Submission
No 5

SUPPORT FOR START-UPS IN REGIONAL NEW SOUTH WALES

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There is broad agreement now that encouraging startups and entrepreneurship is important for economic development, since many new jobs will come from startups and scale up companies, it is now much easier and cheaper to start a business, due to technology advances, and it is much easier to reach customers via platformed businesses. It is also th case that much startup activity is concentrated in capital cities and larger centres, due to more connected ecosystems. This raises the challenge for government policy - how to ensure that regional centres participate in the current startups revolution. The key is understanding the elements of a startup and entrepreneurship ecosystem and supporting the nodes of the ecosystem and the connections between them, at regional scale. It is also important to understand that there are virtual ecosystems and that these two can be strengthened through policy action. There are many elements to an ecosystem - entrepreneurs, entrepreneurial communities, pipelines of entrepreneurship, support organisations, champions, sources of venture and other capital, events, spaces, mentors, entrepreneurship infrastructure, educational institutions, entrepreneurship community developers, and national and global networks. There are also challenges and opportunities due to the disruption of traditional labour markets and careers, creating the need to develop the skills of the next generation both a entrepreneurs and potential innovator (intrapreneurs) within bigger organisations. Development of young entrepreneurs is critical, as is entrepreneurship education - through startup weekends, summer schools for senior school students, mentor development, co-working spaces, incubators with programs of events attached, supports for ideation and pre-revenue startups, and general "link and leverage" strategies and actions. Initiatives like the new Sydney School of Entrepreneurship are good early steps, especially as the SSE will be deeply and broadly connected to regional centres. I have attached a number of my papers on the entrepreneurship ecosystem and on the changing face of regional development in order to help the Committee in its deliberations. (There are some references in some documents to my local NZ region of Hawke's Bay. The strategies we are building here as a rural region may have resonance for regional NSW). In a connected and distributed world with changing business models, there is an opportunities for canny regional leaders to create their own ecosystems and compete with other regions on the basis that their business cultures support startups and entrepreneurship. This is a fundamentally new source of competitive advantage and must be pursued by regions, with government enablement. I ma happy to provide much more detail on any of the ideas contained in the submission and on global examples of successful or promising initiatives.

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Innovation, Entrepreneurship, Start-Ups, Higros, Incubation and Networks – How Does it all Work?

Introduction

Many regions have cottoned on to the fact that the world has changed and that the parallel – and unparalleled – megatrends before us, viz. technological disruption, hyper-connectivity, hyper mobility and so-called "glurbanisation" (globalisation that is driving massively accelerated urbanisation; Hu 2015) are driving a fundamentally new conception of business models, economic growth and innovation (Collits 2016). We now live in the era of the "exponential economy".

The regions that understand these developments have set out to be, and to promote themselves as, nodes or hubs of innovation and entrepreneurship. And one of the things they are doing, however imperfectly, is attempting to create, in twenty-first century speak, "start-up ecosystems". These are essentially support systems for start-ups and "scalable" businesses. Many of these regions blatantly set out to emulate the world's first, most successful and most famous start-up ecosystem, Silicon Valley. They seek to understand what the "secret sauce" is, what it is that creates the preconditions for the development of a culture in which entrepreneurship – often correctly identified with start-up activity – thrives.

Not all regions have cottoned on. Some of the latter are striving to understand what the emerging emphasis in building start-up ecosystems means for regional economies and for economic development strategy. They struggle to understand how innovation works for regional development, what the sources of innovation are, and are cautious of the inherent risk in pursuing an entrepreneurship-led economic development strategy.

Getting the ecosystem build right could have a substantial impact on the following:

- Retaining more young people;
- Encouraging the return of ex-pat entrepreneurs;
- Being a beacon for start-ups from outside the region;
- Providing a visible focus for interaction with the investment community;
- Reducing fragmentation and invisibility;
- Growing good jobs with large multipliers (Moretti 2013);
- Preparing the next generation and young graduates for a very different, "gig economy" world.

This is in addition to building an innovation culture that will encourage firms to be more innovative themselves and more prone to innovative collaborations.

Emphasising the ecosystem outside the firm need not ignore helping firms themselves to be more innovative. Gary Kunkle has observed that most of the drivers of high growth firms are located within the firm, and, it follows, not in the surrounding ecosystem (Kunkle 2011, 2012).

According to Kunkle:

> I'd spent 20 years working in the field with more than 500 companies on expansions projects in 32 countries. Based on that experience, I believed that firm-level growth was primarily driven by internal firm capabilities and dynamics. Yet the leading economic growth theories were saying that a firm's industry and location were more important in determining whether it grows or not. It just didn't compute (Kunkle 2011).

If correct, this seems to suggest that economic development strategy focused on ecosystem development might just be a waste of time. Why not just work "within the building"?

But is "growth" the same as "innovation" and entrepreneurship", or, more specifically, does growth require innovation and entrepreneurship? Does ecosystem development help existing firms to be more innovative and start-ups to be more entrepreneurial? And, more importantly, does entrepreneurship and innovation drive sustained high growth, and in today's language, "scalability"?

This paper explores these issues and draws a number of conclusions in support of mainstreaming ecosystem building in economic development strategy.

The Case for Developing a Start-up Ecosystem

Ecosystem development is more than developing government programs to encourage start-ups. It is the creation of a particular culture in which businesses, and in particular, start-ups will thrive. In fact, ecosystem development is very different from having a suite of government programs. Most government programs provide assistance to individual firms. These programs often focus on firm productivity, often with good outcomes for the firm and for economic growth. Government programs, however, cannot of themselves create the pre-conditions for innovation and they cannot provide the magic recipe for entrepreneurship. And productivity is, of itself, no guarantor of jobs growth.

And because governments and their agencies are very risk averse, they are not generally in the business of supporting start-ups, many of which fail. This is never a good look for elected officials spending ratepayers' or taxpayers' money. And the recent Australian political scene has demonstrated the very limited electoral appeal of supporting an innovation culture. Yet it is the start-up ecosystem that will deliver the sort of culture in which new businesses formation will increase, and potentially provide the growth of scalable businesses, aka "higros" that will drive regional economic development in the new, exponential economy.

Richard Florida some years ago correctly argued that regional economic success required "low entry barriers" for new people (Florida 2002). And new people include new residents, new-to-the-region businesses, and new enterprises born within the region. This means more than being "welcoming". It means more than "talent, technology and tolerance (of the different)" - Florida's famous three T's.

Low entry barriers, or in Saxenian's formulation, an open, non-hierarchical business culture as seen in the Silicon Valley of the 1990s, make for dynamic and entrepreneurial economies (Saxenian 1994).

Florida implies, again correctly, that economic development strategy must always be "looking forward", not merely protecting existing industries and businesses. It is creating the NEXT job that must be the focus of economic development strategy. And the international evidence suggests that it is invariably young and mostly small-but-growing firms that are now creating most of the new jobs. Mature and large businesses generally do not. The latter, the so-called "legacy industries", now routinely shed jobs, outsource formerly core functions, rationalise operations in order to pare costs to the bone and severely ration new employment opportunities. Many large firms too are open to disruption through technology or new, savvy competitors. Strategy, in order to be forward looking, must necessarily focus on emerging opportunities and the business of the future.

Hence the need for ecosystem development to be central to strategy. And the critical exercise in all economic development – to "link and leverage" – is, too, at the heart of ecosystem development.

Does all this mean that Kunkle is wrong? No, Kunkle is correct – about higros – but I believe the case for ecosystem development for start-ups is still important, even critical, for regional economies. In other words, what is required for supporting start-ups is different to what is required for supporting higros. This includes non-metropolitan economies seen as being "underpinned" by the typical rural activities of primary production and land related processing. The work of The Space in Cairns (Queensland), for example is an important example of regional/rural ecosystem development.

The Core Elements of a Start-up Ecosystem – What Incubation Looks Like Now

So, what then are the key elements of this ecosystems development approach? How does one best lower the entry barriers to new business formation?

Most emerging ecosystems strive to provide contact points for emerging start-ups, often in the form of dedicated spaces. Many provide resources to support connectivity. Some provide skills formation tools. Mentoring services are typically in the mix. There is often advice on the technical side of starting a business. There is an increasing trend towards having themed spaces, for example in technology focused start-ups, and to form membership based communities of entrepreneurs, catalysed through a dedicated resource. Linkages are provided to angel investors and to crowd funding sources. Events are important. Increasingly, corporates are connecting with entrepreneurial start-up communities.

Hence the following are typically part of a start-up ecosystem:

- Co-working spaces, often in downtown locations or in old industrial (often port) districts or arts districts or co-located with research institutes in so-called "innovation districts" (Katz and Wagner 2014; start-up spaces seem to have a special attraction to funky, industrial chic spaces);
- Entrepreneur communities underpinned by a "pay it forward" culture;
- Boot camps and other (typically competitive) accelerator programs which include resources such as mentoring and the potential linking of entrepreneurs to corporates and investors (see, for example, Slingshotters in Newcastle Australia and, most famous globally, Techstars);

- Start-up schools like those established by Brett Whitford (Excellerator) in Sydney;
- Pitch events, dragon's dens and speakers' presentations;
- Pro bono "drop in" services provided by lawyers, IP specialists, accountants, and so on;
- Catalysts who help to build start-up communities and make new connections;
- Young entrepreneur programs and resources.

This is what "incubation" looks like in the new economy. There is a strong focus on technology firms and on creatives. Gone are the days of the 1980s industrial parks – they still exist but they are not the locus of economic activity in today's world – and old economy incubators for small businesses which were mainly conceived in order to provide cheap rent, and thereby lower costs, for new businesses. Old economy incubators were severely limited in what they could do, and the companies they supported were equally limited in opportunities to scale up, absent the technology platforms of today that effortlessly reach customers wherever they are located, grow customer relationships, involve customers in content creation and get customers even to co-create the business model.

An emerging, indeed burgeoning, literature describing and championing the development of start-up ecosystems has appeared. Key authors include Brad Feld of Boulder Colorado (author of the so-called Boulder model); the Kauffman Foundation; Steve Blank and others associated with the development of the "lean start-up"; Esko Kilpi; Tim O'Reilly; Marc Andreessen; the McKinsey Global Institute; the Deloittes Center for the Edge; and the Harvard Business Review (see Collits 2016).

Many companies and governments are now in the business of start-up ecosystem design and development, all over the world. Perhaps most famously, the entrepreneur Tony Hsieh, founder of Zappos, has sunk upwards of 300 million USD into the creation of a start-up ecosystem in Las Vegas. The best recognised start-up communities globally include (of course) Silicon Valley, Silicon Alley in Manhattan, Boulder Colorado, Austin Texas, downtown San Francisco, Boston, Tel Aviv, Campus London and other East End innovation precincts such as Silicon Roundabout; Stockholm and Berlin (see venturebeat.com and Appendix A).

In Australasia, they are in the UTS Sydney precinct in Ultimo, the Docklands in Melbourne, Auckland's Wynyard district, Tauranga's downtown and Wellington's creative district (with Creative HQ and its Lightning Lab program). Brisbane Australia is also rapidly developing a start-up culture.

Other companies provide resources to nascent start-up communities. For example, T2 Venture Creation, founded in 2005 by Victor Hwang (now with the Kauffman Foundation), provides an astonishing resource for communities wishing to learn from others who have made the ecosystem journey, often in the form of access to the burgeoning start-up ecosystem literature. As noted above, The Space in Cairns Queensland has developed a business based on growing start-up ecosystems. Venture Business in Tauranga New Zealand provides toolkit resources for start-ups.

In identifying the characteristics of global start-up ecosystems, Venturebeat included the following in its "must have" list:

- Funding Ecosystem & Exits;
- Engineering Talent;
- Active Mentoring;

- Technical Infrastructure;
- Start-up Culture;
- Legal & Policy Infrastructure;
- Economic Foundation; and
- Government Policies & Programs (Venturebeat 2015).

Note here the requirement for what might be termed "twenty-first century infrastructure". There is no mention of roads and bridges or of ports! Connectivity is everything, in particular connectivity to the virtual. There is also the emphasis on culture. There remains an emphasis on soft infrastructure, access to technical support and supportive government policy.

The critical issue for economic development strategy, especially in regions with fragmented, invisible ("under the radar") or nascent start-up ecosystems, is where to start. What comes first? Where should we direct resources? Who are the key players? How do we "link and leverage"?

Recall my often discussed core questions of economic development when addressing the "where to start" question:

- What are we trying to achieve?
- Who is responsible?
- What drives (enables) growth and decline?
- Which drivers can local actors influence?
- How much can local actors understand and influence these drivers?
- What works in terms of programs and actions?
- How will we measure success?

The key actions to be taken are discussed below. But before, addressing these questions, we need to detour over to a discussion of innovation and entrepreneurship in order to determine the extent to which ecosystem building can drive economic growth.

A Short Discourse on Innovation, the Firm and Entrepreneurship

What is innovation and how does it work?

The first, critical point is that innovation is about much more than patents, despite patents typically being the metric of innovation. Lots of patents in a region may or may not signify an innovative region.

The sources of innovation are often within firms, for example great ideas routinely come from employees, not just research and development departments. This is why it is critically important for businesses to allow so-called "intrapreneurs" to flourish, to listen to their people. Many existing businesses do not do this. They focus on serving their existing customers well and do not have a mentality of the self-disruption that is needed today and which might motivate management to actually listen to their set up meaningful internal processes to recognise and encourage intrapreneurship (see for example Clayton Christensen 1997).

But innovation also comes from outside the firm – from observing competitors, from the collective efforts of regionally or nationally based industry associations (so-called coopetition), from suppliers and, increasingly, from customers. The connectivity required for the nurturing of these forms of innovation requires both internal-to-the-firm processes and ecosystem development.

The prophet of innovation was Joseph Schumpeter, who coined (without knowing, of course, anything about twenty-first century technology enabled "disruption") the phrase "gales of creative destruction (Schumpeter 1942). Schumpeter's view, radically different from that of Marx and many other writers on the subject, was that capitalism's core was innovation. Of course, Schumpeter anticipated disruption.

Christensen went on to describe how it works, with heavy empirical evidence coming from the semi-conductor industry. Christensen's model is a modern classic in the management and business literature. He makes the point that successful mature firms are good at meeting the needs of existing customers, without necessarily being about to anticipate future threats and opportunities. Disruption occurs when new competitors come in "at the bottom" and undercut existing offerings with lower prices for basic goods and services. Disruption is especially suited to the contemporary sharing economy and is driven by technology. It is enabled essentially by the capacity of new firms to scale quickly and to leverage off technology platforms. It is underpinned too by the radical decline in traction costs that now, in many cases, approach zero.

Christensen also makes the important distinction between sustaining and disruptive innovation. Not all innovation is disruptive, despite the current focus on disruption. Many product innovations are "sustaining" of mature firms and industries. Finding new markets for existing products, and the re-engineering of intra-firm processes all count as innovation. Developing new products is typically regarded as the core of innovation. But contemporary understands go way beyond this. Disruptive innovation is normally associated with business model innovation, the most radical form of innovation, the most exciting, and, for economic development strategy and regions, the most tantalising and complex.

As Esko Kilpi and others have noted, the firm itself and the Coase model are under threat from the internet and its outworkings, an "extinction level" event (Coase 1937). The intertwining of technological advances, new business models, diminishing geography and close-to-zero start-up costs have caused a fundamental rethink of business forms.

Hence, the importance of innovation is well understood, as are the linkages between innovation and disruption.

Some of the principal conclusions of the recent literature on how innovation works emphasise the following:

- Ideas happen where people meet and innovation is an inherently social process (Johnson);
- Innovation might be described as "ideas having sex" (Ridley);
- Cooperation, specialisation (powered by innovation) + exchange lead to increased wealth;
- Cross fertilisation of cultures and disciplines occurring at "the intersection" drives innovation (Johansson 2010);

- Recombinations of existing ideas in new configurations can often be highly, even transformatively innovative, as many apps attest.

These thinkers have generated some key insights related to the sources of innovation, the social nature of innovation, and the importance of creating opportunities both within firms, among firms and in “third spaces” for formal and (especially) informal interactions where tacit knowledge can be shared and where ideas have sex. And, at least in the case of Matt Ridley, the connection between innovation and economic growth is reinforced.

If innovation is the “what”, then entrepreneurs are the “who”. Every entrepreneur is a business person, but not every business person is an entrepreneur. Entrepreneurs take risks, but they also seek to minimise risk. They often fail, and there is an emerging understanding among entrepreneurs, entrepreneurship educators and ecosystem and accelerator managers that failure is tolerable, even necessary. Serial entrepreneurs often have failure stories. The new way of describing failure is to underscore the need to fail “lightly” and quickly and to learn quickly from failure. Some investors may even prefer to support businesses whose founders have previously failed and learned from failure. Success in business is, perhaps, currently undergoing a radical redefinition.

Not every small business is a start-up. In the contemporary understanding of start-ups is that they are capable of scaling and are inclined to want to scale. They are, therefore, potential job creators. They are not all tech start-ups but are often users of technology platforms to enable scaling. They may be entrepreneurial in the ways they reconfigure existing goods and services and provide traditional products to existing markets. They are generally not self-employing business lifefestylers, though in principle “solopreneurs” may be just that. Then there are “intrapreneurs”, referred to above, “seniorpreneurs” and other variations of the type.

How Start-up Ecosystems Drive Innovation and Entrepreneurship

So far I have articulated and explained the elements of a start-up ecosystem and have also provided a brief summary of contemporary understandings of innovation and entrepreneurship, linking these to incubation and networks. What, then, are the relationships between a start-up ecosystem and the promotion in regions of innovation and entrepreneurship?

Clearly the purpose of nurturing start-up ecosystems is not merely to create start-ups but to enable the development of sustained pipelines from ideas and innovation to validation to commercialised businesses to higros. Essentially start-up ecosystem building is pipeline creation. The purpose is to allow ideas to “have sex”, to find partners, to recombine, to create killer apps for pre-existing technologies. Just as creating pathways to employment for the under-employed and the young is a critical social goal for regional wellbeing, creating “pathways” for a pipeline of entrepreneurial ideas must be core business for any strategy that wishes to nurture innovation. Such pathways must be visible to entrepreneurs and innovators and the fragmentation of the nodes must be reduced so as to allow for smoother pathways. To paraphrase Richard Florida, there must be “low entry barriers” for entrepreneurial ideas to make their way to and through the ecosystem.

The relationship between innovation and ecosystems is symbiotic and mutually reinforcing. Each is a necessary condition for the other. Ecosystems are needed for start-ups (entrepreneurs), and start-ups support and reinforce the ecosystem. Successful and growing businesses will provide inspiration, case studies and causes for celebration across the ecosystem, as well as much needed wealth creation and jobs. In the context of regional areas, such inspiration is critical. For maintaining popular support for economic development activity at local and regional scale, the community must be able to make the connections between ecosystem development and growing local businesses. For the future attraction of both new investment and outside investment, and to enable regions to compete assiduously in the global battle for the talent of the new economy, a visible, functioning start-up ecosystem is now increasingly seen as a baseline for further development and as core business for strategy.

Where to Start in Building an Ecosystem

At its heart, an ecosystem is a network, and network effects flow from ecosystem development. To "link and leverage" networks, ecosystem developers need to do a number of things:

- To identify nodes;
- To strengthen nodes;
- To determine how the nodes connect, if at all;
- To nurture existing linkages across the network;
- To create new linkages where these are currently absent, fragmented, opportunistic or invisible; and
- The water the garden regularly and seek new opportunities for network development.

Twenty-first century incubation is a networked activity, perhaps anchored in a space or spaces but providing services to support both individual nodes and cross network connections.

With finite budgets among government agencies, regimented conditions for assistance, risk aversion in terms of ecosystem development, and little appetite in the private sector for funding such activities, there are difficulties for economic development agencies. More importantly, even successful ecosystem builders may not know what the "secret sauce" has been in the builds.

A particular dilemma in incubation development is whether or not an agency supported, visible, labelled space is required and a priority, and how and when to support events, resourcing of spaces, catalyst provision, whether and how to support existing nodes such as private sector developed co-working spaces

There is no textbook for this. The key argument for financing a space is to send a signal to all players – entrepreneurs and investors in particular – that this region aspires to be a hub for innovation and entrepreneurship. The key argument for funding catalyst positions is to support the strengthening of networks and to build entrepreneurial communities. The key argument for resourcing an events calendar and the holding of pitch events, start-up weekends, visiting speakers and so on is to build capability, provide opportunities and . It is the same with mentoring programs and drop in expertise to provide technical support. In other words, there needs to be an integrated ecosystem with all the components mutually reinforcing. It is no good providing a building and no connecting resources. Equally, in a regional context, it is important to build innovation at regional scale, and to provide incubation support that builds whole-of-region capability. Here the notion of mobile and "pop up" or outreach incubation services should be deployed, beyond the mere creation of "an incubator" in one particular location.

Only through an integrated system can the core tasks of an ecosystem outlined above be properly implemented.

Summary and Conclusions

This paper has argued the case for making ecosystem development a primary goal of economic development strategy and offered an outline of how in general to proceed. The argument, in outline, has been:

- Creating a start-up culture in regions should be a priority for economic development strategy;
- Innovation and entrepreneurship both drive and benefit from a start-up culture;
- There are numerous examples now of successful start-up models, and tools and resources on which to draw in building one's own ecosystem;
- A start-up ecosystem should have (at least) designated spaces, resources, events and catalytic activity;
- There need to be enhanced connectors of entrepreneurs to investors in most regions;
- The support that start-ups need is not the same as that which higros need;
- One needs both a start-up culture and programs/initiatives to help growing firms to grow, especially in relation to growth management skills as per Kunkle.

Economic development strategy might best be compared to an Olympic sized swimming pool, without laneways:

- It is very big;
- There are no set laneways for guidance;
- It is not obvious where you dive in;
- Then it is not obvious which direction you swim; and
- There are lots of coaches on the side blowing whistles and shouting instructions.

There are good reasons to have an "all of the above" approach when determining which economic activities to support. For example, economic development needs popular (community) support for its various activities. So there is a need to go after and secure "low hanging fruit" in order to maintain tax/ratepayer support. There do need to be visible successes. Yet any practitioner knows that there are no guaranteed successes, luck is important, there are many things we do not control or even influence, and we will not know till (often years) after the intervention whether we have been successful. This suggests that a balanced portfolio of activities is in order, including making life easy for existing businesses; attracting new (outside) investment; nurturing sunrise industries; identifying and supporting businesses most likely to grow; going after sectors with large jobs multipliers and which have good salaries; and building a supportive business culture for start-ups.

The case for emphasising high growth businesses above other activities is clear. These are the businesses that are future focused and which have the greatest propensity to employ the most people.

