economic failure – leaving companies and the community wondering why “government” doesn't work together – because after all – it is about improving services

and getting outcomes. Our challenge is to encourage participation and marshal the energy of business and the community, and not give them even more reasons for why not to get involved.

So it's not surprising to find that the media, which traditionally has seen Playford as part of the problem, is now portraying Playford as part of the solution and an innovative leader not only locally but indeed internationally.

Playford's approach is about and having the courage to take risks and turn creative ideas into action.