Equally clear is the case for prioritising the creation of a first class start-up ecosystem. These will be the higros of the future, whether or not they ever attain (legendary) unicorn status. The latter strategy is risky because the rewards may not be immediately apparent, thus potentially losing popular support, and because we know many start-ups will fail. And the emerging conversation among the start-up community that to succeed you must first fail (fast and learn) has not yet reached the wider community of ratepayers and taxpayers. Without start-ups, especially scalables, there simply won't be any higros.

Finally, the case for supporting technology firms – whether tech start-ups or high technology manufacturing is clear. These sectors are sources and drivers of innovation and create large jobs multipliers and high salaries.

A balanced portfolio with at least sixty per cent of resources and activities dedicated to start-up and higro support is required for a successful economic development strategy. Doing this will fulfil the core objective of economic development strategy:

- Increase investment …
- In growing enterprises …
- That are innovative …
- That are productive …
- That leads to jobs …
- That increase wealth …
- And raise living standards.

This is the textbook "logic trail" of economic development, and building a start-up ecosystem is now recognised by an increasing number of regions globally as being intrinsic to success. The paper has sought to contribute to a better understanding of, and to connect up, some often used concepts of economic development – innovation, entrepreneurship, start-ups, higros and incubation – in order to make sense of them and to develop a better understanding of how they might be encouraged in ways that benefit regional economic development.

Appendix A
Venturebeat's Top Performing Ecosystems

Scores are out of 80

Global Hub	Overall Rating
Silicon Valley	75
Stockholm	67
Tel Aviv	65
NYC	64
Seoul	58
Boston	58
Los Angeles	57
Beijing	55
London	53
Berlin	53

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Re-imagining the region

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Abstract

Traditionally, regional policy has sought to intervene 'in place'. There have been many critiques of particular policies and regional strategies, and a more sustained critique of regional policy more generally, based upon the complexity of regional processes and the relative incapacity of governments to control, or in some cases even to influence, these processes and deliver the outcomes they desire. In the 21st century, there are new and even more complicating processes – the new globalisation, greater mobility, new kinds of mobility, the increased openness of borders, rapidly shifting business models, accelerating disruption of industries and businesses by new start-ups, and distributed work – that render much thinking, strategy and policy related to regions obsolete. This paper describes some of these processes, what they mean for policy and, even more fundamentally, what they mean for the way we think about regions.

Keywords

distributed work, globalisation, mobility, policy, region, regional development, regional strategy

Introduction

Many still see regions as patches of ground onto which must be poured resources, funding and keys to advantage. They are seen as fixed ('sticky') places and spaces which, as spaces and places, can acquire and maintain competitive advantage. This has been the unchanging paradigm for at least two decades, despite periodic questioning, or at least discussion, of it by scholars (Amin, 1999, 2004; Harrison, 2013; Markusen, 1996; Morgan, 2004a, 2004b; Pike, 2009; Storper and Venables, 2004). Policy and strategy need to change, based on, and aligned with, a fundamentally new conception of the region as unstable, complex, relational, porous and openly networked.

We believe that much contemporary regional policy and strategy is fundamentally misconceived, and, indeed, amounts to 'spatial fetishism' (Morgan, 2004b). Poor thinking about regions, about what they are and how they work, is driving the way regional leaders, economic development practitioners and policy makers

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shape interventions that they believe, often wrongly or only half correctly, will alter the trajectory of regional development. The authors of local and regional strategies, as well as of the policy interventions of central governments, give little indication that they have understood and taken into account the new realities of 21st century business models, mobile resources, new industry segments, disrupted businesses and distributed work. Myths persist, indeed are embedded in strategic thinking. This is an important, ongoing issue for Australian regional analysis and for policy and strategy interventions, just as it is internationally, as endless, often unimplemented strategy documents continue gather dust upon shelves.

The problem is the world of the 21st century is a world of ever moving, as well as ever changing, parts. The moving parts include people, businesses (and business models), ideas, capital, resources of all kinds. Many policy makers now 'get' globalisation.[1] They understand what it is, how it works, what it means. They understand that the old ways no longer work and that policy must adjust to the utterly porous borders between nations. Yet within nations, leaders and policymakers seem not to have noticed that regional borders too are now utterly porous, and that this has deep significance for how, and how much, policy interventions will work.

Much of what passes for regional strategy consists of regions seeking largesse from central governments, and regional policy consists of deciding between the competing regional claims. This unsophisticated game is played over and over again by participants who seem not to see what is going on before their eyes. Ours is an age of massive interregional migrations, with new forms of commuting, temporary moves, shifting lifestyles, new ways of living in families and a greater willingness to embrace the unfamiliar and unconventional. People 'live here, work there, and spend somewhere else'.[2] It is almost impossible to keep track of economic interactions and to comprehend their spatial dimensions. Economic transactions traverse both very short and very long distances. Economic impacts are no longer 'felt' in place in the way they used to be.

In our opinion, the theory of the relational region is on the right path to a better understanding of regions, and with it, a more realistic approach to policy. The 21st century region is one of flows as well as spaces. It is open and networked. But the networks extend across boundaries and consequently, there is continual population churn.

This article argues for a radical re-imagining of the region in the face of new economic, social, demographic and cultural realities, best summed up in the emergence of the 'distributed world'. It is based on improved understandings of 'region' and 'mobility' and a reality check on what these understandings mean for policy and strategy. At the heart of the argument is a recognition that economic transactions occur across space and this space is not constrained by man-made regional boundaries or indeed by natural boundaries between regions that the emerging world simply ignores.

There are three new elements in play that add up to a new geography and portend a new way of thinking about and doing regional policy and strategy:

- The borderless, globalised world with its ease of communication and movement, for people, capital and ideas, appearing at precisely the same time as the knowledge economy based on increasing returns from ideas;
- Distributed world of work – new business models and, in particular, new thinking about where work is done; and
- A new mobility with more, and new forms of, commuting and radically shifting lifestyles which herald a whole new notion of place.

Neither these trends nor the thinking that analyses them are new in the current period. The trends are certainly accelerating, and the thinking is crystallising (Harrison, 2013). What is new (in our argument) is the recognition of what these developments mean for regional interventions, especially those designed to support economic development. Castells, radically at the time his work was first published, used the emergence of what he termed in the 1990s the 'network society' with its global 'space of flows' to challenge the hegemony of the nation state (Castells, 2009; Harrison, 2013). The new regionalists of the 1990s, too, saw globalisation as heralding the demise of nations and resurrecting the region (Keating, 2001; Morgan, 1997; Ohmae, 1995; Storper, 1997). We see the (very real) new space of flows as bypassing and surpassing both nations and regions as they have been, until now, understood. We see regional boundaries as now being just as irrelevant as national boundaries to many households, businesses and industries. And we see this as having consequences for regional policy, something largely ignored, or at least understood in different ways, in previous debates about regions.

There have long been arguments over the efficacy of regional (spatial, place, territorial) policy, and whether policy interventions designed to assist certain categories of people in certain circumstances should be applied to the places where they live. The argument is ongoing. Our contribution to the debate is to suggest a new threat to regional policy and its core assumptions, at least regional policy configured in the way it has been up until now.

Regional policy in Australia is largely focused on non-metropolitan regions and always has been (Collits, 2004; Collits, 2014). Yet it is non-metropolitan places in particular that have been exposed to the forces analysed in this paper. It is certainly the case that cities have triumphed in the globalised world, with new forms of agglomeration economies emerging (Collits, 2012a; Glaeser, 2011; Polese, 2009).

Regionalism has had a patchy record in Australia. Often, historically, regionalism has been associated with decentralisation movements, even new states movements. Regions are not recognised in the Constitution. As in England, they have no statutory basis. There are no regional governments. Regions suffer from problems of both legitimacy and capacity (Collits and Brown, 2004; Collits in Thompson and Maginn, 2012). They lack the power to raise taxes and they have no ability to coordinate government activities. They fall between local government, itself not recognised in the Constitution and having few powers and resources for economic development, and State governments which may or may not choose to resource region scale governance activities. And there is not the tradition in Australia (unlike, for example, the USA) of regional players collaborating to develop region-wide, self-funded and self-directed initiatives.

A borderless world: The notion of 'region' overturned

The concept of space and place has completely changed as a result of globalisation. The knowledge economy (based on increasing returns from ideas and knowledge, as per Romer, 1986) appeared at precisely the time that we were creating a 'borderless world'. The coincidence of these twin developments renders regional boundaries, and perhaps the whole notion of a regional economy, obsolete in many ways.

In the borderless and boundless world, with new conceptions of place and space, we still retain out-dated notions of regional policy and regional strategy as if regions were self-contained.

We (policy makers, regional leaders and practitioners) think in parallel but contradictory ways. While acknowledging the new geography of work and living, at the same time we still think of regions as fixed in place even though the people who live, work and invest there do not. Our movements, horizons, relations and transactions are global in scope. Where we invest, purchase goods and services, work and live is no longer confined to a 'region'. We are merely 'based' in places now, and this simple word has a powerful resonance with the contemporary mobile, non-fixed world.

Traditional definitions of region and their limits

Regions have traditionally been defined as being one of three broad types – homogeneous regions, which have shared characteristics (such as climate, geography, dominant industries); nodal regions, in which all parts of the region are linked in some way; and administrative regions, which are the creations of government (Beer et al., 2003; Stilwell, 1992).

Many governments have had a particular zeal for creating (centrally) administrative regions, whether or not these created regions are really 'regions' in the homogeneous or nodal sense. We are all familiar with real 'regions'. The functional economic areas identified by Stimson and Mitchell (2010) and others are clearly nodal regions. And homogeneous regions are clearly identifiable. Yet whole countries are not normally divided into natural, identifiable regions, and still governments insist on covering the nation with administrative regions as if they were wall to wall with real (economic) regions.

Yet in a globalised and in many senses borderless world, 'real' regions' boundaries are not fixed in place and time. Disruptive economic changes, often occasioned by exogenous shocks, change regions and their regional boundaries as new economic activities emerge. Regions change characteristics. They often change their economic function as a result of disruption, whether in the form of exogenous shocks or endogenous innovation. Their people leave and new people arrive. They are not fixed. Yet centrally created administrative regions persist through government fiat, essentially ignoring economic, social and demographic change, their boundaries fixed despite being utterly porous and in many cases meaningless, and therefore increasingly irrelevant. Continued government funding of, and policy emphasis on, the operation of regional institutions fixed in place over time ignores mobility and change.

The new regionalism and its critics

One of the many innovations in regional development thinking, scholarship and policy in recent decades has been the so-called new regionalism (Mawson, 1997). This appeared in different forms in North America (in the form of the new urbanism) and Europe (through the global regions and regional innovation systems literature).

The new regionalism of Cooke, Morgan, Scott and Storper and others builds on the knowledge theory of regional growth. These scholars argued that regional growth is driven by dense networks of informal or 'tacit' knowledge. Scott, Storper and others focused on the emergence of 'global city regions' as growth drivers and saw regions as the building blocks of a globalised world (Harrison, 2013; Morgan, 1997; Scott, 2001; Storper, 1997).

A key dimension of the new regionalism is the conviction that 'regions' matter, even in the age of globalisation. This is more than simply saying that 'place matters', but rather than region scale activities drive the new economy. It is easy to argue the importance of city regions in the global economy, but harder to maintain the argument that 'regions' are more important than, say, firms or communities – 'functional economic areas' in the now fashionable language of post Blair-Brown UK regional policy. The highly contestable claim of new regionalists that 'we live in a regional world', that nations don't matter but now only regions do, has always been overblown, even without considering the new mobility.

This is simply because many regions, especially those determined by central governments, are not real economic areas but administrative conveniences, and because regional boundaries are increasingly porous, and therefore meaningless.

Proponents of the new regionalism in the 1990s argued that globalisation (perhaps unexpectedly) had reinforced the economic and cultural significance of regions as nations declined in importance. In other words, the new regionalists have paradoxically actually increased its importance of 'place' instead of diminishing its importance. According to the new regionalists, we now live our lives in a 'regional world' (Keating, 1998; Storper, 1997). As McKinsey posited in the 1990s, 'In today's world, we find that it is increasingly regions that compete – not countries' (McKinsey and Company, 1994; Ohmae, 1995). Or as Bruce Katz asserted, 'today we live our lives regionally' (Katz quoted in Wallis, 2000).

But what has really happened is that globalisation has changed all spatial relations and has unmoored 'regions' from their former forms and spaces. We actually live in a 'distributed and networked' world and this has particular and profound impacts on regional analysis, policy and strategy. Scholars were talking about this distributed world of work a decade ago (Hinds and Kiesler, 2002), yet, despite occasional debates over 'territorial' versus 'relational' regions (Harrison, 2013; Paasi, 2013), thinking about policy and strategy still remains wedded to the 'region-as-defined-territory' paradigm.

Cooke and Morgan (1998) wisely suggest that 'a region is a process . . . not a thing'. This is true, but also limiting. The processes (linkages) that occur in, and for the new regionalists, that define regions, also occur increasingly across regional boundaries. Arguably, not only is the rate of across-regional-boundary transactions increasing, but also their importance.

The new regionalism has proven to be a major distraction, especially for nations without clearly defined regions of whatever kind (homogeneous, nodal or political).

As well as being a distraction, the new regionalism also helped to generate in the 1990s and beyond policy and strategy paradigms of regional competitive advantage. Michael Porter's Competitive Advantage of Nations was the regional development 'hit' of the 1990s, and bequeathed Australia and the world the notion that 'regions' could create competitive advantage (Porter, 1990). Moreover, policy and strategy should be focused on creating competitive advantage. They can, of course, up to a point. But such advantage is contingent, limited, unstable and perennially at risk of vanishing as a result of the larger forces at work and the inherent practical weaknesses of regions, whatever their conceptual appeal. In an openly networked world in which mostly artificial regional boundaries (as they often are in Australia) are virtually irrelevant to mobile economic agents, spatial categories such as region assume minimal importance.

In summary, there is much to commend Walter Isard's often quoted dictum that regions are 'simply generalisations of the human mind' (Isard quoted in Stilwell, 1992: 47), or Jane Jacobs' cynicism: 'A region, someone has wryly observed, is an area safely larger than the last one to whose problems we found no solution' (Jacobs quoted in Katz, 2000).

This is especially the case in the post-regional world we are describing.

Territorial versus 'relational' regions

A new debate commenced in the early years of the new century and this debate has continued (in an on again–off again fashion) to the present (Harrison, 2013; Pike, 2009). This debate has moved thinking about regions beyond the limitations of the 1990s' new regionalism and suggested the very themes we are now exploring. The new thinking suggests that regions might be considered as bundles of relationships rather than as mere territorial spaces, or at least, in addition to being considered in the conventional sense.

Ash Amin (2004: 33) argues in his 'regions unbound' thesis:

> The mainstream view of cities and regions is one that continues to conceptualise them as territorial entities: local economic systems, regimes of regulation, a place called home.... The continuing grip of this imaginary is odd because it has been challenged by two significant developments in recent years. The first challenge is the rise of compositional forces that are transforming cities and regions into sites immersed in global networks of organization and routinely implicated in distant connections and influences. These are changes we have come to associate with globalization, which includes the everyday transnational flow of ideas, information, knowledge, money, people, and cultural influences; the growth of translocal networks of organization and influence, such as transnational corporations, global financial institutions, international governance regimes, and transnational cultural networks; and the ripples of distant developments such as stock market swings, environmental disasters, global trade agreements, and policy decisions in powerful nations.

Paasi has contrasted traditional territorial notions of 'bounded spaces' to a broader and less limiting understanding of the 'relational complexity' of regions (Harrison, 2013; Paasi, 2013). This advances our understanding of regions considerably.

Yet the notion of relational regions itself is limiting in view of the new knowledge economy and the borderless world. The borderlessness of nations is also the borderlessness of regions, in which 'relations' cross boundaries within nations as well as national boundaries, in increasingly complex ways that are beyond the capacity of analysts to understand fully or governments to shape and control. The relational versus territorial debate is largely concerned with what goes on in regions. Our proposition is that in today's world the very notion of region itself is problematic.

Functional economic regions

Another challenge to the orthodoxy of regionalism is the notion of functional economic regions, the idea that meaningful policy and strategy should be linked to actual business spatial interactions.

Recent regional policy in the United Kingdom is an example of shifting thinking in relation to 'region'. One of the key policy changes following the election of the Cameron Government in the UK in 2010 was the termination of the Blairite experiment in regionalism undertaken over the preceding 13 years and a reset of spatial focus through the new local enterprise partnerships. This amounted to a rethinking of the new regionalism and a challenge to the 1990s orthodoxy that linked globalisation to regions and made the region the unit of policy interventions. This policy shift to a more localised approach to economic development has been a significant development.

The distributed world of work

The second megatrend that is contributing to the passing of 'region' as we have understood it is distributed work (Hinds and Kiesler, 2002). What does the so-called anywhere working world mean, and mean for regionalism? Is it merely a fad, or is it here to stay and how does it affect place?

According to Wikipedia:

> A distributed workforce is a workforce that reaches beyond the restrictions of a traditional office environment. A distributed workforce is disbursed geographically over a wide area – domestically or internationally. By installing key technologies, distributed companies enable employees located anywhere to access all of the company's resources and software such as applications, data and e-mail without working within the confines of a physical company-operated facility.

This is the world of the so-called freelance economy, where agents, especially young people but not only young people, often prefer to work for themselves rather than for an employer. Not only do people now switch jobs and careers more often, and this has its own implications for mobility and regionalism, but they increasingly work for themselves. The home office, the co-working space, the telecentre, the smart hub, working on the road, these are the sites of much modern work. They need not be in offices in the city, nor in business parks. They need not be anywhere in particular.

The connectivity occasioned by smart mobile devices, powerful computing and fast broadband allowing large packets of data to be transmitted electronically and video conferencing, substantially shifts the geography of jobs and has created a generation of workers 'on the move'. If employment is mobile, this has considerable implications for place and space, for the provision of infrastructure, for planning and for regionalism and regional policy. It will have implications or commercial office space, for downtowns, for employers. People can live where they choose, unmoored from the location of employers, at least those who are mobile can. Creating 'local' jobs therefore has far less meaning now.

Do we live in a regional world or a distributed and networked world? For many, the answer will be 'both'. Yet mobile work is on the rise, albeit focused in certain sectors and certainly not universally adopted for a range of reasons (Hinds and Kiesler, 2002). The changes here are profound and reinforce the other pillars of mobility, knowledge work and globalisation that have changed the world of space. The new communities are boundless and global, and in a real sense 'boundaryless'. They are not regional, and to the large extent that these changes involve the young, they are the likely path of the future.

The new mobility and the region

The third core part of the argument for discarding conventional notions of region and the policies and strategies to which they have given rise relates to what might be termed 'the new mobility'.

CSIRO's Our Future World report counts mobility as one of the five key megatrends that will influence future development, including where that development occurs (CSIRO, 2010). There has always been mobility, then, and Australia has always been a mobile society (Productivity Commission, 2014). A recent report by Canberra's Bureau of Infrastructure, Transport and Regional Economics notes that, between 2001 and 2006, 6.6 million Australians moved. That is a third of the population. While 71% of these moves were local and mainly related to changing one's housing, it still leaves 1.9 million who moved from one city or region to another. That is a lot. In fact, Australians move, on average, 11 times in their lives (Bureau of Infrastructure, Transport and Regional Economics, 2011).

What is new is the ever rising mobility, seen for example in the lengthening of commutes, and the new forms of mobility, seen in the whole 'fly in–fly out' phenomenon, witnessed most visibly in the resources sector in Australia, but more hidden yet no less significant in other industries such as construction, and increasingly embraced by households everywhere. Traditional Australian mobility – moving home regularly and often across great distances, for work, lifestyle or trading up one's housing – has morphed into a more complex and variegated, multi-dimensional mobility.

In terms of traditional mobility, there is massive, ongoing population churn across all regions of Australia, in cities, suburbs, regional centres and remote locations (Australian Bureau of Statistics, 2013; see below).

Mobility old and new

There are three broad points about mobility old and new. The first is that many people move at certain times of their lives to certain kinds of places, e.g. school leavers to the city to get education, excitement and partnered up; Gen X marrieds with children returning to rural places for the free babysitting of the grandparents; and retirees escaping from the city to the coast, having sold the house for a princely sum to help fund their increasingly long retirements. These three types of moves all might be termed 'path dependent'. There is a limited amount that regions can do to either stop this or encourage it.

Second, many relocations are personal or related to family. One Victorian study showed that 48% of Melburnians planning to relocate to a regional setting were doing so for (mainly) family reasons, 44% for employment and only 27% for lifestyle (Regional Development Victoria, 2009). These are the 'me change' moves. Many Gen Xers (and others) move to be close to family. Place marketing is of limited value here. The 'place' is not as important in these many cases as who (for the relocator) is already living in that place. I am aware of many people who have moved to our region as a result of family connections.

Third, about half the people moving to regional locations do so for work. This was corroborated in a study undertaken in a rural Victorian town in 2009 (Collits and Schlapp, 2009). In Queensland, the boom towns in recent times are those where people are moving for work, rather than for lifestyle. Key centres in this context are Mackay and Gladstone. We may be entering a very uncertain period of 'seachange 2.0', where lifestyle regions ('play towns') lose appeal relative to 'work towns'. This has huge implications for lifestyle regions that often rely on growing the service industries that to cater to in-migrants. It also has implications for people attraction strategies. Of course, with the plateauing of the mining boom, the work towns of Queensland may themselves have reached their economic peaks for a time. Nothing remains constant in a mobile world.

Forms and drivers of population mobility of both the traditional and new variety in Australia include the following:

- 'Life cycle' migration undertaken at key pivot points – young people to the city (rural 'rite of passage' migration), Gen X parents to rural hometowns, cash hungry retirees away from the city, divorcees;
- Second home communities where city people maintain an empty second home used for holidays in high amenity regions;
- Telework, either from home or from serviced offices or the now rapidly emerging co-work spaces or telecentres noted earlier;
- Fly in–fly out (FIFO) mining regions – 'live here, work there';
- Non-mining FIFO;
- Peri-urban dormitory regions/daily commute regions (with commutes getting longer as transport improves and urban footprints grow; Butt, 2011);

- Sea change and tree change moves;
- 'Me change' moves designed to start a new life after some kind of trauma or break-up;
- Reverse retiree migration from sea change/tree change regions;
- Itinerant worker communities/short stayers;
- Farmers increasingly moving off farm into town while still managing the farm;
- Farmers increasingly taking off farm jobs requiring commutes;
- Welfare migration to low housing cost regions and places with shorter social housing queues;
- Career short-term staging post towns;
- Moving to suburbs where there are good schools, e.g. selective high schools or state schools with residential requirements;
- 'Gap years' taken by intending university students;
- Out shopping ('live here, shop there'), 'sponge cities' and the drift from small towns to larger regional centres, if not in residential moves, then certainly seen in commutes and 'economic' moves;
- 'aerotropolis' cities built around mobility, for example locating near airports (Kasarda and Lindsay, 2012);
- Brain drain regions, with young people's flight to the university.

The globalised world has changed the way we need to think about regional development. We now live in a mobile world, where goods, service, people and finance move freely across regional and national boundaries (Harrison, 2013). Old categories no longer obtain. Old policies no longer work. Understanding this change and translating this understanding into effective policies will be critical in creating the productive Australia that is needed to support a growing population. The key is to make mobility work for the nation, for example through infrastructure policies that connect regions and businesses.

Who moves, where and why? This is a vastly under-researched area, which is surprising given we have governments who claim to be interested in regional development and given that people attraction has become one of the main ways regions seek to grow jobs and investment. It is even under-emphasised by researchers. Our politicians and many others tend to focus on 'place', on where economic activity occurs. But economic activity is a moving feast (literally), unconstrained by a person's location or by local government or indeed regional boundaries.

Mobility is also poorly understood by many. We all now understand globalisation in terms of the way it has altered the notion of the nation state. But within Australia, we live in a mobile world as much as in a regional world yet the impact of mobility on regions as spaces and the efficacy of regions as policy foci is far less well understood and little discussed.

Borderless, mobility-based policy might mean emphasising connectivity which in turn might mean spending on infrastructure that is actually built outside the region (for example building).

A case study in mobility: Population turnover or 'churn' in an Australian coastal region

Hervey Bay in Queensland is a good case study of mobility and churn. Hervey Bay was easily the fastest growing coastal city in Australia between 2001 and 2009, with an astonishing average annual growth rate of 5.1% (this has changed more recently, with recent ABS data showing a mere 0.3% growth in the year to June 2011). Between 2003 and 2008, over a quarter of Hervey Bay's arrivals were over 60 years of age. Forty-four per cent of new arrivals in coastal cities came from the capitals.

Only 21% of coastal city new arrivals were aged 21–35 (Bureau of Infrastructure, Transport and Regional Economics, 2011).

There is evidence there may be a 'new mobility' emerging, a far greater willingness to 'live here and work there', just as we now also 'live here and shop (online) there'. Commutes are lengthening, we move to temporary accommodation in other regions, we plan short work stays in places, we follow the work and seek financial security without being so wedded to place, we access the city labour market while living out of town. All this is occurring for a number of reasons – because of the emergence of more complicated family arrangements, the fragility of regional economies since the GFC (and the need to move in order to obtain work) and the substantial and rapid increase in short-term contract work in the economy generally. All these things make for far greater upheaval and mobility.

The Australian Bureau of Statistics brought out an interesting report in January 2013, the second of its kind, Perspectives on Regional Australia – Population Growth and Turnover in Local Government Areas 2006–11. It charts not just population growth but also the number of people who come to, and leave, each LGA (Australian Bureau of Statistics, 2013) (see Table 1). Many will be surprised at just how much 'churn' (flow, or turnover) there is, even in areas that, on the surface, appear to have stable populations with not much overall growth or decline.

Looking at the Fraser Coast region in Queensland as an example, the ABS found that the population grew between censuses from 84,339 to 95,310, at a rate of 2.5% per year. This is very good growth. The region had 20,054 new arrivals. That is a lot. But the region also had 12,233 people leaving. That too is a lot. In all 32,287 people either were in the region in 2006 then left or were not in the region in 2006 then came. This is around a third of the population of Fraser Coast 'turning over' (Australian Bureau of Statistics, 2013).

Is this a larger population flow figure than the 2001–6 period? It is not, despite the economic downturn in this region and in many other regions.

Then, the region had different local government boundaries, involving Maryborough and Hervey Bay. In

Table 1. Population turnover in selected Australian regions, 2006–2011.

Local government area (state)	Type of region	2011 population count	Population flow (in plus out)
Ballina (NSW)	Coastal/retiree	39,272	13,655
Gosford (NSW)	Peri-metropolitan/ commuter belt	162,439	43,223
Wagga Wagga (NSW)	Inland regional centre	59,459	19,101
Armidale (NSW)	Rural university town	24,105	10,076
Bendigo (Vic)	Regional city	100,617	24,134
Southern Grampians (Vic)	Rural service centre	16,361	4523
Barcaldine (Qld)	Outback service town	3215	1421
Fraser Coast (Qld)	Sea change/retiree	95,310	32,287
Whyalla (SA)	Regional industrial city	22,089	5211
Busselton (WA)	Coastal mining fly in–fly out commuter town	30,331	11,033

Source: Australian Bureau of Statistics (2013).

Maryborough, the population grew from 24,033 to 25,701, an increase of 1.4% per annum. A total of 5678 new people came and 5044 left. This made for a population churn of 10,722. For Hervey Bay, the population grew from 41,484 to 52,219, or a staggering 4.7% per year. A total of 16,369 new people came, while 7806 left. This added up to a population churn of 24,175. Adding the two, the region received 22,047 new arrivals, and 12,850 people left, making a flow of 34,897 (Australian Bureau of Statistics, 2012).

This phenomenon of churn is repeated in local government areas all over Australia, in cities and regions, in low population growth areas and in high population growth areas. Some places are more prone to churn, like mining areas and inner cities. Others, like older outer suburbs of cities, are more stable. But there is substantial churn everywhere.

What the Fraser Coast population churn figures do not tell us is who is coming and leaving, and why, but we can guess. Many people come to the region for retirement, of course. And young people leave to go to the city for the 'three Es' – education, employment and excitement (Collits, 2007). These things easily explain both arrivals and departures. But something else is going on. A large number of people come to the region for employment. As a regional area, the Fraser Coast is not a 'career escalator' like cities are. Cities build people's wealth through greater opportunities for career escalation, the better chances of creating high dual incomes and likelier large capital growth through housing investments. Moreover, the Fraser Coast, like many regional areas, has been through a prolonged and severe economic downturn. So many people have left to obtain work elsewhere, for example in construction.

Regional economies are fragile, and this fragility leads to increased mobility. So too does the ever increasing casualisation of the workforce (there is less tenure in employment and far more short-term contract jobs); the increasing premium placed on tertiary education (more now are leaving to go to university) and growing family breakups and less commitment to lifetime relationships. All of this, we think, adds up to a greater propensity to move.

As noted earlier, a lot of mobility also comes from life-stage moves triggered by events such as completing school, buying the first property, having children and retiring, and also from a widely shared desire to live near family or friends. These forms of mobility are to be expected, yet workforce and social changes are increasing our mobility. Added to this, though, there now seems to be a new set of triggers for mobility, less predictable and more related to the changing economic fortunes of regions.

Regions are, therefore, increasingly at the mercy of individual decisions about location, and these are fed by the state of the local economy and the capacity of places to provide a platform for wealth creation.

What does all this mean for regional development and for Australia's demography? What, if anything, can communities and regions do to reduce churn, in particular, to retain the new people who come? And what does continuing churn do to a community's social capital, propensity to collaborate, desire to invest, and so on?

There are two ways of looking at high population churn. One is, to use a phrase often used by wool growers, that a certain 'hybrid vigour' enriches local economies and communities, providing new ideas and innovation as well as a desire to get involved in the community. The other is that it is hard to create the social capital we need for our communities with such high turnover. Potentially, it is hard for newcomers to find the way into a community so as to be able to contribute collaboratively. Does this mean that the place ends up being 'run' by a relative few who, consciously or not, exclude those who might otherwise make a valuable contribution. It is likely that in rural communities in-migrants value civic opportunity highly.

In summary, demographic mobility has important consequences for communities and regions. We are a highly mobile country, and the evidence (outlined in the table) suggests that mobility is increasing and is diversifying. More than ever, it makes little sense to think of regions as static places whose economies and populations are set in situ. The implications of this for regional policy are discussed below.

The new world, policy and strategy

What does this new world of knowledge businesses and industries, global flows and connections, anywhere work and mobility mean for local economic development? For regional strategy? For policy?

Are the new trends megatrends that will define the future, or merely early 21st century flavours of the month that will pass, leaving our traditional conceptions of space and place largely unaffected? For example, despite globalisation, national borders, cultures and policies are important. And despite distributed enterprises and work, city cores still contain skyscrapers full of traditional corporations and offices. And despite population churn and new and unconventional movements, most people still live near their jobs. Are we exaggerating this new world?

We argue that these trends described earlier, in their combinations, are new, growing and significant. In particular, they mean that traditionally defined regions anchored in space with fixed boundaries are now obsolete. (There may be an argument that administrative regions were never accurate reflections of their economic and social communities of interest, but that is another matter.)

Borderless, mobility-based policy might mean emphasising connectivity which in turn might mean spending on infrastructure that is actually built outside the region (for example building additional airports in core cities that will help periphery economies).

A larger question for policy and strategy is to ask afresh who benefits from local economic development interventions and where they live/work/spend/invest? In view of online shopping, emerging lifestyles that embrace 'live here, work there', direct foreign investment flows, overseas interests buying up the farm and investing in housing and commercial ventures, with or without local partners, it is far from clear now who benefits from interventions at the local and regional scale, and even whether the direction of the benefits (and costs) of these interventions can be established.

Persistent, poor policy and strategy thinking in new times

Regional development might be defined as follows:

> The deliberate attempt by government (at any level) and/or regional actors to influence regional outcomes, either in relation to the economy, the community or the environment, or all three, with varying objectives that generally relate to some notion of 'regional well-being'. (Collits, 2004: 4)

The key phrase in the context of the current argument is 'regional outcomes'. Typically these mean outcomes-in-place, however this is defined in terms of spatial scale. The desired outcomes of spatially targeted policy interventions of this kind are that they are experienced 'in place'. It is our contention that, whatever the efficacy of place policies in earlier times, most of them they are no longer effective. Earlier policies were often correctly criticised because they were futile in the face of bigger forces, and increasingly complex forces. But now the whole notion of space interventions faces what are, in many cases, insurmountable odds. Yet most policy makers, regional leaders and practitioners, while they recognise that the world has changed, have not come to grips with the fact that this means that many of the old activities will now simply not work, and are therefore futile.

Some policy interventions are more effective than others. This is still the case. Yet, more than this, the emergence of the mobile world means that much place-based thinking and many regional policies and strategies are now obsolete. Here are some examples:

(1) The attempt to achieve spatial equality of outcomes among regions, as measured by the incomes of residents, or their wealth, or gross regional product, or employment growth, or unemployment rates.
(2) Corporate welfare for regional firms deemed significant to the local economy, in particular, paying subsidies to multinational firms (or to any firms) to remain in business in a particular location (especially manufacturing firms in rural locations), in order to keep people in employment. The recent debate in Australia in relation to paying a substantial government subsidy to a subsidiary of Coca Cola Amatil, SPC Ardmona, to remain open for business in the rural Victorian centre of Shepparton, is a case in point.
(3) The pre-occupation of many regional actors with creating 'local jobs', experienced especially in commuter or dormitory regions. But local jobs will increasingly be a thing of the past. 'Jobs' themselves may become a thing of the past as short-term contracts lead to a freelance economy.
(4) The policy focus since the early 1990s on geographic clusters. But business to business deals occur at all spatial scales and across great distances in a global market. Global supply chains have often superseded more localised supply chains or at least operate alongside them. Should we privilege proximate clusters over long distance clusters (and their local elements)?
(5) Thinking that better connective transport infrastructure will help one's region while failing to recognise that it will be easier to leave the region as well, to spend or to engage in business elsewhere. This is precisely what has happened with so-called sponge cities and out-shopping, a good case study in the impacts of mobility.
(6) Getting a university for one's region. But universities are going online, following a distributed model, breaking out of geographic confines. Opening a campus in one's region will not provide local people with all the higher education programs they want. Young people will always leave regions even if there is a local campus. Having a local campus will not, either, necessarily lift local education standards as these are driven by many factors.
(7) Attempting to lessen commuting, a common strategic aim of commuter belt regions like the Central Coast of New South Wales. Commutes are getting longer and becoming more varied, flexible and complex, as noted earlier. Stopping commuting means stopping mobility, a forlorn hope. This strategy is also often combined with regional pleas for better linking infrastructure for the region, the achievement of which would assuredly only increase the number of commuters in the region.

These are common, but ultimately misplaced, regional policies and strategies. Yet there is one that is more misplaced than most, especially in view of globalisation, distributed work and general economic mobility. This is the regional pre-occupation with 'getting stuff', in particular infrastructure, that is located in the region, in a national competition for government largesse with other regions, and especially with the city, as described in Judith Brett's essay 'Fair share' (Brett, 2011).

Bastardised regional policy and strategy

There is long and unhelpful tradition in Australia of seeing representative democracy as a geographical competition for government support, especially in relation to regional Australia. From the inception of the Country Party (now called the Nationals) until the recent and current spate of 'rural independents', there has been an enduring philosophy of obtaining a 'fair share' for the regions. At its most potent, this approach favours making regional electorates marginal in order that elections will become a Dutch auction of spending promises, to the so-called benefit of regions. Whatever the consequences of this style of regional politics for the national economic interest, such an approach is a distraction from effective regional development policy at best, and antithetical to it at worst. It encourages a mendicant mentality in regional Australia, which sees government as the only solution to regional decline or to the impacts of exogenous shocks. Such an approach to regional policy is especially out of place in the age of globalisation, knowledge industries, anywhere work and the new mobility, and is the very worst example of obsolete regional policy thinking. Yet it is the norm for Australian regional politics.

The most recent outbreak of 'fair share' regional politics occurred at the 2013 election, in particular the campaign in the Victorian rural seat of Indi run by independent Cathy McGowan. In this version of democracy, the role of the parliamentarian is to 'get stuff from Canberra for the electorate'. There are various euphemisms for this, like getting Canberra to 'take us seriously' or to have Canberra 'listen to us' or 'giving the electorate a voice' in Canberra, and so on.

If it is not regions (electorates) playing this game of fair share, it is industries. The story is played out also by community groups who rely on government funding. This is the world of vested regional interests, or in contemporary parlance, 'stakeholders'.

This bastardises democracy itself, turning it into a vote buying exercise where those with the loudest voice, or the savviest social media skills, can mobilise 'voice' to, basically, bid up the cost of government. Each group must make the argument, ever louder, that if funding for such and such is removed, the whole world will cave in.

This approach perverts, indeed corrupts, real regional development; fosters a 'we was robbed' culture in regional Australia; reduces the will of regional people to develop their own solutions to their regions' challenges; ingrains a mendicant view of regional development and distracts regional development players from their key task of building in each region a flourishing culture of innovation and entrepreneurship open to the mobile and connected world.

Turning regional policy into a mere process of distributing funding shares diminishes creative thinking about the big questions of regional development – What are we trying to achieve? (or, what is the problem we are trying to solve?) Who is responsible for regional development? What drives regional growth and decline? What works? What are the things that we, locally, can influence?

Under this regime, regional developers spend much of their time applying for grants from government. This leads to a perpetual game of 'funding funding funding'. The competition for public resources, fighting over shares of the pie, merely takes regional leaders and practitioners away from the real game of growing the regional pie.

As well as the bastardising of regional policy, and more importantly for the argument here, a competition for the funding of 'places' ignores the reality of globalised and connected firms and households, distributed work and distributed firms, and increased mobility. Funding a 'place' may not help the people who actually live there, since residents may work elsewhere; workers there may live elsewhere; 'local' firms may be owned by interests outside the region, possibly on the other side of the world; the people who live and work there might spend their incomes in other places; children schooled there will probably leave; and there will be at least a quarter and possibly a third of the population in five years' time that are not there now. In a distributed world, the beneficiaries of regional policy may be located a long way from where the intervention occurs.

What good regional policy and strategy might look like now

Over the last two decades, the world itself has changed, in ways that are mostly familiar to regional developers but no less significant for their familiarity. Yet while scholarly and policy thinking has evolved – much of it prompted by the onset of deep and broad globalisation – it is clear from the project that policies and strategies have not kept pace with the emergence of the openly networked world, a world of accelerated change, globalisation and new technology.

Now we have the mobile world, not the regionally bounded world. This new world is characterised by flows and networks as well as porous boundaries and the move to informal, self-organising networks. Ed Morrison of Purdue University suggests the best regional development strengthens cores and linkages, and does not focus on boundaries (Morrison, undated; see below). Yet much of the regional development policy and strategy effort in Australia wrongly focuses on boundaries and on institutions that are defined by boundaries, and, typically not on the boundaries of functional economic regions.

The mobile, borderless, distributed world need not mean the end of regional policy, but surely requires it to be radically reconfigured. Good regional policy, and more importantly, regional strategy at the local level, should consist of the following:

- Recognise that the world has changed;
- Understand how it has changed;
- Move beyond the world of static regions fixed in space and time;
- Focus on connective infrastructure;
- Strengthen nodes; ignore what are largely artificial boundaries;
- Take advantage of proximities;
- Facilitate all forms of mobility, whether of people movements, movements of goods and services or, especially, movements of ideas;
- Open regions to the world and to other regions;
- Welcome disruptive regional change as the norm in 21st century economies, or at least not expend public resources trying to stop it (for example by providing subsidies to ailing firms in rural locations in order to preserve the status quo);
- Don't waste time on strategies for 'resilience' or economic 'sustainability' but strengthen ecosystems to enable regional players to deal better with change;
- Learn the lessons of localism, UK regional policy and support for real economic regions rather than for administrative constructs that lack real power;

- Map functional economic areas and regions in order better to understand the transactions, partnerships, linkages, networks, collaborations and movements that now drive regional economies.

Regional bodies like Regional Development Australia committees largely exist to be siphons for the funding of infrastructure for regions by central governments. Central governments should not fund regional bodies just to exist. Rather, functional economic areas at various scales should be encouraged to create their own, self-funding bodies and they should be empowered to act in ways that strengthen their regions' adaptive capacity. Their focus should be on creating and nurturing networks and linkages between regions, especially between cores and peripheral regions.

In our opinion, decentralisation in all its forms, whether of people or of government agencies or of universities (a current favourite) or of firms, should be quietly forgotten. Decentralisation is unlikely ever to occur in practice in Australia in view of the strong, diverse and ongoing forces of agglomeration, and is therefore a policy distraction; it has never been able to find effective policy instruments for its successful implementation; it is expensive when successful; and it is seen as undermining one of Australia's great competitive advantages, its economically diverse, globally connected, knowledge producing, productive capital cities (Collits in Martin and Budge, 2011).

New way regional policy – 'strategic doing': Strengthening cores and linkages, ignoring boundaries

The emerging notion of the openly networked region and of the growing importance of collaboration, both as a driver of regional growth and a regional strategy, is a central element of a relational notion of region. Such an approach to regionalism has taken on new forms in regional development practice, with a new focus on 'collaborative advantage' that moves beyond Porter's 1990s paradigm on competitive advantage rooted in place. Collaborations can be local or global, across distance, and they ignore boundaries, whether organisational, regional or national.

This is a foundational argument underpinning Purdue University's development of 'strategic doing' as a regional strategy (Morrison et al., undated) and of its rejection of traditional strategic planning as an approach to regional development. Strategic doing embeds implementation in regional action and builds collaboration in order to co-create value.

Strategic doing is a methodology developed over some years by Purdue University's Center for Regional Development and honed during the US 'WIRED' program that commenced in 2006. It is highly relevant to the conviction that many of the problems of regional governance in Australia stem from regions' inability to implement strategic planning processes and the stasis and subsequent cynicism that this produces. The approach is also ideally suited to the emerging regional world of open networks, complex development drivers, fluid institutions and open regions.

Purdue's approach talks about 'second curve thinking', derived from its conclusion that the first curve of economic development, based on the prosperity S curve of our grandfathers' economy with its vertical business models has peaked, and that a second curve is now commencing based on network business models.

Second curve thinking suggests that 'the next generation doesn't care about boundaries'. Network thinking focuses on cores, not boundaries. In other words, the geographic boundaries and sectoral boundaries will inevitably be crossed in undertaking deep regional collaborations.

Strategic doing provides a practical methodology for regionally located actors to embrace the networked world.

Conclusions

Regional (place, spatial, territorial) policy seeks to solve problems that have a spatial dimension 'in place'. Rather than moving people to a solution, it seeks to bring the solution to them where they live. It responds to 'stickiness' rather than 'slipperiness'. This paper has posed the question whether regional policy has outlived its relevance and usefulness in an era where very little is fixed in place, in an era of mobile resources and constant change.

Regions have wrongly been seen as fixed assets which lend themselves to propping up with government support, like industries in the old era of protection. Regional policy became a political game of dispensing 'funding' to support all sorts of activities, from community halls to major infrastructure works. The political contest became one of which party promised the most dollars to 'regional Australia'. Regional strategy became a game of regions competing to get the attention of government and to get their hands on government dollars. Indeed, often regional actors implore the stakeholders in their regions to become more unified because they will be more effective in getting the attention of central governments.

Walter Isard was right (quoted in Stilwell, 1992). Absent regional government in Australia, and lacking real region scale decision making and control over resources, regions have become mere political conveniences, mired in old world policy thinking while the world has moved on. Human interactions across space, whether economic, cultural or social, occur at all sorts of scales and over short and long distances. They are both face to face and virtual. They often do not go as far as their region's boundaries. And often they cross them. Typically, they ignore them.

This all suggests policies and strategies that strengthen nodes and connections, that recognise and strengthen functional economic areas and that focus far less 'regions' as we currently recognise them.

Whether through centrally conceived policies or through strategies conceived at regional or local scale, 21st century approaches must accept and work with emerging trends and act upon this. In particular, policy should encourage, not limit, mobility.

To be specific, infrastructure spending should emphasise connectivity. Supporting industry sectors in place should give way to strengthening connections and collaborations among firms, whether or not those firms are geographically clustered. Firms should be the locus of policy attention, and especially start-ups and 'higro' firms, not just SMEs generally. 'Born globals' that are being nurtured through co-working spaces and accelerator programs are the hope of the new economy and are already known to be the big job creators. Policy should shift to these. Regional innovation systems must be placed in a wider context of globally linked value chains. Attracting firms, the 20th century mode of regional policy, must give way to attracting 'investment', itself mobile and unstable.

A focus on league tables that measure regional competitive advantage should give way to a greater understanding of the reasons for regional indicators good or poor, and a far more sophisticated approach to addressing these.

Moving away from regional policy that is a reward or compensation for remoteness or lagging economic status might see infrastructure that is attuned to connectivity rather than location. In this way, supporting infrastructure in urban regions might do more for rural development than placing infrastructure in situ. Badgery's Creek

Airport (Western Sydney) and better rail freight generally are two examples. These will not encourage decentralisation, but will certainly help businesses in getting their products to markets.

Strategic planning (for hierarchical systems) must give way to strategic doing for openly networked regional economies, with policy instruments that help regional actors, especially boundary crossers, to 'link and leverage' opportunities. Moving beyond the rhetoric of collaboration and innovation is critical in order to achieve practical outcomes. Providing continued funding to organisations that merely do politics and provide 'voice' to regions is mistaken. Regional 'doers' and 'civic entrepreneurs' are the actors who must be nurtured, not regional bodies that manage up to central governments and that merely compete with other regional bodies for a share of the shrinking cake.

In summary, policies must support the rapid movement of ideas, dollars, people goods and services, even (especially) where these cross the often artificial regional boundaries typically created by governments in an earlier age. Approaches that accept new paradigms and especially the new mobility will be infinitely more successful than those which do not.

Regional fetishism is part of the problem. It is a handbrake on good policy and strategy, and must be dispensed with.

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Notes

1. Globalisation is the rapid proliferation of crossborder production, trade and investment activities spearhead by global corporations and international financial institutions that facilitate the emergence of an increasingly integrated and independent global economy seeking to maximise financial returns (Yeung, 2002: 289).
2. An excellent example is the many FIFO mining operations in Australia (see Perry and Rowe, 2014, this issue).

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Building a Start-up Ecosystem in Hawke's Bay – Suggested Workstreams

Action	Objective	Priority /Timelines	Where we are now	How?	Who?	(How) Could the Government help?
Research ecosystem development	Ensure best practice in Hawke's Bay; continuous learning	Ongoing	EIT study of incubation 2016; PC research	Ongoing connections and research	PC with Business Hawke's Bay, REDS action team	Regular outreach by Callaghan Innovation; Webinars and conferences
Build the community of entrepreneurs	Encourage peer learning and good information; Network effects	Long term and ongoing	Hawke's Bay Meetup Group	Intensify existing networks and activities	PC with Business Hawke's Bay, YES, EIT, schools	N/A
Embed entrepreneurship in local education processes	Build the next generation of start-ups; pipeline development; increase the number of	Need to start ASAP, but ongoing	Young Enterprise Scheme; EIT has advertised for an Entrepreneurship lecturer to help drive schools linked programs and	Investigate partnership with MindLabs and Maker Spaces and other models for embedding STEM learning and tech learning; investigate	Chamber of Commerce, PC with EIT, schools (eg Woodford House)	Ministry of Education at the table

	start-ups		resources' EIT is ramping up entrepreneurship component of existing programs	other models, eg The Space Cairns, Venture Business		
Provide information, tools and leads to local entrepreneurs	Ensure stronger start-ups	Ongoing	Business mentors, Regional Business Partners	Private sector at cost, pay-it-forward activities of existing successful start-ups, BHB and Council support	Business Hawke's Bay, Councils	Maintain existing programs, increase funding as demand increases
Increase the visibility of existing (public sector and private sector) programs, initiatives	Spread benefits of existing activities more widely	Ongoing	Existing activity and providers include Business Mentors, Regional Business Partners, The Icehouse, other business advisory firms, the Business Hub	Road shows, open days at Business Hub, meetups between start-ups and agencies/private providers	Business Hawke's Bay	Government roadshows
Assess the need to address gaps in the provision of existing business advisory services to start-ups	Ensure that start-ups and entrepreneurs can access all the advice they need	2017	Entrepreneurs find their own sources and levels of advice	Encourage "pay it forward" activities such as meetups between entrepreneurs and advisors	Business Hawke's Bay, REDS action teams	N/A

Link with other NZ and international ecosystems	Achieve best practice; grow global networks; increase the capacity of Hawke's Bay start-up community; keep learning	Ongoing	BHB Hawke's Bay Landing Pad; Business Connect; PC attended Co Working Hui Tauranga 2016; ongoing connections	Kauffman Foundation Ecosystems Summit USA Summer 2017 (TBC); Links to February 2017 Innovation districts conference Charleston North Carolina; PC speaking at Alabama Strategic Doing conference May 2017	Business Hawke's Bay and PC	Leads, connections, through High Impact Visas (KiwiConnect) and SF Landing Pad; support for events
Support existing and emerging co-working spaces	Strengthen the entrepreneur community and link existing services to entrepreneur spaces; Avoid replicating what is working	Ongoing	Two co-working spaces in Napier; larger one planned Napier 2017; Hastings 2017; Chook House Waipukurau; Wallace Tech Hub opening mid 2017 with very limited space for freelancers/start-ups; Wallace may investigate further opportunities for co-working		Councils, REDS action teams; Callaghan RFP appointee	
Put on (more)	Give local	Start ASAP	There are many		Business	An entrepreneurship

start-up specific events, develop a visible events calendar for local entrepreneurs	entrepreneurs the things they need; Demonstrate that Hawke’s Bay has an active entrepreneur community to attract further talent to the region		business events and networking events, far fewer specifically designed for start-ups		Hawke’s Bay, Callaghan RFP appointee	events fund for start-ups and spaces outside the “system”
Provide or fund incubation services to communities and spaces	To identify and nurture high growth companies	2017	Callaghan RFP 2017-19		Callaghan RFP appointee	Callaghan
Open and run new incubators/co-working spaces if existing spaces don’t meet demand	Ensure start-ups have access to the things they need		Co-working spaces are emerging	Watching brief	Private sector with support from Business Hawke’s Bay, councils	N/A
Provide more intensive	To identify and nurture	2017	No current accelerators in Hawke’s Bay	Ride the Callaghan process	Callaghan RFP	Callaghan

incubation services, eg accelerators/boot camps	high growth companies				appointee	
Grow the investor community in Hawke's Bay	To fill gaps evident in the local funding market and ensure that viable start-ups have access to the capital they need, at the right time, in the right amounts	2017 and ongoing	Private equity investors are a round but largely invisible, certainly to many start-ups	Create an investor's roundtable as a meetup group	Business Hawke's Bay with local providers and the broad angel network, eg Enterprise Angels Tauranga	N/A
Investigate models (of accelerators) that link corporates with start-ups, eg Slingshotters (Australia)	To add a new way of nurturing start-ups through partnerships with older firms in targeted sectors, in	Not urgent	Few current links between the entrepreneur community and corporates	Create a corporate/entrepreneur roundtable	REDS action team	N/A

	order to grow regional capacity					

Paul Collits
29 January 2017

Disruption, Economic Geography and Regional Strategy

Introduction

In a previous paper, *Re-imagining the Region* (Collits and Rowe 2015), it was argued that a number of new and complexly interacting forces were in play in the twenty-first century economy and that these forces suggest that a radical rethinking of regionalism is in order.

In this paper I take that argument further and undertake a more systematic examination of the some of the forces I have previously outlined. In particular, I take as a point of departure the work undertaken by the McKinsey Global Institute on what its scholars term four trend breaking global forces.

These trends amount to what McKinsey terms "no ordinary disruption". They are:

- "Beyond Shanghai" – the age of urbanisation and the shifting of the locus of economic activity to emerging markets and to cities within emerging markets;
- "The tip of the iceberg" – accelerating change in the scope, scale and economic impact of technology;
- "Getting old isn't what it used to be" – the demographics are shifting rapidly, with falling fertility and plateauing populations in many countries, creating a new task of responding to the challenges of an ageing world;
- "Trade, people, finance and data" – greater global connections through the far greater and faster movements of capital, people and information internationally (Dobbs, Manyika and Woetzel 2015: 4-7).

The McKinsey team also makes the point that it is the coincidence in time of these four disruptive trends that is especially significant for the transition to a fundamentally new economy.

My focus here is on the second and fourth of the McKinsey trends, viz. accelerating technological change and greater global connectivity, the latter partly, though not totally, driven by technology.

The other two trends are not unimportant, of course. Yet they are widely understood and discussed, and have fewer lessons for regional strategy and economic development practice the two trends that are explored here. Urbanisation is comparatively well understood, or, if not, at least is well covered in the literature – see the work of Mario Polese (in City Journal), Ed Glaeser (2011), Michael Storper, and various proponents of the so-called "new economic geography".

The urban planning scholar Richard Hu has coined the term "glurbanisation" (Hu 2015). This is a very useful descriptor for the emerging economic system. The spatial impacts of "glurbanisation" are relatively obvious, and the world has been urbanising for a long time. Certainly it is now accelerating, largely due to China's special economic zones policy and the responses by both international companies and rural Chinese dwellers. The world is spiky (Florida 2005), flattish in some ways (Friedman 2005), and instantaneous and virtual as well.

The ageing world is similarly widely discussed and understood, even if not strategized at regional scale. We know it is coming, but as regions we don't have a game plan, or any real idea whether we need a plan or not. The debate has been largely at a national level – it has been essentially about how much tax will fewer workers have to pay to keep more and more older people healthy and in aged care.

The argument in this paper is that both economic development practice and regional strategy need to change to address the opportunities and challenges thrown up by the emergence of this "no ordinary disruption" well described by McKinsey's scholars, by an emergent business literature and by the astonishing re-imagining of entrepreneurship ecosystems thinking and policy. In particular, thinking about infrastructure, the spatial scale of interventions, clustering of firms, entrepreneurship education, business support, economic gardening and urban planning has to pivot to accommodate the global megatrends.

First, I need to re-cap my earlier argument in favour of "re-imagining the region".

Re-imagining the Region, Part II

The argument so far is as follows:

- Regionalism and in particular the "new regionalism" - the focus of attention on something called "the region" embraces both "stickiness of place" and "slipperiness of flows" (following Markusen 1996);
- Regional policy has had a pretty poor record to start with, given the relative lack of government capacity to influence or control the multiple and complexly interacting set of drivers of economic development;
- Mobility is both increasing and emerging in new ways, with consequences for the debates over place policy v people policy – we now live in an era of hyper-mobility, new mobile technologies, far greater fluidity in the location of work, residence and spending in a way that unmoors "place";
- "Functional economic areas" are far more important than traditional administrative and political regions for focusing and executing strategy;
- This new reality and what it means for regionalism is poorly understood by regional leaders, strategists, policy makers and practitioners;
- Old hat thinking and practice persist;
- The regionalism model of the 1990s is now broken and it needs fixing (Collits and Rowe 2015).

In the early (1990s) days of the "second industrial age", to use a phrase coined by Brynjolfsson and McAfee (2014), business strategy writers quickly began to document, even formulate, new approaches to business development and strategy. Here Clayton Christensen, the guru of disruptive innovation, has been especially prominent (see, for example, Christensen 1997, *The Innovator's Dilemma*). Brynjolfsson and McAfee also coined the phrase "the second half of the chessboard" to describe the emerging new world. The McKinsey view, shared by many in both the scholarly and the popular business literature, see a fundamental rupture with previous economic eras and a reshaping of the whole economic conversation.

Yet little of this new approach to an essentially new and different economy – variously described as the knowledge, sharing, digital, platformed, on-demand, openly networked, collaborative, gig, app, exponential, even the WTF economy (see Tim O'Reilly undated) – has penetrated the regional development or economic geography literature, or, for that matter, economic development strategy and practice.

Now is the time for economic development practice and regional strategy to learn and to pivot. Yet despite the emergence of what should be a fairly clearly understood new economic universe, regional policy, regional strategy and economic development practice remain stubbornly wedded to legacy thinking.

- "The region";
- Regional advocacy as the basis of regional development strategizing (see Collits, *The Tyranny of the Announcable*, 2016);
- The notion of regional competitive advantage based on the bounded region;
- Casting urban primacy and the triumph of the city as the regional problem – that is, the old "balanced development" model which focuses on the regional/urban divide;
- Seeing regional inequalities and spatial welfare as the driver of policy - setting up equalising regional outcomes as the problem to be solved. This remains the policy thinking of the European Union despite the EU's use of more sophisticated methods now of achieving this outcome;
- Reliance on league tables and regional performance measures;
- Being wedded to supporting legacy, low paying industry sectors which are not likely to provide the increased jobs, and the higher paying jobs, of the future, towards which many regional strategies are directed;
- The persistence of "hunting" strategies - relocating firms to your region rather than ecosystem development;
- Prioritising hard, "old economy" infrastructure to support regional economic growth;
- Assistance to "the firm" as the prime means of business support, at a time when the "firm" itself is under threat from disruptive business models (see below).

Legacy thinking still fires so many of our regional strategies and actions. The emerging new economy, with all its disruptive power, demands that regional leaders, stakeholders and practitioners not only "re-imagine the region" but recast their thinking and actions in fundamental ways.

A word of caution is needed. We only know that megatrends are megatrends and not flavours of the month long after we have initially perceived them. It is especially important to bear this in mind when excitable types start predicting a fundamentally new world. But few would deny the likelihood of the McKinsey big four coming to pass. Urbanisation will continue apace. Ageing is a done deal already and cannot be reversed. Connectivity is here to stay. And technology driven economics has already changed the world. So let us assume that the megatrends are indeed fundamental that need to be embedded in economic strategy at all spatial scales.

Let us dig further into the core elements of this new economy.

McKinsey's Second and Fourth Trends – What They Mean

Let us begin with McKinsey's analysis:

- Greater, faster, more complex, more interconnected flows;
- Connectivity confers new power to many new players, and old players, eg consumers;
- Borders – what borders?
- Boundaries are irrelevant in the post-modern economy
- Obvious disruptees – retail, non-agile, non innovative manufacturing, business services, commercial leasing, education;
- Older workers are in big trouble;
- The firm itself is in big trouble;
- Transactions economy will strengthen – needs new skills; and
- The freelancer is both king and victim.

These are the core elements of the disruptive forces that together are upending familiar economic models and ways of thinking about business growth, the labour market and economic development. Other, sometimes overlapping formulations of the new emergent economy are detailed below.

Interpretations of the Emergent, Post 1990 Economy

The new economy is one predicted by the great prophet of innovation, Joseph Schumpeter, in *Capitalism, Socialism and Democracy* and other works – an economy characterised by "creative destruction". It is super-charged creative destruction, however, or creative destruction on steroids, enabled by massively growing computer power and its "killer apps", and by exponentially improving and pivoting technology.

The new world of business has been summed up thus:

- Uber – the world's largest taxi company owns no vehicles;
- Facebook – the world's most popular media owner creates no content;
- Alibaba – the most valuable retailer has no inventory;
- Airbnb – the world's largest accommodation provider owns no real estate (This formulation is all over the internet, see for example Tom Goodwin at TechCrunch).

Another standard characterisation of the new world of business is the so-called "VUCA" world, one of:

- Volatility
- Uncertainty

- Complexity
- Ambiguity (adopted, for example, by Christopher Luxon, CEO of Air New Zealand).

Patrick Hollingworth has also written about VUCA world (Hollingworth 2016; see also Bennett and Lemoine 2014; the term was first used, in a US military context, in 1991). Hollingworth speaks of three forces driving the brave new (economic) world – people, places and technology – leading to a flatter, more transparent and more connected world.

These forces – however described – and in particular their interaction with one another, are overturning the old economic order, with far reaching implications for doing business, for business models, for industry sectors, for the firm itself, for customers and for the workforce and the labour market.

According to Simon Bond:

> "Today, we stand on the threshold of an economy where the familiar economic entities are becoming increasingly irrelevant. The Internet, and new Internet-based firms, rather than the traditional organisations, are becoming the most efficient means to create and exchange value (Bond 2015)."

Now we routinely use the language of "disruption", succinctly analysed by Christensen and others and now embedded in the business literature. While Schumpeter may not have used the term, this is what he meant. The new economy, however, is uniquely suited to the disruptive model of capitalism because it is technology enabled and, in particular, it has reduced transaction costs massively allowing easy and cheap business formation and ready scalability, indeed global scalability. This leads us to a reconsideration and a refresh of the theory of the firm and to fundamentally new business models (see Blank 2013).

Ronald Coase and the Theory of the Firm

The Nobel Prize winning economist Ronald Coase developed a theory of the firm in the 1930s century based on his thinking about transactions costs, essentially arguing that firms internalised transactions costs and, in effect, "insourced" functions in order to reduce costs and increase control (Coase 1937). This is why the firm has existed in the form it has over the last century or so.

Now, with transaction costs approaching zero, it is cheaper for firms to outsource much of their former core business functions. This is essentially why most mature and large firms are shedding staff and not growing. It is one of the reasons why there is such massive and rapid turnover of twenty first century S&P 500 and Fortune 500 companies.

Here is Esko Kilpi:

> "For most of the developed world, firms, as much as markets, make up the dominant economic pattern. **The Internet is nothing less than an extinction-level event for the traditional firm.** The Internet, together with technological intelligence, makes it possible to create totally new forms of economic entities, such as the "Uber for everything" type of

platforms / service markets that we see emerging today. Very small firms can do things that in the past required very large organisations."

"In the past, global flows were dominated by labor-intensive flows from low-cost manufacturing nations and commodity-intensive flows from resource rich economies. But today knowledge-intensive flows account for half of global flows, and they are gaining share. For instance, knowledge-intensive goods flows are growing at 1.3 times the rate of labor-intensive goods flows."

"Digitization reduces the marginal costs of production and distribution and is transforming flows in three ways: through the creation of purely digital goods and services that are either transformations of physical flows or entirely new products, through "digital wrappers" that enhance the value of physical flows, and through digital platforms that facilitate cross-border production and exchange. Moreover, digitization has begun to change the mix of flows. Some goods flows are becoming services flows, for instance. All this is creating significant new opportunities for innovation and disruption (Kilpi 2015)."

Kilpi skilfully links various elements of the Coase thesis to a number of the forces of disruption, including rapidly declining transaction costs, scalability, digitisation and their threats to the very existence of the firm. An extinction event, no less. Yet "firms" often remain the focus of strategy.

Here in summary are some of the drivers of the second industrial age economy, taken from my survey of the literature and taking the McKinsey disruptive global trends as a useful point of departure:

- The transition from the production of goods to the production of services;
- Hypermobility and its various impacts, including what Isenberg has termed "diaspora networks" (Isenberg 2008);
- Borderlessness and hyper, technology enabled globalisation;
- Technology (digitisation)and chaotic disruption;
- The emergence of the knowledge economy – increasing returns from skill, knowledge, creativity and the emergence of information rather than assets as the foundational unit of building wealth (see Paul Romer, Brian Arthur, Richard Florida);
- Close to zero transaction costs and the Kilpi type impact on the firm;
- A new world of work and shaky labour markets – mobile, remote, freelancer, short term contracts, project driven, uncertain – and a fundamental recasting of "career";
- The takeover of the workforce and of the marketplace by Gen Y (or "millennials" in the USA);
- The Global Financial Crisis, deep recession, deflation , a jobless recovery;
- A secular decline in returns on assets (Deloittes 2009);
- The easy start-up and the rise of "micro-multinationals", firms that, from birth or soon thereafter, control and manage value-added activities in more than one country (Terjesen undated);
- Totally new rules, new platforms – cloud computing in particular;
- The coming robotics, big data, Internet of Things and artificial intelligence revolutions (Startup AUS 2016);
- Software is "eating the world" (Andreessen 2011);

- Firms giving way to networks and supply chains;
- The all-powerful consumer and firms co-creating with customers (Facebook);
- Sectors are giving way to global value chains;
- Big firms are shedding labour and outsourcing;
- Increasing importance of the speed of ideas movements or "metabolism" of ideas (see Richard Florida's various references to the work of the Santa Fe Institute);
- **The fact that these things are happening at the same time;**
- **The fact they are accelerating.**

Clearly, a lot has happened in a very short time. Things are changing rapidly, for firms, for workers, for careers, for entrepreneurs, even for commercial real estate (with the co-working revolution and the rise of new forms of innovation district; see Katz and Wagner 2014).

Disruption is the New Normal

As suggested above, while Schumpeter did not (to my knowledge) use the term "disruption", this is at the heart of his understanding of creative destruction. Disruption is now reshaping not only businesses but whole industries and creating new business models. Technology often drives the forces of disruption. New platforms allow businesses not only to reach more customers easily, but also to recraft more fundamentally the way services are delivered, both B2B and P2P service delivery models. Technology also allows extremely easy scalability and the reach of new business entitities beyond their local markets and their region's boundaries. "Functional economic areas" themselves have gone global, with international linkages not only between producers and consumers but between JV partners and across supply chains.

"Platformed" businesses include those like Hourly Nerds, which links MBA graduates from the top 40 business schools in the world to companies needing problems solved. This has the potential to "uberise" the consulting industry. These new businesses often recast the delivery of physical goods and services too, including laundry and house cleaning. They can be created in urban and regional economies. They provide work for the less skilled. Competition, including competition from disruptive new business models, is now both local and global, as are customers and joint venture partners. The sources of innovation are potentially anywhere, with distant customers and global value chains.

According to Steve Blank, the co-founder of the lean start-up methodology and author of *The Four Steps to the Epiphany*:

> "The problems companies were trying to solve in the early 20th century were how to manage an enterprise across vast geographic distances, how to build and manage multiple customer segments, and how to build brands to engage the newly emerging U.S. middle class. In the 21st century the problems are now inverted. The world is not only flat but it's instantaneous. Consumers are connected. Entrepreneurs are connected. The cost of entry for most new ventures has plummeted. The speed to reach new users is growing in record and accelerating time…

… Competition comes not only from companies in local, regional or national markets, innovation now comes from everywhere on earth. The Internet accessible to a wired planet means most markets are being re-imagined as part of a connected world. This relentless wave of disruptive innovation is marching through not only technology industries such as computers and communications, but is destroying industries thought of as forever stable and predictable: newspapers, entertainment, energy, healthcare, education, construction, transportation, retail commerce, finance, and even governments themselves (Blank 2013)."

The Deloitte's Big Shift Index is another tool for analysing the drivers of the disruptive economy. The most important drivers of business volatility and VUCA world include the following:

- Lower computing costs = pace of innovation accelerates;
- Plummeting computer storage costs;
- Accelerating internet adoption =more pressure, more opportunity;
- Continual connectivity for knowledge exchanges;
- Increased economic freedom for producers and consumers;
- Greater inter-firm knowledge flows;
- Dramatically increased scalability of connections;
- Bigger cities and more migration, since F2F encounters increasing in value;
- Travel and connectivity are BOTH up;
- Social media = scalable connectivity;
- Brand loyalty has gone with great consumer information;
- Competitive intensity increasing;
- Technology = innovation = enabling AND forcing long term productivity increases;
- Topple effect accelerating;
- Winning companies are "barely holding on" (Deloittes 2009; see also Appendix).

The overlaps among the different formulations of the new economy are clearly visible. There is, therefore, a consensus in the business literature that the world has changed, that change is accelerating, and there is shared understanding of the causes of the economic revolution. What then, are the spatial implications of the brave new world?

The Spatial Implications of VUCA World

Some potential spatial impacts of the new global drivers of the economy are clearly identifiable already and others are suggested, include the following:

- Agility will have a spatial dimension;
- Software is indeed eating the world, as we know, and this allows products to become services and for these services to be delivered away from the location of provider;
- Hence there are new sources of multi locational business partnerships that take us far away from the export model and export base industry multipliers;
- The division of spatial labour is shifting - must shift - but in unpredictable ways;
- Cities and downtowns and places with amenity have new advantages;

- Technology will deliver new sources of advantage to different firms;
- Mobility will increase – eg, remote work, telework mobile work, working in multiple localities, gig economy projects randomly located;
- New nodes of work will emerge – ARE emerging (co-working spaces);
- Collaborative hubs, driven by technology are the new foundations of innovation districts;
- There are new ways of building project teams, typically virtual project teams;
- The lean start-up is here to stay, can be located anywhere (almost), and can EASILY serve remote markets with online delivered services, eg cloud based B2B and P2P;
- Lifestyle businesses servicing local markets will continue but the new "basic" industries will drive economic success of regions;
- Most regions are hopelessly behind the game in thinking about how to develop the next generation of agile, technology driven entrepreneurs;
- Innovation occurs BOTH in place AND across space and must be now supported differently;
- Technology is an "extinction level event" for old regional development thinking; and
- Locations near to globally connected business nodes will prosper if they properly understand their opportunities.

Clearly, the spatial implications of the interacting drivers of the new business model are numerous and important. Agile businesses and fragile and floating regions will require agile strategy and a fundamental rethink of behaviour among stakeholders and economic development interest groups. The old ways will not suffice. Legacy thinking and legacy forms of assistance to legacy industries and legacy business models will not shift the needle in relation to new high paying sustainable jobs.

The Strategy Implications of VUCA World

In the new world, boundaries do not matter but nodes, networks and ecosystems do. Strategy needs to move towards ecosystem development, and this means twenty-first century, not twentieth century, ecosystems. The slippery world will need non-stickiness of place solutions.

What does resourcing nodes, networks and flows look like? Here is how to begin the task:

- We live locally, globally, virtually, not regionally – let strategy reflect this;
- We must learn, like entrepreneurs, that failure is ok, and is part of the process of learning, and this will be difficult for traditional (government) providers of business support;
- Government programs, never particularly agile or flexible, will have to evolve;
- Region scale and region based programs are eminently unsuited to the new economy, where the economic benefits of interventions may well be dispersed and where spending might best be done via outside-of-region plays, yet where those who make decisions about interventions and who expend resources, have to account for their interventions to local interests and voters;
- Funding of collaborations, many of which will fail, must be embraced;
- We must get over spending on non-connective infrastructure;
- We must fund connective infrastructure, especially broadband;
- We must develop connective skills, entrepreneurship skills and STEM skills in the coming generation;

- Clusters are, and always were, really networks – strengthen them by all means;
- See innovation as a connected learning process and nurture “intersections” (Johansson 2006) and third spaces;
- Turn people attraction policies into talent attraction based on ecosystem advantage;
- Siloed, managerialist, KPI’d, political world meets the shock of the new where rule books are being thrown out and difficult, often unnatural collaborations across interest groups, cultures and tribes must be nurtured when nodes of activity are discovered;
- Please - don’t waste a dime “attracting” new firms;
- “Higros” (high growth firms) as described by Gary Kunkle and others are where the action is, but we are poorly equipped to find them and help them (see Collits 2016, *The Tribes of Hawke’s Bay*);
- There will still be winners and losers, just new ones and for different reasons;
- Silicon Valley got lucky; everyone else got lucky too because they can learn the lessons;
- We need to build an entrepreneurship ecosystem, and do it with some urgency.

This is merely a shortlist of urgent and important tasks for regional economic strategy. The game is new, businesses themselves are only now cottoning on, and leaders, stakeholder and practitioners need to follow suit.

Summary and Conclusions

Regions the world over are becoming unbounded. This was the re-imagining the region thesis. Hyper mobility and hyper globalisation, or “glurbanisation” in Hu’s phrasing, have driven the breakdown of boundary focused regionalism. Not only do we have “relational” regions but we have borderless regions and functional economic areas of increased reach and complexity.

Add to all this the new, platformed, gig economy, with all of its own complexities and uncertainties, then we have an overturned world of regional economic development, with new questions, new problems, new restrictions, and new opportunities.

Here are my core conclusions from an examination of emerging trends in business development and the attendant business literature:

- The big shift is real – we have here megatrends, not flavours of the month;
- The emergent “new business” literature has much to say to regional scientists and economic geographers;
- Place-based strategists are not yet properly on the right page;
- Regions cannot afford NOT to get on the page;
- A lot is changing but not everything is changing;
- Location IS important, but in new ways that a demand a strategic reset;
- I am still comfortable with my re-imagining the region thesis.

How we as regions, strategists and practitioners respond to all of this will, at least in part, determine how well the next generation of businesses do at creating the new world.

Appendix: Deloitte's Center for the Edge Big Shift Index

Impact Index	Markets	**Competitive intensity:** Herfindahl-Hirschman index **Labor productivity:** Index of labor productivity as defined by the Bureau of Labor Statistics **Stock price volatility:** Average standard deviation of daily stock price returns over one year
	Firms	**Asset profitability:** Total ROA for all US firms **ROA performance gap:** Gap in ROA between firms in the top and the bottom quartiles **Firm topple rate:** Annual rank shuffling among US firms **Shareholder value gap:** Gap in the TRS[i] between firm in the top and the bottom quartiles
	People	**Consumer power:** Index of six consumer power measures **Brand disloyalty:** Index of six consumer disloyalty measures **Returns to talent:** Compensation gap between more or less creative occupational groupings[ii] **Executive turnover:** Number of top management terminated, retired or otherwise leaving companies
Flow Index	Virtual flows	**Inter-firm knowledge flows:** Extent of employee participation in knowledge flows across firms **Wireless activity:** Total annual volume of mobile minutes and SMS messages **Internet activity:** Internet traffic between top 20 US cities with the most domestic bandwidth
	Physical flows	**Migration of people to creative cities:** Population gap between top and bottom creative cities[ii] **Travel volume:** Total volume of local commuter transit and passenger air transportation[iii] **Movement of capital:** Value of US foreign direct investment inflows and outflows
	Amplifiers	**Worker passion:** Percentage of employees most passionate about their jobs **Social media activity:** Time spent on social media as a percentage of total Internet time
Foundation Index	Technology performance	**Computing:** Computing power per unit of cost **Digital storage:** Digital storage capacity per unit of cost **Bandwidth:** Bandwidth capacity per unit of cost
	Infrastructure penetration	**Internet users:** Number of people actively using the Internet as compared to the US population **Wireless subscriptions:** Percentage of active wireless subscriptions as compared to the US population
	Public policy	**Economic freedom:** Index of 10 freedom components as defined by the Heritage Foundation

i TRS—Total return to shareholders
ii Creative occupations and cities defined by Richard Florida's—*The Rise of the Creative Class*—2004
iii Measured by the Bureau of Transportation Statistics Transportation Services Index

Source: Deloitte analysis

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Growing an Entrepreneurial Culture in Hawke's Bay

In confusing times it is sometimes difficult to separate the hype from the megatrend.

With so much change forecast and "exponential change" at that, today's businesses, their advisers and economic developers generally are forced to play two games at the same time. Businesses and industries have to serve their existing customers and keep them happy, and also to anticipate the customers of the future.

As well, workers of all ages and the young in particular are being asked to prepare for an unfamiliar future labor market without security. They are told to be "agile" and "nimble" and "skilled up" for a workplace that most folks agree will not be much like the one most of us have experienced.

There is one current subject of hype that I suspect is also a megatrend. That is "disruption". First analysed a couple of decades ago by the guru of innovation, Harvard scholar Clayton Christensen, the word "disruption" has only recently insinuated itself into common business conversations.

Disruption is not new. It is as old as capitalism itself. It was the core concept of that other, much earlier prophet of innovation, the Austrian born Joseph Schumpeter, who was himself "disrupting" mainstream economics nearly a century ago.

What are new, however, are both the relative ease of starting and scaling a business, even a global business, and the importance of new businesses to the local and national economies. It is an astonishing fact that 40% of American GDP is dependent on companies that did not exist 15 short years ago. Our economic fortunes globally are increasingly in the hands of young companies.

Disruption is both threat and promise. How does a regional economy adjust to a world of hyper disruption? There are many things we in Hawke's Bay could be doing, and one of them is to continue the task of – jargon alert here – building an "entrepreneurial ecosystem". Perhaps not an immediate vote winner for our elected representatives, but core business for us all nonetheless.

What on earth is an entrepreneurial ecosystem?

For my money, it is developing a visible and networked culture of support for start-up businesses, for people with ideas wanting to start a business, for those who are growing businesses, and for young people who don't yet know they are entrepreneurs. And it is place-based. We can build this thing right here.

The sweet spot for economic development is the high growth business. Another analyst has called this type of business the "high impact entrepreneur", the business start-up of towering ambition that is setting out to disrupt a big market segment in a global market and that has the skills and resources to do this. Such a business is often technologically enabled to achieve rapid fire growth in non-local markets, but need not be in what we would think of as the “tech” sector. The high growth business is where the dream jobs, the locally based and high paying jobs, are to be found. These jobs in turn create lots of other local jobs right across the skills spectrum.

Hawke’s Bay is well known to be a “SME” (small to medium business) economy. We have great businesses in global-impact sectors. We have a number of high growth firms which serve national and international markets. But we need many more if we are to maintain our lifestyles in these highly disruptive times. And to create many more of these “higros” we need to lay the groundwork.

How to create and grow an entrepreneurial culture or ecosystem? There are several tasks, and each task has its own “to do” list.

First, we need to generate more start-ups. We need a framework for identifying emerging entrepreneurs and supporting them towards starting businesses, especially young people who will be the future stars of the region’s economy. This is, in effect, about growing the “pipeline” of entrepreneurs. Pipeline development will involve actively promoting the entrepreneurial mindset in the community and among our young people. It is worth remembering that by 2025 75% of the world’s workforce will be millennials.

Maybe adding few words to explain it, that we need a framework to identify and get more entrepreneurs, promote entrepreneurship spirit/mindset (especially among young people)

Second, we need to lift the notoriously low survival rate of start-ups (not confined to our region), by ensuring they have access to the services and advice (and where appropriate the capital) that they need. And yes, many start-ups will still fail. These too will need support. And a start-up business failure does not mean you as an entrepreneur or a person are a “failure”, if you know what I mean. Failure is ok for entrepreneurs – a business start-up failure is merely a setback. And yes, many business ideas are going to go nowhere. Tough love may need to be administered.

Third, we need to produce more “scalable” start-ups, that is, high impact businesses taking on big problems and big competitors and winning in big markets. We need to find those firms that are already growing. Then we need to support them in their quest for growth. And we need to turn start-ups that <u>could</u> scale up into the real thing. Bear in mind that only around 6% of start-ups generally become “scale-ups” (what the UK’s innovation foundation Nesta refers to as “the vital 6%”). They are gold and they must be looked after. Why? Because these are the firms that will create the jobs of the future.

Fourth, we need to grow the entrepreneur / start-up community. Make it visible. Ensure it is networked. Link and leverage the bits of activity that are already going well. And make sure that anyone with a good business idea can find a pathway to the resources he or she needs to take the next step. Low entry barriers make for great local economies.

There are many emerging conversations in the Bay on this subject. There will be a range of views as to what we do, and in what order. Let the conversations continue and grow, and let’s all roll up our sleeves to create a new and exciting Hawke’s Bay economic environment for the next generation of business stars.

Lots of great things are underway. But, as always in dynamic market systems, there is little cause for complacency. Growing entrepreneurial skills and systems is a great way of de-risking and future-proofing the region. If we don’t, other regions certainly will.

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There is broad agreement now that encouraging startups and entrepreneurship is important for economic development, since many new jobs will come from startups and scale up companies, it is now much easier and cheaper to start a business, due to technology advances, and it is much easier to reach customers via platformed businesses. It is also th case that much startup activity is concentrated in capital cities and larger centres, due to more connected ecosystems. This raises the challenge for government policy - how to ensure that regional centres participate in the current startups revolution. The key is understanding the elements of a startup and entrepreneurship ecosystem and supporting the nodes of the ecosystem and the connections between them, at regional scale. It is also important to understand that there are virtual ecosystems and that these two can be strengthened through policy action. There are many elements to an ecosystem - entrepreneurs, entrepreneurial communities, pipelines of entrepreneurship, support organisations, champions, sources of venture and other capital, events, spaces, mentors, entrepreneurship infrastructure, educational institutions, entrepreneurship community developers, and national and global networks. There are also challenges and opportunities due to the disruption of traditional labour markets and careers, creating the need to develop the skills of the next generation both a entrepreneurs and potential innovator (intrapreneurs) within bigger organisations. Development of young entrepreneurs is critical, as is entrepreneurship education - through startup weekends, summer schools for senior school students, mentor development, co-working spaces, incubators with programs of events attached, supports for ideation and pre-revenue startups, and general "link and leverage" strategies and actions. Initiatives like the new Sydney School of Entrepreneurship are good early steps, especially as the SSE will be deeply and broadly connected to regional centres. I have attached a number of my papers on the entrepreneurship ecosystem and on the changing face of regional development in order to help the Committee in its deliberations. (There are some references in some documents to my local NZ region of Hawke's Bay. The strategies we are building here as a rural region may have resonance for regional NSW). In a connected and distributed world with changing business models, there is an opportunities for canny regional leaders to create their own ecosystems and compete with other regions on the basis that their business cultures support startups and entrepreneurship. This is a fundamentally new source of competitive advantage and must be pursued by regions, with government enablement. I ma happy to provide much more detail on any of the ideas contained in the submission and on global examples of successful or promising initiatives.

Paul Collits July 2017

Innovation, Entrepreneurship, Start-Ups, Higros, Incubation and Networks – How Does it all Work?

Introduction

Many regions have cottoned on to the fact that the world has changed and that the parallel – and unparalleled – megatrends before us, viz. technological disruption, hyper-connectivity, hyper mobility and so-called "glurbanisation" (globalisation that is driving massively accelerated urbanisation; Hu 2015) are driving a fundamentally new conception of business models, economic growth and innovation (Collits 2016). We now live in the era of the "exponential economy".

The regions that understand these developments have set out to be, and to promote themselves as, nodes or hubs of innovation and entrepreneurship. And one of the things they are doing, however imperfectly, is attempting to create, in twenty-first century speak, "start-up ecosystems". These are essentially support systems for start-ups and "scalable" businesses. Many of these regions blatantly set out to emulate the world's first, most successful and most famous start-up ecosystem, Silicon Valley. They seek to understand what the "secret sauce" is, what it is that creates the preconditions for the development of a culture in which entrepreneurship – often correctly identified with start-up activity – thrives.

Not all regions have cottoned on. Some of the latter are striving to understand what the emerging emphasis in building start-up ecosystems means for regional economies and for economic development strategy. They struggle to understand how innovation works for regional development, what the sources of innovation are, and are cautious of the inherent risk in pursuing an entrepreneurship-led economic development strategy.

Getting the ecosystem build right could have a substantial impact on the following:

- Retaining more young people;
- Encouraging the return of ex-pat entrepreneurs;
- Being a beacon for start-ups from outside the region;
- Providing a visible focus for interaction with the investment community;
- Reducing fragmentation and invisibility;
- Growing good jobs with large multipliers (Moretti 2013);
- Preparing the next generation and young graduates for a very different, "gig economy" world.

This is in addition to building an innovation culture that will encourage firms to be more innovative themselves and more prone to innovative collaborations.

Emphasising the ecosystem outside the firm need not ignore helping firms themselves to be more innovative. Gary Kunkle has observed that most of the drivers of high growth firms are located within the firm, and, it follows, not in the surrounding ecosystem (Kunkle 2011, 2012).

According to Kunkle:

> I'd spent 20 years working in the field with more than 500 companies on expansions projects in 32 countries. Based on that experience, I believed that firm-level growth was primarily driven by internal firm capabilities and dynamics. Yet the leading economic growth theories were saying that a firm's industry and location were more important in determining whether it grows or not. It just didn't compute (Kunkle 2011).

If correct, this seems to suggest that economic development strategy focused on ecosystem development might just be a waste of time. Why not just work "within the building"?

But is "growth" the same as "innovation" and entrepreneurship", or, more specifically, does growth require innovation and entrepreneurship? Does ecosystem development help existing firms to be more innovative and start-ups to be more entrepreneurial? And, more importantly, does entrepreneurship and innovation drive sustained high growth, and in today's language, "scalability"?

This paper explores these issues and draws a number of conclusions in support of mainstreaming ecosystem building in economic development strategy.

The Case for Developing a Start-up Ecosystem

Ecosystem development is more than developing government programs to encourage start-ups. It is the creation of a particular culture in which businesses, and in particular, start-ups will thrive. In fact, ecosystem development is very different from having a suite of government programs. Most government programs provide assistance to individual firms. These programs often focus on firm productivity, often with good outcomes for the firm and for economic growth. Government programs, however, cannot of themselves create the pre-conditions for innovation and they cannot provide the magic recipe for entrepreneurship. And productivity is, of itself, no guarantor of jobs growth.

And because governments and their agencies are very risk averse, they are not generally in the business of supporting start-ups, many of which fail. This is never a good look for elected officials spending ratepayers' or taxpayers' money. And the recent Australian political scene has demonstrated the very limited electoral appeal of supporting an innovation culture. Yet it is the start-up ecosystem that will deliver the sort of culture in which new businesses formation will increase, and potentially provide the growth of scalable businesses, aka "higros" that will drive regional economic development in the new, exponential economy.

Richard Florida some years ago correctly argued that regional economic success required "low entry barriers" for new people (Florida 2002). And new people include new residents, new-to-the-region businesses, and new enterprises born within the region. This means more than being "welcoming". It means more than "talent, technology and tolerance (of the different)" - Florida's famous three T's.

Low entry barriers, or in Saxenian's formulation, an open, non-hierarchical business culture as seen in the Silicon Valley of the 1990s, make for dynamic and entrepreneurial economies (Saxenian 1994).

Florida implies, again correctly, that economic development strategy must always be "looking forward", not merely protecting existing industries and businesses. It is creating the NEXT job that must be the focus of economic development strategy. And the international evidence suggests that it is invariably young and mostly small-but-growing firms that are now creating most of the new jobs. Mature and large businesses generally do not. The latter, the so-called "legacy industries", now routinely shed jobs, outsource formerly core functions, rationalise operations in order to pare costs to the bone and severely ration new employment opportunities. Many large firms too are open to disruption through technology or new, savvy competitors. Strategy, in order to be forward looking, must necessarily focus on emerging opportunities and the business of the future.

Hence the need for ecosystem development to be central to strategy. And the critical exercise in all economic development – to "link and leverage" – is, too, at the heart of ecosystem development.

Does all this mean that Kunkle is wrong? No, Kunkle is correct – about higros – but I believe the case for ecosystem development for start-ups is still important, even critical, for regional economies. In other words, what is required for supporting start-ups is different to what is required for supporting higros. This includes non-metropolitan economies seen as being "underpinned" by the typical rural activities of primary production and land related processing. The work of The Space in Cairns (Queensland), for example is an important example of regional/rural ecosystem development.

The Core Elements of a Start-up Ecosystem – What Incubation Looks Like Now

So, what then are the key elements of this ecosystems development approach? How does one best lower the entry barriers to new business formation?

Most emerging ecosystems strive to provide contact points for emerging start-ups, often in the form of dedicated spaces. Many provide resources to support connectivity. Some provide skills formation tools. Mentoring services are typically in the mix. There is often advice on the technical side of starting a business. There is an increasing trend towards having themed spaces, for example in technology focused start-ups, and to form membership based communities of entrepreneurs, catalysed through a dedicated resource. Linkages are provided to angel investors and to crowd funding sources. Events are important. Increasingly, corporates are connecting with entrepreneurial start-up communities.

Hence the following are typically part of a start-up ecosystem:

- Co-working spaces, often in downtown locations or in old industrial (often port) districts or arts districts or co-located with research institutes in so-called "innovation districts" (Katz and Wagner 2014; start-up spaces seem to have a special attraction to funky, industrial chic spaces);
- Entrepreneur communities underpinned by a "pay it forward" culture;
- Boot camps and other (typically competitive) accelerator programs which include resources such as mentoring and the potential linking of entrepreneurs to corporates and investors (see, for example, Slingshotters in Newcastle Australia and, most famous globally, Techstars);

- Start-up schools like those established by Brett Whitford (Excellerator) in Sydney;
- Pitch events, dragon's dens and speakers' presentations;
- Pro bono "drop in" services provided by lawyers, IP specialists, accountants, and so on;
- Catalysts who help to build start-up communities and make new connections;
- Young entrepreneur programs and resources.

This is what "incubation" looks like in the new economy. There is a strong focus on technology firms and on creatives. Gone are the days of the 1980s industrial parks – they still exist but they are not the locus of economic activity in today's world – and old economy incubators for small businesses which were mainly conceived in order to provide cheap rent, and thereby lower costs, for new businesses. Old economy incubators were severely limited in what they could do, and the companies they supported were equally limited in opportunities to scale up, absent the technology platforms of today that effortlessly reach customers wherever they are located, grow customer relationships, involve customers in content creation and get customers even to co-create the business model.

An emerging, indeed burgeoning, literature describing and championing the development of start-up ecosystems has appeared. Key authors include Brad Feld of Boulder Colorado (author of the so-called Boulder model); the Kauffman Foundation; Steve Blank and others associated with the development of the "lean start-up"; Esko Kilpi; Tim O'Reilly; Marc Andreessen; the McKinsey Global Institute; the Deloittes Center for the Edge; and the Harvard Business Review (see Collits 2016).

Many companies and governments are now in the business of start-up ecosystem design and development, all over the world. Perhaps most famously, the entrepreneur Tony Hsieh, founder of Zappos, has sunk upwards of 300 million USD into the creation of a start-up ecosystem in Las Vegas. The best recognised start-up communities globally include (of course) Silicon Valley, Silicon Alley in Manhattan, Boulder Colorado, Austin Texas, downtown San Francisco, Boston, Tel Aviv, Campus London and other East End innovation precincts such as Silicon Roundabout; Stockholm and Berlin (see venturebeat.com and Appendix A).

In Australasia, they are in the UTS Sydney precinct in Ultimo, the Docklands in Melbourne, Auckland's Wynyard district, Tauranga's downtown and Wellington's creative district (with Creative HQ and its Lightning Lab program). Brisbane Australia is also rapidly developing a start-up culture.

Other companies provide resources to nascent start-up communities. For example, T2 Venture Creation, founded in 2005 by Victor Hwang (now with the Kauffman Foundation), provides an astonishing resource for communities wishing to learn from others who have made the ecosystem journey, often in the form of access to the burgeoning start-up ecosystem literature. As noted above, The Space in Cairns Queensland has developed a business based on growing start-up ecosystems. Venture Business in Tauranga New Zealand provides toolkit resources for start-ups.

In identifying the characteristics of global start-up ecosystems, Venturebeat included the following in its "must have" list:

- Funding Ecosystem & Exits;
- Engineering Talent;
- Active Mentoring;

- Technical Infrastructure;
- Start-up Culture;
- Legal & Policy Infrastructure;
- Economic Foundation; and
- Government Policies & Programs (Venturebeat 2015).

Note here the requirement for what might be termed "twenty-first century infrastructure". There is no mention of roads and bridges or of ports! Connectivity is everything, in particular connectivity to the virtual. There is also the emphasis on culture. There remains an emphasis on soft infrastructure, access to technical support and supportive government policy.

The critical issue for economic development strategy, especially in regions with fragmented, invisible ("under the radar") or nascent start-up ecosystems, is where to start. What comes first? Where should we direct resources? Who are the key players? How do we "link and leverage"?

Recall my often discussed core questions of economic development when addressing the "where to start" question:

- What are we trying to achieve?
- Who is responsible?
- What drives (enables) growth and decline?
- Which drivers can local actors influence?
- How much can local actors understand and influence these drivers?
- What works in terms of programs and actions?
- How will we measure success?

The key actions to be taken are discussed below. But before, addressing these questions, we need to detour over to a discussion of innovation and entrepreneurship in order to determine the extent to which ecosystem building can drive economic growth.

A Short Discourse on Innovation, the Firm and Entrepreneurship

What is innovation and how does it work?

The first, critical point is that innovation is about much more than patents, despite patents typically being the metric of innovation. Lots of patents in a region may or may not signify an innovative region.

The sources of innovation are often within firms, for example great ideas routinely come from employees, not just research and development departments. This is why it is critically important for businesses to allow so-called "intrapreneurs" to flourish, to listen to their people. Many existing businesses do not do this. They focus on serving their existing customers well and do not have a mentality of the self-disruption that is needed today and which might motivate management to actually listen to their set up meaningful internal processes to recognise and encourage intrapreneurship (see for example Clayton Christensen 1997).

But innovation also comes from outside the firm – from observing competitors, from the collective efforts of regionally or nationally based industry associations (so-called coopetition), from suppliers and, increasingly, from customers. The connectivity required for the nurturing of these forms of innovation requires both internal-to-the-firm processes and ecosystem development.

The prophet of innovation was Joseph Schumpeter, who coined (without knowing, of course, anything about twenty-first century technology enabled "disruption") the phrase "gales of creative destruction (Schumpeter 1942). Schumpeter's view, radically different from that of Marx and many other writers on the subject, was that capitalism's core was innovation. Of course, Schumpeter anticipated disruption.

Christensen went on to describe how it works, with heavy empirical evidence coming from the semi-conductor industry. Christensen's model is a modern classic in the management and business literature. He makes the point that successful mature firms are good at meeting the needs of existing customers, without necessarily being about to anticipate future threats and opportunities. Disruption occurs when new competitors come in "at the bottom" and undercut existing offerings with lower prices for basic goods and services. Disruption is especially suited to the contemporary sharing economy and is driven by technology. It is enabled essentially by the capacity of new firms to scale quickly and to leverage off technology platforms. It is underpinned too by the radical decline in traction costs that now, in many cases, approach zero.

Christensen also makes the important distinction between sustaining and disruptive innovation. Not all innovation is disruptive, despite the current focus on disruption. Many product innovations are "sustaining" of mature firms and industries. Finding new markets for existing products, and the re-engineering of intra-firm processes all count as innovation. Developing new products is typically regarded as the core of innovation. But contemporary understands go way beyond this. Disruptive innovation is normally associated with business model innovation, the most radical form of innovation, the most exciting, and, for economic development strategy and regions, the most tantalising and complex.

As Esko Kilpi and others have noted, the firm itself and the Coase model are under threat from the internet and its outworkings, an "extinction level" event (Coase 1937). The intertwining of technological advances, new business models, diminishing geography and close-to-zero start-up costs have caused a fundamental rethink of business forms.

Hence, the importance of innovation is well understood, as are the linkages between innovation and disruption.

Some of the principal conclusions of the recent literature on how innovation works emphasise the following:

- Ideas happen where people meet and innovation is an inherently social process (Johnson);
- Innovation might be described as "ideas having sex" (Ridley);
- Cooperation, specialisation (powered by innovation) + exchange lead to increased wealth;
- Cross fertilisation of cultures and disciplines occurring at "the intersection" drives innovation (Johansson 2010);

- Recombinations of existing ideas in new configurations can often be highly, even transformatively innovative, as many apps attest.

These thinkers have generated some key insights related to the sources of innovation, the social nature of innovation, and the importance of creating opportunities both within firms, among firms and in “third spaces” for formal and (especially) informal interactions where tacit knowledge can be shared and where ideas have sex. And, at least in the case of Matt Ridley, the connection between innovation and economic growth is reinforced.

If innovation is the “what”, then entrepreneurs are the “who”. Every entrepreneur is a business person, but not every business person is an entrepreneur. Entrepreneurs take risks, but they also seek to minimise risk. They often fail, and there is an emerging understanding among entrepreneurs, entrepreneurship educators and ecosystem and accelerator managers that failure is tolerable, even necessary. Serial entrepreneurs often have failure stories. The new way of describing failure is to underscore the need to fail “lightly” and quickly and to learn quickly from failure. Some investors may even prefer to support businesses whose founders have previously failed and learned from failure. Success in business is, perhaps, currently undergoing a radical redefinition.

Not every small business is a start-up. In the contemporary understanding of start-ups is that they are capable of scaling and are inclined to want to scale. They are, therefore, potential job creators. They are not all tech start-ups but are often users of technology platforms to enable scaling. They may be entrepreneurial in the ways they reconfigure existing goods and services and provide traditional products to existing markets. They are generally not self-employing business lifefestylers, though in principle “solopreneurs” may be just that. Then there are “intrapreneurs”, referred to above, “seniorpreneurs” and other variations of the type.

How Start-up Ecosystems Drive Innovation and Entrepreneurship

So far I have articulated and explained the elements of a start-up ecosystem and have also provided a brief summary of contemporary understandings of innovation and entrepreneurship, linking these to incubation and networks. What, then, are the relationships between a start-up ecosystem and the promotion in regions of innovation and entrepreneurship?

Clearly the purpose of nurturing start-up ecosystems is not merely to create start-ups but to enable the development of sustained pipelines from ideas and innovation to validation to commercialised businesses to higros. Essentially start-up ecosystem building is pipeline creation. The purpose is to allow ideas to “have sex”, to find partners, to recombine, to create killer apps for pre-existing technologies. Just as creating pathways to employment for the under-employed and the young is a critical social goal for regional wellbeing, creating “pathways” for a pipeline of entrepreneurial ideas must be core business for any strategy that wishes to nurture innovation. Such pathways must be visible to entrepreneurs and innovators and the fragmentation of the nodes must be reduced so as to allow for smoother pathways. To paraphrase Richard Florida, there must be “low entry barriers” for entrepreneurial ideas to make their way to and through the ecosystem.

The relationship between innovation and ecosystems is symbiotic and mutually reinforcing. Each is a necessary condition for the other. Ecosystems are needed for start-ups (entrepreneurs), and start-ups support and reinforce the ecosystem. Successful and growing businesses will provide inspiration, case studies and causes for celebration across the ecosystem, as well as much needed wealth creation and jobs. In the context of regional areas, such inspiration is critical. For maintaining popular support for economic development activity at local and regional scale, the community must be able to make the connections between ecosystem development and growing local businesses. For the future attraction of both new investment and outside investment, and to enable regions to compete assiduously in the global battle for the talent of the new economy, a visible, functioning start-up ecosystem is now increasingly seen as a baseline for further development and as core business for strategy.

Where to Start in Building an Ecosystem

At its heart, an ecosystem is a network, and network effects flow from ecosystem development. To "link and leverage" networks, ecosystem developers need to do a number of things:

- To identify nodes;
- To strengthen nodes;
- To determine how the nodes connect, if at all;
- To nurture existing linkages across the network;
- To create new linkages where these are currently absent, fragmented, opportunistic or invisible; and
- The water the garden regularly and seek new opportunities for network development.

Twenty-first century incubation is a networked activity, perhaps anchored in a space or spaces but providing services to support both individual nodes and cross network connections.

With finite budgets among government agencies, regimented conditions for assistance, risk aversion in terms of ecosystem development, and little appetite in the private sector for funding such activities, there are difficulties for economic development agencies. More importantly, even successful ecosystem builders may not know what the "secret sauce" has been in the builds.

A particular dilemma in incubation development is whether or not an agency supported, visible, labelled space is required and a priority, and how and when to support events, resourcing of spaces, catalyst provision, whether and how to support existing nodes such as private sector developed co-working spaces

There is no textbook for this. The key argument for financing a space is to send a signal to all players – entrepreneurs and investors in particular – that this region aspires to be a hub for innovation and entrepreneurship. The key argument for funding catalyst positions is to support the strengthening of networks and to build entrepreneurial communities. The key argument for resourcing an events calendar and the holding of pitch events, start-up weekends, visiting speakers and so on is to build capability, provide opportunities and . It is the same with mentoring programs and drop in expertise to provide technical support. In other words, there needs to be an integrated ecosystem with all the components mutually reinforcing. It is no good providing a building and no connecting resources. Equally, in a regional context, it is important to build innovation at regional scale, and to provide incubation support that builds whole-of-region capability. Here the notion of mobile and "pop up" or outreach incubation services should be deployed, beyond the mere creation of "an incubator" in one particular location.

Only through an integrated system can the core tasks of an ecosystem outlined above be properly implemented.

Summary and Conclusions

This paper has argued the case for making ecosystem development a primary goal of economic development strategy and offered an outline of how in general to proceed. The argument, in outline, has been:

- Creating a start-up culture in regions should be a priority for economic development strategy;
- Innovation and entrepreneurship both drive and benefit from a start-up culture;
- There are numerous examples now of successful start-up models, and tools and resources on which to draw in building one's own ecosystem;
- A start-up ecosystem should have (at least) designated spaces, resources, events and catalytic activity;
- There need to be enhanced connectors of entrepreneurs to investors in most regions;
- The support that start-ups need is not the same as that which higros need;
- One needs both a start-up culture and programs/initiatives to help growing firms to grow, especially in relation to growth management skills as per Kunkle.

Economic development strategy might best be compared to an Olympic sized swimming pool, without laneways:

- It is very big;
- There are no set laneways for guidance;
- It is not obvious where you dive in;
- Then it is not obvious which direction you swim; and
- There are lots of coaches on the side blowing whistles and shouting instructions.

There are good reasons to have an "all of the above" approach when determining which economic activities to support. For example, economic development needs popular (community) support for its various activities. So there is a need to go after and secure "low hanging fruit" in order to maintain tax/ratepayer support. There do need to be visible successes. Yet any practitioner knows that there are no guaranteed successes, luck is important, there are many things we do not control or even influence, and we will not know till (often years) after the intervention whether we have been successful. This suggests that a balanced portfolio of activities is in order, including making life easy for existing businesses; attracting new (outside) investment; nurturing sunrise industries; identifying and supporting businesses most likely to grow; going after sectors with large jobs multipliers and which have good salaries; and building a supportive business culture for start-ups.

The case for emphasising high growth businesses above other activities is clear. These are the businesses that are future focused and which have the greatest propensity to employ the most people.

Equally clear is the case for prioritising the creation of a first class start-up ecosystem. These will be the higros of the future, whether or not they ever attain (legendary) unicorn status. The latter strategy is risky because the rewards may not be immediately apparent, thus potentially losing popular support, and because we know many start-ups will fail. And the emerging conversation among the start-up community that to succeed you must first fail (fast and learn) has not yet reached the wider community of ratepayers and taxpayers. Without start-ups, especially scalables, there simply won't be any higros.

Finally, the case for supporting technology firms – whether tech start-ups or high technology manufacturing is clear. These sectors are sources and drivers of innovation and create large jobs multipliers and high salaries.

A balanced portfolio with at least sixty per cent of resources and activities dedicated to start-up and higro support is required for a successful economic development strategy. Doing this will fulfil the core objective of economic development strategy:

- Increase investment …
- In growing enterprises …
- That are innovative …
- That are productive …
- That leads to jobs …
- That increase wealth …
- And raise living standards.

This is the textbook "logic trail" of economic development, and building a start-up ecosystem is now recognised by an increasing number of regions globally as being intrinsic to success. The paper has sought to contribute to a better understanding of, and to connect up, some often used concepts of economic development – innovation, entrepreneurship, start-ups, higros and incubation – in order to make sense of them and to develop a better understanding of how they might be encouraged in ways that benefit regional economic development.

Appendix A
Venturebeat's Top Performing Ecosystems

Scores are out of 80

Global Hub	Overall Rating
Silicon Valley	75
Stockholm	67
Tel Aviv	65
NYC	64
Seoul	58
Boston	58
Los Angeles	57
Beijing	55
London	53
Berlin	53

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Re-imagining the region

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Abstract
Traditionally, regional policy has sought to intervene 'in place'. There have been many critiques of particular policies and regional strategies, and a more sustained critique of regional policy more generally, based upon the complexity of regional processes and the relative incapacity of governments to control, or in some cases even to influence, these processes and deliver the outcomes they desire. In the 21st century, there are new and even more complicating processes – the new globalisation, greater mobility, new kinds of mobility, the increased openness of borders, rapidly shifting business models, accelerating disruption of industries and businesses by new start-ups, and distributed work – that render much thinking, strategy and policy related to regions obsolete. This paper describes some of these processes, what they mean for policy and, even more fundamentally, what they mean for the way we think about regions.

Keywords
distributed work, globalisation, mobility, policy, region, regional development, regional strategy

Introduction

Many still see regions as patches of ground onto which must be poured resources, funding and keys to advantage. They are seen as fixed ('sticky') places and spaces which, as spaces and places, can acquire and maintain competitive advantage. This has been the unchanging paradigm for at least two decades, despite periodic questioning, or at least discussion, of it by scholars (Amin, 1999, 2004; Harrison, 2013; Markusen, 1996; Morgan, 2004a, 2004b; Pike, 2009; Storper and Venables, 2004). Policy and strategy need to change, based on, and aligned with, a fundamentally new conception of the region as unstable, complex, relational, porous and openly networked.

We believe that much contemporary regional policy and strategy is fundamentally misconceived, and, indeed, amounts to 'spatial fetishism' (Morgan, 2004b). Poor thinking about regions, about what they are and how they work, is driving the way regional leaders, economic development practitioners and policy makers

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shape interventions that they believe, often wrongly or only half correctly, will alter the trajectory of regional development. The authors of local and regional strategies, as well as of the policy interventions of central governments, give little indication that they have understood and taken into account the new realities of 21st century business models, mobile resources, new industry segments, disrupted businesses and distributed work. Myths persist, indeed are embedded in strategic thinking. This is an important, ongoing issue for Australian regional analysis and for policy and strategy interventions, just as it is internationally, as endless, often unimplemented strategy documents continue gather dust upon shelves.

The problem is the world of the 21st century is a world of ever moving, as well as ever changing, parts. The moving parts include people, businesses (and business models), ideas, capital, resources of all kinds. Many policy makers now 'get' globalisation.[1] They understand what it is, how it works, what it means. They understand that the old ways no longer work and that policy must adjust to the utterly porous borders between nations. Yet within nations, leaders and policymakers seem not to have noticed that regional borders too are now utterly porous, and that this has deep significance for how, and how much, policy interventions will work.

Much of what passes for regional strategy consists of regions seeking largesse from central governments, and regional policy consists of deciding between the competing regional claims. This unsophisticated game is played over and over again by participants who seem not to see what is going on before their eyes. Ours is an age of massive interregional migrations, with new forms of commuting, temporary moves, shifting lifestyles, new ways of living in families and a greater willingness to embrace the unfamiliar and unconventional. People 'live here, work there, and spend somewhere else'.[2] It is almost impossible to keep track of economic interactions and to comprehend their spatial dimensions. Economic transactions traverse both very short and very long distances. Economic impacts are no longer 'felt' in place in the way they used to be.

In our opinion, the theory of the relational region is on the right path to a better understanding of regions, and with it, a more realistic approach to policy. The 21st century region is one of flows as well as spaces. It is open and networked. But the networks extend across boundaries and consequently, there is continual population churn.

This article argues for a radical re-imagining of the region in the face of new economic, social, demographic and cultural realities, best summed up in the emergence of the 'distributed world'. It is based on improved understandings of 'region' and 'mobility' and a reality check on what these understandings mean for policy and strategy. At the heart of the argument is a recognition that economic transactions occur across space and this space is not constrained by man-made regional boundaries or indeed by natural boundaries between regions that the emerging world simply ignores.

There are three new elements in play that add up to a new geography and portend a new way of thinking about and doing regional policy and strategy:

- The borderless, globalised world with its ease of communication and movement, for people, capital and ideas, appearing at precisely the same time as the knowledge economy based on increasing returns from ideas;
- Distributed world of work – new business models and, in particular, new thinking about where work is done; and
- A new mobility with more, and new forms of, commuting and radically shifting lifestyles which herald a whole new notion of place.

Neither these trends nor the thinking that analyses them are new in the current period. The trends are certainly accelerating, and the thinking is crystallising (Harrison, 2013). What is new (in our argument) is the recognition of what these developments mean for regional interventions, especially those designed to support economic development. Castells, radically at the time his work was first published, used the emergence of what he termed in the 1990s the 'network society' with its global 'space of flows' to challenge the hegemony of the nation state (Castells, 2009; Harrison, 2013). The new regionalists of the 1990s, too, saw globalisation as heralding the demise of nations *and* resurrecting the region (Keating, 2001; Morgan, 1997; Ohmae, 1995; Storper, 1997). We see the (very real) new space of flows as bypassing and surpassing both nations *and* regions as they have been, until now, understood. We see regional boundaries as now being just as irrelevant as national boundaries to many households, businesses and industries. And we see this as having consequences for regional policy, something largely ignored, or at least understood in different ways, in previous debates about regions.

There have long been arguments over the efficacy of regional (spatial, place, territorial) policy, and whether policy interventions designed to assist certain categories of people in certain circumstances should be applied to the places where they live. The argument is ongoing. Our contribution to the debate is to suggest a new threat to regional policy and its core assumptions, at least regional policy configured in the way it has been up until now.

Regional policy in Australia is largely focused on non-metropolitan regions and always has been (Collits, 2004; Collits, 2014). Yet it is non-metropolitan places in particular that have been exposed to the forces analysed in this paper. It is certainly the case that cities have triumphed in the globalised world, with new forms of agglomeration economies emerging (Collits, 2012a; Glaeser, 2011; Polese, 2009).

Regionalism has had a patchy record in Australia. Often, historically, regionalism has been associated with decentralisation movements, even new states movements. Regions are not recognised in the Constitution. As in England, they have no statutory basis. There are no regional governments. Regions suffer from problems of both legitimacy and capacity (Collits and Brown, 2004; Collits in Thompson and Maginn, 2012). They lack the power to raise taxes and they have no ability to coordinate government activities. They fall between local government, itself not recognised in the Constitution and having few powers and resources for economic development, and State governments which may or may not choose to resource region scale governance activities. And there is not the tradition in Australia (unlike, for example, the USA) of regional players collaborating to develop region-wide, self-funded and self-directed initiatives.

A borderless world: The notion of 'region' overturned

The concept of space and place has completely changed as a result of globalisation. The knowledge economy (based on increasing returns from ideas and knowledge, as per Romer, 1986) appeared at precisely the time that we were creating a 'borderless world'. The coincidence of these twin developments renders regional boundaries, and perhaps the whole notion of a regional economy, obsolete in many ways.

In the borderless and boundless world, with new conceptions of place and space, we still retain out-dated notions of regional policy and regional strategy as if regions were self-contained.

We (policy makers, regional leaders and practitioners) think in parallel but contradictory ways. While acknowledging the new geography of work and living, at the same time we still think of regions as fixed in place even though the people who live, work and invest there do not. Our movements, horizons, relations and transactions are global in scope. Where we invest, purchase goods and services, work and live is no longer confined to a 'region'. We are merely 'based' in places now, and this simple word has a powerful resonance with the contemporary mobile, non-fixed world.

Traditional definitions of region and their limits

Regions have traditionally been defined as being one of three broad types – homogeneous regions, which have shared characteristics (such as climate, geography, dominant industries); nodal regions, in which all parts of the region are linked in some way; and administrative regions, which are the creations of government (Beer et al., 2003; Stilwell, 1992).

Many governments have had a particular zeal for creating (centrally) administrative regions, whether or not these created regions are really 'regions' in the homogeneous or nodal sense. We are all familiar with real 'regions'. The functional economic areas identified by Stimson and Mitchell (2010) and others are clearly nodal regions. And homogeneous regions are clearly identifiable. Yet whole countries are not normally divided into natural, identifiable regions, and still governments insist on covering the nation with administrative regions as if they were wall to wall with real (economic) regions.

Yet in a globalised and in many senses borderless world, 'real' regions' boundaries are not fixed in place and time. Disruptive economic changes, often occasioned by exogenous shocks, change regions and their regional boundaries as new economic activities emerge. Regions change characteristics. They often change their economic function as a result of disruption, whether in the form of exogenous shocks or endogenous innovation. Their people leave and new people arrive. They are not fixed. Yet centrally created administrative regions persist through government fiat, essentially ignoring economic, social and demographic change, their boundaries fixed despite being utterly porous and in many cases meaningless, and therefore increasingly irrelevant. Continued government funding of, and policy emphasis on, the operation of regional institutions fixed in place over time ignores mobility and change.

The new regionalism and its critics

One of the many innovations in regional development thinking, scholarship and policy in recent decades has been the so-called new regionalism (Mawson, 1997). This appeared in different forms in North America (in the form of the new urbanism) and Europe (through the global regions and regional innovation systems literature).

The new regionalism of Cooke, Morgan, Scott and Storper and others builds on the knowledge theory of regional growth. These scholars argued that regional growth is driven by dense networks of informal or 'tacit' knowledge. Scott, Storper and others focused on the emergence of 'global city regions' as growth drivers and saw regions as the building blocks of a globalised world (Harrison, 2013; Morgan, 1997; Scott, 2001; Storper, 1997).

A key dimension of the new regionalism is the conviction that 'regions' matter, even in the age of globalisation. This is more than simply saying that 'place matters', but rather than region scale activities drive the new economy. It is easy to argue the importance of city regions in the global economy, but harder to maintain the argument that 'regions' are more important than, say, firms or communities – 'functional economic areas' in the now fashionable language of post Blair-Brown UK regional policy. The highly contestable claim of new regionalists that 'we live in a regional world', that nations don't matter but now only regions do, has always been overblown, even without considering the new mobility.

This is simply because many regions, especially those determined by central governments, are not real economic areas but administrative conveniences, and because regional boundaries are increasingly porous, and therefore meaningless.

Proponents of the new regionalism in the 1990s argued that globalisation (perhaps unexpectedly) had reinforced the economic and cultural significance of regions as nations declined in importance. In other words, the new regionalists have paradoxically actually increased its importance of 'place' instead of diminishing its importance. According to the new regionalists, we now live our lives in a 'regional world' (Keating, 1998; Storper, 1997). As McKinsey posited in the 1990s, 'In today's world, we find that it is increasingly regions that compete – not countries' (McKinsey and Company, 1994; Ohmae, 1995). Or as Bruce Katz asserted, 'today we live our lives regionally' (Katz quoted in Wallis, 2000).

But what has really happened is that globalisation has changed all spatial relations and has unmoored 'regions' from their former forms and spaces. We actually live in a 'distributed and networked' world and this has particular and profound impacts on regional analysis, policy and strategy. Scholars were talking about this distributed world of work a decade ago (Hinds and Kiesler, 2002), yet, despite occasional debates over 'territorial' versus 'relational' regions (Harrison, 2013; Paasi, 2013), thinking about policy and strategy still remains wedded to the 'region-as-defined-territory' paradigm.

Cooke and Morgan (1998) wisely suggest that 'a region is a process . . . not a thing'. This is true, but also limiting. The processes (linkages) that occur in, and for the new regionalists, that define regions, also occur increasingly across regional boundaries. Arguably, not only is the rate of across-regional-boundary transactions increasing, but also their importance.

The new regionalism has proven to be a major distraction, especially for nations without clearly defined regions of whatever kind (homogeneous, nodal or political).

As well as being a distraction, the new regionalism also helped to generate in the 1990s and beyond policy and strategy paradigms of regional competitive advantage. Michael Porter's *Competitive Advantage of Nations* was the regional development 'hit' of the 1990s, and bequeathed Australia and the world the notion that 'regions' could create competitive advantage (Porter, 1990). Moreover, policy and strategy should be focused on creating competitive advantage. They can, of course, up to a point. But such advantage is contingent, limited, unstable and perennially at risk of vanishing as a result of the larger forces at work and the inherent practical weaknesses of regions, whatever their conceptual appeal. In an openly networked world in which mostly artificial regional boundaries (as they often are in Australia) are virtually irrelevant to mobile economic agents, spatial categories such as region assume minimal importance.

In summary, there is much to commend Walter Isard's often quoted dictum that regions are 'simply generalisations of the human mind' (Isard quoted in Stilwell, 1992: 47), or Jane Jacobs' cynicism: 'A region, someone has wryly observed, is an area safely larger than the last one to whose problems we found no solution' (Jacobs quoted in Katz, 2000).

This is especially the case in the post-regional world we are describing.

Territorial versus 'relational' regions

A new debate commenced in the early years of the new century and this debate has continued (in an on again–off again fashion) to the present (Harrison, 2013; Pike, 2009). This debate has moved thinking about regions beyond the limitations of the 1990s' new regionalism and suggested the very themes we are now exploring. The new thinking suggests that regions might be considered as bundles of relationships rather than as mere territorial spaces, or at least, in addition to being considered in the conventional sense.

Ash Amin (2004: 33) argues in his 'regions unbound' thesis:

> The mainstream view of cities and regions is one that continues to conceptualise them as territorial entities: local economic systems, regimes of regulation, a place called home.... The continuing grip of this imaginary is odd because it has been challenged by two significant developments in recent years. The first challenge is the rise of compositional forces that are transforming cities and regions into sites immersed in global networks of organization and routinely implicated in distant connections and influences. These are changes we have come to associate with globalization, which includes the everyday transnational flow of ideas, information, knowledge, money, people, and cultural influences; the growth of translocal networks of organization and influence, such as transnational corporations, global financial institutions, international governance regimes, and transnational cultural networks; and the ripples of distant developments such as stock market swings, environmental disasters, global trade agreements, and policy decisions in powerful nations.

Paasi has contrasted traditional territorial notions of 'bounded spaces' to a broader and less limiting understanding of the 'relational complexity' of regions (Harrison, 2013; Paasi, 2013). This advances our understanding of regions considerably.

Yet the notion of relational regions itself is limiting in view of the new knowledge economy and the borderless world. The borderlessness of nations is also the borderlessness of regions, in which 'relations' cross boundaries within nations as well as national boundaries, in increasingly complex ways that are beyond the capacity of analysts to understand fully or governments to shape and control. The relational versus territorial debate is largely concerned with what goes on in regions. Our proposition is that in today's world the very notion of region itself is problematic.

Functional economic regions

Another challenge to the orthodoxy of regionalism is the notion of functional economic regions, the idea that meaningful policy and strategy should be linked to actual business spatial interactions.

Recent regional policy in the United Kingdom is an example of shifting thinking in relation to 'region'. One of the key policy changes following the election of the Cameron Government in the UK in 2010 was the termination of the Blairite experiment in regionalism undertaken over the preceding 13 years and a reset of spatial focus through the new local enterprise partnerships. This amounted to a rethinking of the new regionalism and a challenge to the 1990s orthodoxy that linked globalisation to regions and made the region the unit of policy interventions. This policy shift to a more localised approach to economic development has been a significant development.

The distributed world of work

The second megatrend that is contributing to the passing of 'region' as we have understood it is distributed work (Hinds and Kiesler, 2002). What does the so-called anywhere working world mean, and mean for regionalism? Is it merely a fad, or is it here to stay and how does it affect place?

According to Wikipedia:

> A distributed workforce is a workforce that reaches beyond the restrictions of a traditional office environment. A distributed workforce is disbursed geographically over a wide area – domestically or internationally. By installing key technologies, distributed companies enable employees located anywhere to access all of the company's resources and software such as applications, data and e-mail without working within the confines of a physical company-operated facility.

This is the world of the so-called freelance economy, where agents, especially young people but not only young people, often prefer to work for themselves rather than for an employer. Not only do people now switch jobs and careers more often, and this has its own implications for mobility and regionalism, but they increasingly work for themselves. The home office, the co-working space, the telecentre, the smart hub, working on the road, these are the sites of much modern work. They need not be in offices in the city, nor in business parks. They need not be anywhere in particular.

The connectivity occasioned by smart mobile devices, powerful computing and fast broadband allowing large packets of data to be transmitted electronically and video conferencing, substantially shifts the geography of jobs and has created a generation of workers 'on the move'. If employment is mobile, this has considerable implications for place and space, for the provision of infrastructure, for planning and for regionalism and regional policy. It will have implications or commercial office space, for downtowns, for employers. People can live where they choose, unmoored from the location of employers, at least those who are mobile can. Creating 'local' jobs therefore has far less meaning now.

Do we live in a regional world or a distributed and networked world? For many, the answer will be 'both'. Yet mobile work is on the rise, albeit focused in certain sectors and certainly not universally adopted for a range of reasons (Hinds and Kiesler, 2002). The changes here are profound and reinforce the other pillars of mobility, knowledge work and globalisation that have changed the world of space. The new communities are boundless and global, and in a real sense 'boundaryless'. They are not regional, and to the large extent that these changes involve the young, they are the likely path of the future.

The new mobility and the region

The third core part of the argument for discarding conventional notions of region and the policies and strategies to which they have given rise relates to what might be termed 'the new mobility'.

CSIRO's *Our Future World* report counts mobility as one of the five key megatrends that will influence future development, including where that development occurs (CSIRO, 2010). There has always been mobility, then, and Australia has always been a mobile society (Productivity Commission, 2014). A recent report by Canberra's Bureau of Infrastructure, Transport and Regional Economics notes that, between 2001 and 2006, 6.6 million Australians moved. That is a third of the population. While 71% of these moves were local and mainly related to changing one's housing, it still leaves 1.9 million who moved from one city or region to another. That is a lot. In fact, Australians move, on average, 11 times in their lives (Bureau of Infrastructure, Transport and Regional Economics, 2011).

What is new is the ever rising mobility, seen for example in the lengthening of commutes, and the new forms of mobility, seen in the whole 'fly in–fly out' phenomenon, witnessed most visibly in the resources sector in Australia, but more hidden yet no less significant in other industries such as construction, and increasingly embraced by households everywhere. Traditional Australian mobility – moving home regularly and often across great distances, for work, lifestyle or trading up one's housing – has morphed into a more complex and variegated, multi-dimensional mobility.

In terms of traditional mobility, there is massive, ongoing population churn across all regions of Australia, in cities, suburbs, regional centres and remote locations (Australian Bureau of Statistics, 2013; see below).

Mobility old and new

There are three broad points about mobility old and new. The first is that many people move at certain times of their lives to certain kinds of places, e.g. school leavers to the city to get education, excitement and partnered up; Gen X marrieds with children returning to rural places for the free babysitting of the grandparents; and retirees escaping from the city to the coast, having sold the house for a princely sum to help fund their increasingly long retirements. These three types of moves all might be termed 'path dependent'. There is a limited amount that regions can do to either stop this or encourage it.

Second, many relocations are personal or related to family. One Victorian study showed that 48% of Melburnians planning to relocate to a regional setting were doing so for (mainly) family reasons, 44% for employment and only 27% for lifestyle (Regional Development Victoria, 2009). These are the 'me change' moves. Many Gen Xers (and others) move to be close to family. Place marketing is of limited value here. The 'place' is not as important in these many cases as who (for the relocator) is already living in that place. I am aware of many people who have moved to our region as a result of family connections.

Third, about half the people moving to regional locations do so for work. This was corroborated in a study undertaken in a rural Victorian town in 2009 (Collits and Schlapp, 2009). In Queensland, the boom towns in recent times are those where people are moving for work, rather than for lifestyle. Key centres in this context are Mackay and Gladstone. We may be entering a very uncertain period of 'seachange 2.0', where lifestyle regions ('play towns') lose appeal relative to 'work towns'. This has huge implications for lifestyle regions that often rely on growing the service industries that to cater to in-migrants. It also has implications for people attraction strategies. Of course, with the plateauing of the mining boom, the work towns of Queensland may themselves have reached their economic peaks for a time. Nothing remains constant in a mobile world.

Forms and drivers of population mobility of both the traditional and new variety in Australia include the following:

- 'Life cycle' migration undertaken at key pivot points – young people to the city (rural 'rite of passage' migration), Gen X parents to rural hometowns, cash hungry retirees away from the city, divorcees;
- Second home communities where city people maintain an empty second home used for holidays in high amenity regions;
- Telework, either from home or from serviced offices or the now rapidly emerging co-work spaces or telecentres noted earlier;
- Fly in–fly out (FIFO) mining regions – 'live here, work there';
- Non-mining FIFO;
- Peri-urban dormitory regions/daily commute regions (with commutes getting longer as transport improves and urban footprints grow; Butt, 2011);

- Sea change and tree change moves;
- 'Me change' moves designed to start a new life after some kind of trauma or break-up;
- Reverse retiree migration from sea change/tree change regions;
- Itinerant worker communities/short stayers;
- Farmers increasingly moving off farm into town while still managing the farm;
- Farmers increasingly taking off farm jobs requiring commutes;
- Welfare migration to low housing cost regions and places with shorter social housing queues;
- Career short-term staging post towns;
- Moving to suburbs where there are good schools, e.g. selective high schools or state schools with residential requirements;
- 'Gap years' taken by intending university students;
- Out shopping ('live here, shop there'), 'sponge cities' and the drift from small towns to larger regional centres, if not in residential moves, then certainly seen in commutes and 'economic' moves;
- 'aerotropolis' cities built around mobility, for example locating near airports (Kasarda and Lindsay, 2012);
- Brain drain regions, with young people's flight to the university.

The globalised world has changed the way we need to think about regional development. We now live in a mobile world, where goods, service, people and finance move freely across regional and national boundaries (Harrison, 2013). Old categories no longer obtain. Old policies no longer work. Understanding this change and translating this understanding into effective policies will be critical in creating the productive Australia that is needed to support a growing population. The key is to make mobility work for the nation, for example through infrastructure policies that connect regions and businesses.

Who moves, where and why? This is a vastly under-researched area, which is surprising given we have governments who claim to be interested in regional development and given that people attraction has become one of the main ways regions seek to grow jobs and investment. It is even under-emphasised by researchers. Our politicians and many others tend to focus on 'place', on where economic activity occurs. But economic activity is a moving feast (literally), unconstrained by a person's location or by local government or indeed regional boundaries.

Mobility is also poorly understood by many. We all now understand globalisation in terms of the way it has altered the notion of the nation state. But within Australia, we live in a mobile world as much as in a regional world yet the impact of mobility on regions as spaces and the efficacy of regions as policy foci is far less well understood and little discussed.

Borderless, mobility-based policy might mean emphasising connectivity which in turn might mean spending on infrastructure that is actually built outside the region (for example building).

A case study in mobility: Population turnover or 'churn' in an Australian coastal region

Hervey Bay in Queensland is a good case study of mobility and churn. Hervey Bay was easily the fastest growing coastal city in Australia between 2001 and 2009, with an astonishing average annual growth rate of 5.1% (this has changed more recently, with recent ABS data showing a mere 0.3% growth in the year to June 2011). Between 2003 and 2008, over a quarter of Hervey Bay's arrivals were over 60 years of age. Forty-four per cent of new arrivals in coastal cities came from the capitals.

Only 21% of coastal city new arrivals were aged 21–35 (Bureau of Infrastructure, Transport and Regional Economics, 2011).

There is evidence there may be a 'new mobility' emerging, a far greater willingness to 'live here and work there', just as we now also 'live here and shop (online) there'. Commutes are lengthening, we move to temporary accommodation in other regions, we plan short work stays in places, we follow the work and seek financial security without being so wedded to place, we access the city labour market while living out of town. All this is occurring for a number of reasons – because of the emergence of more complicated family arrangements, the fragility of regional economies since the GFC (and the need to move in order to obtain work) and the substantial and rapid increase in short-term contract work in the economy generally. All these things make for far greater upheaval and mobility.

The Australian Bureau of Statistics brought out an interesting report in January 2013, the second of its kind, *Perspectives on Regional Australia – Population Growth and Turnover in Local Government Areas 2006–11*. It charts not just population growth but also the number of people who come to, and leave, each LGA (Australian Bureau of Statistics, 2013) (see Table 1). Many will be surprised at just how much 'churn' (flow, or turnover) there is, even in areas that, on the surface, appear to have stable populations with not much overall growth or decline.

Looking at the Fraser Coast region in Queensland as an example, the ABS found that the population grew between censuses from 84,339 to 95,310, at a rate of 2.5% per year. This is very good growth. The region had 20,054 new arrivals. That is a lot. But the region also had 12,233 people leaving. That too is a lot. In all 32,287 people either were in the region in 2006 then left or were not in the region in 2006 then came. This is around a third of the population of Fraser Coast 'turning over' (Australian Bureau of Statistics, 2013).

Is this a larger population flow figure than the 2001–6 period? It is not, despite the economic downturn in this region and in many other regions.

Then, the region had different local government boundaries, involving Maryborough and Hervey Bay. In

Table 1. Population turnover in selected Australian regions, 2006–2011.

Local government area (state)	Type of region	2011 population count	Population flow (in plus out)
Ballina (NSW)	Coastal/retiree	39,272	13,655
Gosford (NSW)	Peri-metropolitan/ commuter belt	162,439	43,223
Wagga Wagga (NSW)	Inland regional centre	59,459	19,101
Armidale (NSW)	Rural university town	24,105	10,076
Bendigo (Vic)	Regional city	100,617	24,134
Southern Grampians (Vic)	Rural service centre	16,361	4523
Barcaldine (Qld)	Outback service town	3215	1421
Fraser Coast (Qld)	Sea change/retiree	95,310	32,287
Whyalla (SA)	Regional industrial city	22,089	5211
Busselton (WA)	Coastal mining fly in–fly out commuter town	30,331	11,033

Source: Australian Bureau of Statistics (2013).

Maryborough, the population grew from 24,033 to 25,701, an increase of 1.4% per annum. A total of 5678 new people came and 5044 left. This made for a population churn of 10,722. For Hervey Bay, the population grew from 41,484 to 52,219, or a staggering 4.7% per year. A total of 16,369 new people came, while 7806 left. This added up to a population churn of 24,175. Adding the two, the region received 22,047 new arrivals, and 12,850 people left, making a flow of 34,897 (Australian Bureau of Statistics, 2012).

This phenomenon of churn is repeated in local government areas all over Australia, in cities and regions, in low population growth areas and in high population growth areas. Some places are more prone to churn, like mining areas and inner cities. Others, like older outer suburbs of cities, are more stable. But there is substantial churn everywhere.

What the Fraser Coast population churn figures do not tell us is who is coming and leaving, and why, but we can guess. Many people come to the region for retirement, of course. And young people leave to go to the city for the 'three Es' – education, employment and excitement (Collits, 2007). These things easily explain both arrivals and departures. But something else is going on. A large number of people come to the region for employment. As a regional area, the Fraser Coast is not a 'career escalator' like cities are. Cities build people's wealth through greater opportunities for career escalation, the better chances of creating high dual incomes and likelier large capital growth through housing investments. Moreover, the Fraser Coast, like many regional areas, has been through a prolonged and severe economic downturn. So many people have left to obtain work elsewhere, for example in construction.

Regional economies are fragile, and this fragility leads to increased mobility. So too does the ever increasing casualisation of the workforce (there is less tenure in employment and far more short-term contract jobs); the increasing premium placed on tertiary education (more now are leaving to go to university) and growing family breakups and less commitment to lifetime relationships. All of this, we think, adds up to a greater propensity to move.

As noted earlier, a lot of mobility also comes from life-stage moves triggered by events such as completing school, buying the first property, having children and retiring, and also from a widely shared desire to live near family or friends. These forms of mobility are to be expected, yet workforce and social changes are increasing our mobility. Added to this, though, there now seems to be a new set of triggers for mobility, less predictable and more related to the changing economic fortunes of regions.

Regions are, therefore, increasingly at the mercy of individual decisions about location, and these are fed by the state of the local economy and the capacity of places to provide a platform for wealth creation.

What does all this mean for regional development and for Australia's demography? What, if anything, can communities and regions do to reduce churn, in particular, to retain the new people who come? And what does continuing churn do to a community's social capital, propensity to collaborate, desire to invest, and so on?

There are two ways of looking at high population churn. One is, to use a phrase often used by wool growers, that a certain 'hybrid vigour' enriches local economies and communities, providing new ideas and innovation as well as a desire to get involved in the community. The other is that it is hard to create the social capital we need for our communities with such high turnover. Potentially, it is hard for newcomers to find the way into a community so as to be able to contribute collaboratively. Does this mean that the place ends up being 'run' by a relative few who, consciously or not, exclude those who might otherwise make a valuable contribution. It is likely that in rural communities in-migrants value civic opportunity highly.

In summary, demographic mobility has important consequences for communities and regions. We are a highly mobile country, and the evidence (outlined in the table) suggests that mobility is increasing and is diversifying. More than ever, it makes little sense to think of regions as static places whose economies and populations are set in situ. The implications of this for regional policy are discussed below.

The new world, policy and strategy

What does this new world of knowledge businesses and industries, global flows and connections, anywhere work and mobility mean for local economic development? For regional strategy? For policy?

Are the new trends megatrends that will define the future, or merely early 21st century flavours of the month that will pass, leaving our traditional conceptions of space and place largely unaffected? For example, despite globalisation, national borders, cultures and policies are important. And despite distributed enterprises and work, city cores still contain skyscrapers full of traditional corporations and offices. And despite population churn and new and unconventional movements, most people still live near their jobs. Are we exaggerating this new world?

We argue that these trends described earlier, in their combinations, are new, growing and significant. In particular, they mean that traditionally defined regions anchored in space with fixed boundaries are now obsolete. (There may be an argument that administrative regions were never accurate reflections of their economic and social communities of interest, but that is another matter.)

Borderless, mobility-based policy might mean emphasising connectivity which in turn might mean spending on infrastructure that is actually built outside the region (for example building additional airports in core cities that will help periphery economies).

A larger question for policy and strategy is to ask afresh who benefits from local economic development interventions and where they live/work/spend/invest? In view of online shopping, emerging lifestyles that embrace 'live here, work there', direct foreign investment flows, overseas interests buying up the farm and investing in housing and commercial ventures, with or without local partners, it is far from clear now who benefits from interventions at the local and regional scale, and even whether the direction of the benefits (and costs) of these interventions can be established.

Persistent, poor policy and strategy thinking in new times

Regional development might be defined as follows:

> The deliberate attempt by government (at any level) and/or regional actors to influence regional outcomes, either in relation to the economy, the community or the environment, or all three, with varying objectives that generally relate to some notion of 'regional well-being'. (Collits, 2004: 4)

The key phrase in the context of the current argument is 'regional outcomes'. Typically these mean outcomes-in-place, however this is defined in terms of spatial scale. The desired outcomes of spatially targeted policy interventions of this kind are that they are experienced 'in place'. It is our contention that, whatever the efficacy of place policies in earlier times, most of them they are no longer effective. Earlier policies were often correctly criticised because they were futile in the face of bigger forces, and increasingly complex forces. But now the whole notion of space interventions faces what are, in many cases, insurmountable odds. Yet most policy makers, regional leaders and practitioners, while they recognise that the world has changed, have not come to grips with the fact that this means that many of the old activities will now simply not work, and are therefore futile.

Some policy interventions are more effective than others. This is still the case. Yet, more than this, the emergence of the mobile world means that much place-based thinking and many regional policies and strategies are now obsolete. Here are some examples:

(1) The attempt to achieve spatial equality of outcomes among regions, as measured by the incomes of residents, or their wealth, or gross regional product, or employment growth, or unemployment rates.
(2) Corporate welfare for regional firms deemed significant to the local economy, in particular, paying subsidies to multinational firms (or to any firms) to remain in business in a particular location (especially manufacturing firms in rural locations), in order to keep people in employment. The recent debate in Australia in relation to paying a substantial government subsidy to a subsidiary of Coca Cola Amatil, SPC Ardmona, to remain open for business in the rural Victorian centre of Shepparton, is a case in point.
(3) The pre-occupation of many regional actors with creating 'local jobs', experienced especially in commuter or dormitory regions. But local jobs will increasingly be a thing of the past. 'Jobs' themselves may become a thing of the past as short-term contracts lead to a freelance economy.
(4) The policy focus since the early 1990s on geographic clusters. But business to business deals occur at all spatial scales and across great distances in a global market. Global supply chains have often superseded more localised supply chains or at least operate alongside them. Should we privilege proximate clusters over long distance clusters (and their local elements)?
(5) Thinking that better connective transport infrastructure will help one's region while failing to recognise that it will be easier to leave the region as well, to spend or to engage in business elsewhere. This is precisely what has happened with so-called sponge cities and out-shopping, a good case study in the impacts of mobility.
(6) Getting a university for one's region. But universities are going online, following a distributed model, breaking out of geographic confines. Opening a campus in one's region will not provide local people with all the higher education programs they want. Young people will always leave regions even if there is a local campus. Having a local campus will not, either, necessarily lift local education standards as these are driven by many factors.
(7) Attempting to lessen commuting, a common strategic aim of commuter belt regions like the Central Coast of New South Wales. Commutes are getting longer and becoming more varied, flexible and complex, as noted earlier. Stopping commuting means stopping mobility, a forlorn hope. This strategy is also often combined with regional pleas for better linking infrastructure for the region, the achievement of which would assuredly only increase the number of commuters in the region.

These are common, but ultimately misplaced, regional policies and strategies. Yet there is one that is more misplaced than most, especially in view of globalisation, distributed work and general economic mobility. This is the regional pre-occupation with 'getting stuff', in particular infrastructure, that is located in the region, in a national competition for government largesse with other regions, and especially with the city, as described in Judith Brett's essay 'Fair share' (Brett, 2011).

Bastardised regional policy and strategy

There is long and unhelpful tradition in Australia of seeing representative democracy as a geographical competition for government support, especially in relation to regional Australia. From the inception of the Country Party (now called the Nationals) until the recent and current spate of 'rural independents', there has been an enduring philosophy of obtaining a 'fair share' for the regions. At its most potent, this approach favours making regional electorates marginal in order that elections will become a Dutch auction of spending promises, to the so-called benefit of regions. Whatever the consequences of this style of regional politics for the national economic interest, such an approach is a distraction from effective regional development policy at best, and antithetical to it at worst. It encourages a mendicant mentality in regional Australia, which sees government as the only solution to regional decline or to the impacts of exogenous shocks. Such an approach to regional policy is especially out of place in the age of globalisation, knowledge industries, anywhere work and the new mobility, and is the very worst example of obsolete regional policy thinking. Yet it is the norm for Australian regional politics.

The most recent outbreak of 'fair share' regional politics occurred at the 2013 election, in particular the campaign in the Victorian rural seat of Indi run by independent Cathy McGowan. In this version of democracy, the role of the parliamentarian is to 'get stuff from Canberra for the electorate'. There are various euphemisms for this, like getting Canberra to 'take us seriously' or to have Canberra 'listen to us' or 'giving the electorate a voice' in Canberra, and so on.

If it is not regions (electorates) playing this game of fair share, it is industries. The story is played out also by community groups who rely on government funding. This is the world of vested regional interests, or in contemporary parlance, 'stakeholders'.

This bastardises democracy itself, turning it into a vote buying exercise where those with the loudest voice, or the savviest social media skills, can mobilise 'voice' to, basically, bid up the cost of government. Each group must make the argument, ever louder, that if funding for such and such is removed, the whole world will cave in.

This approach perverts, indeed corrupts, real regional development; fosters a 'we was robbed' culture in regional Australia; reduces the will of regional people to develop their own solutions to their regions' challenges; ingrains a mendicant view of regional development and distracts regional development players from their key task of building in each region a flourishing culture of innovation and entrepreneurship open to the mobile and connected world.

Turning regional policy into a mere process of distributing funding shares diminishes creative thinking about the big questions of regional development – What are we trying to achieve? (or, what is the problem we are trying to solve?) Who is responsible for regional development? What drives regional growth and decline? What works? What are the things that we, locally, can influence?

Under this regime, regional developers spend much of their time applying for grants from government. This leads to a perpetual game of ‘funding funding funding’. The competition for public resources, fighting over shares of the pie, merely takes regional leaders and practitioners away from the real game of growing the regional pie.

As well as the bastardising of regional policy, and more importantly for the argument here, a competition for the funding of ‘places’ ignores the reality of globalised and connected firms and households, distributed work and distributed firms, and increased mobility. Funding a ‘place’ may not help the people who actually live there, since residents may work elsewhere; workers there may live elsewhere; ‘local’ firms may be owned by interests outside the region, possibly on the other side of the world; the people who live and work there might spend their incomes in other places; children schooled there will probably leave; and there will be at least a quarter and possibly a third of the population in five years’ time that are not there now. In a distributed world, the beneficiaries of regional policy may be located a long way from where the intervention occurs.

What good regional policy and strategy might look like now

Over the last two decades, the world itself has changed, in ways that are mostly familiar to regional developers but no less significant for their familiarity. Yet while scholarly and policy thinking has evolved – much of it prompted by the onset of deep and broad globalisation – it is clear from the project that policies and strategies have not kept pace with the emergence of the openly networked world, a world of accelerated change, globalisation and new technology.

Now we have the mobile world, not the regionally bounded world. This new world is characterised by flows and networks as well as porous boundaries and the move to informal, self-organising networks. Ed Morrison of Purdue University suggests the best regional development strengthens cores and linkages, and does not focus on boundaries (Morrison, undated; see below). Yet much of the regional development policy and strategy effort in Australia wrongly focuses on boundaries and on institutions that are defined by boundaries, and, typically not on the boundaries of functional economic regions.

The mobile, borderless, distributed world need not mean the end of regional policy, but surely requires it to be radically reconfigured. Good regional policy, and more importantly, regional strategy at the local level, should consist of the following:

- Recognise that the world has changed;
- Understand how it has changed;
- Move beyond the world of static regions fixed in space and time;
- Focus on connective infrastructure;
- Strengthen nodes; ignore what are largely artificial boundaries;
- Take advantage of proximities;
- Facilitate all forms of mobility, whether of people movements, movements of goods and services or, especially, movements of ideas;
- Open regions to the world and to other regions;
- Welcome disruptive regional change as the norm in 21st century economies, or at least not expend public resources trying to stop it (for example by providing subsidies to ailing firms in rural locations in order to preserve the status quo);
- Don’t waste time on strategies for ‘resilience’ or economic ‘sustainability’ but strengthen ecosystems to enable regional players to deal better with change;
- Learn the lessons of localism, UK regional policy and support for real economic regions rather than for administrative constructs that lack real power;

- Map functional economic areas and regions in order better to understand the transactions, partnerships, linkages, networks, collaborations and movements that now drive regional economies.

Regional bodies like Regional Development Australia committees largely exist to be siphons for the funding of infrastructure for regions by central governments. Central governments should not fund regional bodies just to exist. Rather, functional economic areas at various scales should be encouraged to create their own, self-funding bodies and they should be empowered to act in ways that strengthen their regions' adaptive capacity. Their focus should be on creating and nurturing networks and linkages between regions, especially between cores and peripheral regions.

In our opinion, decentralisation in all its forms, whether of people or of government agencies or of universities (a current favourite) or of firms, should be quietly forgotten. Decentralisation is unlikely ever to occur in practice in Australia in view of the strong, diverse and ongoing forces of agglomeration, and is therefore a policy distraction; it has never been able to find effective policy instruments for its successful implementation; it is expensive when successful; and it is seen as undermining one of Australia's great competitive advantages, its economically diverse, globally connected, knowledge producing, productive capital cities (Collits in Martin and Budge, 2011).

New way regional policy – 'strategic doing': Strengthening cores and linkages, ignoring boundaries

The emerging notion of the openly networked region and of the growing importance of collaboration, both as a driver of regional growth and a regional strategy, is a central element of a relational notion of region. Such an approach to regionalism has taken on new forms in regional development practice, with a new focus on 'collaborative advantage' that moves beyond Porter's 1990s paradigm on competitive advantage rooted in place. Collaborations can be local or global, across distance, and they ignore boundaries, whether organisational, regional or national.

This is a foundational argument underpinning Purdue University's development of 'strategic doing' as a regional strategy (Morrison et al., undated) and of its rejection of traditional strategic planning as an approach to regional development. Strategic doing embeds implementation in regional action and builds collaboration in order to co-create value.

Strategic doing is a methodology developed over some years by Purdue University's Center for Regional Development and honed during the US 'WIRED' program that commenced in 2006. It is highly relevant to the conviction that many of the problems of regional governance in Australia stem from regions' inability to implement strategic planning processes and the stasis and subsequent cynicism that this produces. The approach is also ideally suited to the emerging regional world of open networks, complex development drivers, fluid institutions and open regions.

Purdue's approach talks about 'second curve thinking', derived from its conclusion that the first curve of economic development, based on the prosperity S curve of our grandfathers' economy with its vertical business models has peaked, and that a second curve is now commencing based on network business models.

Second curve thinking suggests that 'the next generation doesn't care about boundaries'. Network thinking focuses on cores, not boundaries. In other words, the geographic boundaries and sectoral boundaries will inevitably be crossed in undertaking deep regional collaborations.

Strategic doing provides a practical methodology for regionally located actors to embrace the networked world.

Conclusions

Regional (place, spatial, territorial) policy seeks to solve problems that have a spatial dimension 'in place'. Rather than moving people to a solution, it seeks to bring the solution to them where they live. It responds to 'stickiness' rather than 'slipperiness'. This paper has posed the question whether regional policy has outlived its relevance and usefulness in an era where very little is fixed in place, in an era of mobile resources and constant change.

Regions have wrongly been seen as fixed assets which lend themselves to propping up with government support, like industries in the old era of protection. Regional policy became a political game of dispensing 'funding' to support all sorts of activities, from community halls to major infrastructure works. The political contest became one of which party promised the most dollars to 'regional Australia'. Regional strategy became a game of regions competing to get the attention of government and to get their hands on government dollars. Indeed, often regional actors implore the stakeholders in their regions to become more unified because they will be more effective in getting the attention of central governments.

Walter Isard was right (quoted in Stilwell, 1992). Absent regional government in Australia, and lacking real region scale decision making and control over resources, regions have become mere political conveniences, mired in old world policy thinking while the world has moved on. Human interactions across space, whether economic, cultural or social, occur at all sorts of scales and over short and long distances. They are both face to face and virtual. They often do not go as far as their region's boundaries. And often they cross them. Typically, they ignore them.

This all suggests policies and strategies that strengthen nodes and connections, that recognise and strengthen functional economic areas and that focus far less 'regions' as we currently recognise them.

Whether through centrally conceived policies or through strategies conceived at regional or local scale, 21st century approaches must accept and work with emerging trends and act upon this. In particular, policy should encourage, not limit, mobility.

To be specific, infrastructure spending should emphasise connectivity. Supporting industry sectors in place should give way to strengthening connections and collaborations among firms, whether or not those firms are geographically clustered. Firms should be the locus of policy attention, and especially start-ups and 'higro' firms, not just SMEs generally. 'Born globals' that are being nurtured through co-working spaces and accelerator programs are the hope of the new economy and are already known to be the big job creators. Policy should shift to these. Regional innovation systems must be placed in a wider context of globally linked value chains. Attracting firms, the 20th century mode of regional policy, must give way to attracting 'investment', itself mobile and unstable.

A focus on league tables that measure regional competitive advantage should give way to a greater understanding of the reasons for regional indicators good or poor, and a far more sophisticated approach to addressing these.

Moving away from regional policy that is a reward or compensation for remoteness or lagging economic status might see infrastructure that is attuned to connectivity rather than location. In this way, supporting infrastructure in urban regions might do more for rural development than placing infrastructure in situ. Badgery's Creek

Airport (Western Sydney) and better rail freight generally are two examples. These will not encourage decentralisation, but will certainly help businesses in getting their products to markets.

Strategic planning (for hierarchical systems) must give way to strategic doing for openly networked regional economies, with policy instruments that help regional actors, especially boundary crossers, to 'link and leverage' opportunities. Moving beyond the rhetoric of collaboration and innovation is critical in order to achieve practical outcomes. Providing continued funding to organisations that merely do politics and provide 'voice' to regions is mistaken. Regional 'doers' and 'civic entrepreneurs' are the actors who must be nurtured, not regional bodies that manage up to central governments and that merely compete with other regional bodies for a share of the shrinking cake.

In summary, policies must support the rapid movement of ideas, dollars, people goods and services, even (especially) where these cross the often artificial regional boundaries typically created by governments in an earlier age. Approaches that accept new paradigms and especially the new mobility will be infinitely more successful than those which do not.

Regional fetishism is part of the problem. It is a handbrake on good policy and strategy, and must be dispensed with.

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Notes

1. Globalisation is the rapid proliferation of crossborder production, trade and investment activities spearhead by global corporations and international financial institutions that facilitate the emergence of an increasingly integrated and independent global economy seeking to maximise financial returns (Yeung, 2002: 289).
2. An excellent example is the many FIFO mining operations in Australia (see Perry and Rowe, 2014, this issue).

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Building a Start-up Ecosystem in Hawke’s Bay – Suggested Workstreams

Action	Objective	Priority /Timelines	Where we are now	How?	Who?	(How) Could the Government help?
Research ecosystem development	Ensure best practice in Hawke’s Bay; continuous learning	Ongoing	EIT study of incubation 2016; PC research	Ongoing connections and research	PC with Business Hawke’s Bay, REDS action team	Regular outreach by Callaghan Innovation; Webinars and conferences
Build the community of entrepreneurs	Encourage peer learning and good information; Network effects	Long term and ongoing	Hawke’s Bay Meetup Group	Intensify existing networks and activities	PC with Business Hawke’s Bay, YES, EIT, schools	N/A
Embed entrepreneurship in local education processes	Build the next generation of start-ups; pipeline development; increase the number of	Need to start ASAP, but ongoing	Young Enterprise Scheme; EIT has advertised for an Entrepreneurship lecturer to help drive schools linked programs and	Investigate partnership with MindLabs and Maker Spaces and other models for embedding STEM learning and tech learning; investigate	Chamber of Commerce, PC with EIT, schools (eg Woodford House)	Ministry of Education at the table

	start-ups		resources' EIT is ramping up entrepreneurship component of existing programs	other models, eg The Space Cairns, Venture Business		
Provide information, tools and leads to local entrepreneurs	Ensure stronger start-ups	Ongoing	Business mentors, Regional Business Partners	Private sector at cost, pay-it-forward activities of existing successful start-ups, BHB and Council support	Business Hawke's Bay, Councils	Maintain existing programs, increase funding as demand increases
Increase the visibility of existing (public sector and private sector) programs, initiatives	Spread benefits of existing activities more widely	Ongoing	Existing activity and providers include Business Mentors, Regional Business Partners, The Icehouse, other business advisory firms, the Business Hub	Road shows, open days at Business Hub, meetups between start-ups and agencies/private providers	Business Hawke's Bay	Government roadshows
Assess the need to address gaps in the provision of existing business advisory services to start-ups	Ensure that start-ups and entrepreneurs can access all the advice they need	2017	Entrepreneurs find their own sources and levels of advice	Encourage "pay it forward" activities such as meetups between entrepreneurs and advisors	Business Hawke's Bay, REDS action teams	N/A

Link with other NZ and international ecosystems	Achieve best practice; grow global networks; increase the capacity of Hawke's Bay start-up community; keep learning	Ongoing	BHB Hawke's Bay Landing Pad; Business Connect; PC attended Co Working Hui Tauranga 2016; ongoing connections	Kauffman Foundation Ecosystems Summit USA Summer 2017 (TBC); Links to February 2017 Innovation districts conference Charleston North Carolina; PC speaking at Alabama Strategic Doing conference May 2017	Business Hawke's Bay and PC	Leads, connections, through High Impact Visas (KiwiConnect) and SF Landing Pad; support for events
Support existing and emerging co-working spaces	Strengthen the entrepreneur community and link existing services to entrepreneur spaces; Avoid replicating what is working	Ongoing	Two co-working spaces in Napier; larger one planned Napier 2017; Hastings 2017; Chook House Waipukurau; Wallace Tech Hub opening mid 2017 with very limited space for freelancers/start-ups; Wallace may investigate further opportunities for co-working		Councils, REDS action teams; Callaghan RFP appointee	
Put on (more)	Give local	Start ASAP	There are many		Business	An entrepreneurship

start-up specific events, develop a visible events calendar for local entrepreneurs	entrepreneurs the things they need; Demonstrate that Hawke's Bay has an active entrepreneur community to attract further talent to the region		business events and networking events, far fewer specifically designed for start-ups		Hawke's Bay, Callaghan RFP appointee	events fund for start-ups and spaces outside the "system"
Provide or fund incubation services to communities and spaces	To identify and nurture high growth companies	2017	Callaghan RFP 2017-19		Callaghan RFP appointee	Callaghan
Open and run new incubators/co-working spaces if existing spaces don't meet demand	Ensure start-ups have access to the things they need		Co-working spaces are emerging	Watching brief	Private sector with support from Business Hawke's Bay, councils	N/A
Provide more intensive	To identify and nurture	2017	No current accelerators in Hawke's Bay	Ride the Callaghan process	Callaghan RFP	Callaghan

incubation services, eg accelerators/boot camps	high growth companies				appointee	
Grow the investor community in Hawke's Bay	To fill gaps evident in the local funding market and ensure that viable start-ups have access to the capital they need, at the right time, in the right amounts	2017 and ongoing	Private equity investors are a round but largely invisible, certainly to many start-ups	Create an investor's roundtable as a meetup group	Business Hawke's Bay with local providers and the broad angel network, eg Enterprise Angels Tauranga	N/A
Investigate models (of accelerators) that link corporates with start-ups, eg Slingshotters (Australia)	To add a new way of nurturing start-ups through partnerships with older firms in targeted sectors, in	Not urgent	Few current links between the entrepreneur community and corporates	Create a corporate/entrepreneur roundtable	REDS action team	N/A

	order to grow regional capacity					

Paul Collits
29 January 2017

Disruption, Economic Geography and Regional Strategy

Introduction

In a previous paper, *Re-imagining the Region* (Collits and Rowe 2015), it was argued that a number of new and complexly interacting forces were in play in the twenty-first century economy and that these forces suggest that a radical rethinking of regionalism is in order.

In this paper I take that argument further and undertake a more systematic examination of the some of the forces I have previously outlined. In particular, I take as a point of departure the work undertaken by the McKinsey Global Institute on what its scholars term four trend breaking global forces.

These trends amount to what McKinsey terms "no ordinary disruption". They are:

- "Beyond Shanghai" – the age of urbanisation and the shifting of the locus of economic activity to emerging markets and to cities within emerging markets;
- "The tip of the iceberg" – accelerating change in the scope, scale and economic impact of technology;
- "Getting old isn't what it used to be" – the demographics are shifting rapidly, with falling fertility and plateauing populations in many countries, creating a new task of responding to the challenges of an ageing world;
- "Trade, people, finance and data" – greater global connections through the far greater and faster movements of capital, people and information internationally (Dobbs, Manyika and Woetzel 2015: 4-7).

The McKinsey team also makes the point that it is the coincidence in time of these four disruptive trends that is especially significant for the transition to a fundamentally new economy.

My focus here is on the second and fourth of the McKinsey trends, viz. accelerating technological change and greater global connectivity, the latter partly, though not totally, driven by technology.

The other two trends are not unimportant, of course. Yet they are widely understood and discussed, and have fewer lessons for regional strategy and economic development practice the two trends that are explored here. Urbanisation is comparatively well understood, or, if not, at least is well covered in the literature – see the work of Mario Polese (in City Journal), Ed Glaeser (2011), Michael Storper, and various proponents of the so-called "new economic geography".

The urban planning scholar Richard Hu has coined the term "glurbanisation" (Hu 2015). This is a very useful descriptor for the emerging economic system. The spatial impacts of "glurbanisation" are relatively obvious, and the world has been urbanising for a long time. Certainly it is now accelerating, largely due to China's special economic zones policy and the responses by both international companies and rural Chinese dwellers. The world is spiky (Florida 2005), flattish in some ways (Friedman 2005), and instantaneous and virtual as well.

The ageing world is similarly widely discussed and understood, even if not strategized at regional scale. We know it is coming, but as regions we don't have a game plan, or any real idea whether we need a plan or not. The debate has been largely at a national level – it has been essentially about how much tax will fewer workers have to pay to keep more and more older people healthy and in aged care.

The argument in this paper is that both economic development practice and regional strategy need to change to address the opportunities and challenges thrown up by the emergence of this "no ordinary disruption" well described by McKinsey's scholars, by an emergent business literature and by the astonishing re-imagining of entrepreneurship ecosystems thinking and policy. In particular, thinking about infrastructure, the spatial scale of interventions, clustering of firms, entrepreneurship education, business support, economic gardening and urban planning has to pivot to accommodate the global megatrends.

First, I need to re-cap my earlier argument in favour of "re-imagining the region".

Re-imagining the Region, Part II

The argument so far is as follows:

- Regionalism and in particular the "new regionalism" - the focus of attention on something called "the region" embraces both "stickiness of place" and "slipperiness of flows" (following Markusen 1996);
- Regional policy has had a pretty poor record to start with, given the relative lack of government capacity to influence or control the multiple and complexly interacting set of drivers of economic development;
- Mobility is both increasing and emerging in new ways, with consequences for the debates over place policy v people policy – we now live in an era of hyper-mobility, new mobile technologies, far greater fluidity in the location of work, residence and spending in a way that unmoors "place";
- "Functional economic areas" are far more important than traditional administrative and political regions for focusing and executing strategy;
- This new reality and what it means for regionalism is poorly understood by regional leaders, strategists, policy makers and practitioners;
- Old hat thinking and practice persist;
- The regionalism model of the 1990s is now broken and it needs fixing (Collits and Rowe 2015).

In the early (1990s) days of the "second industrial age", to use a phrase coined by Brynjolfsson and McAfee (2014), business strategy writers quickly began to document, even formulate, new approaches to business development and strategy. Here Clayton Christensen, the guru of disruptive innovation, has been especially prominent (see, for example, Christensen 1997, *The Innovator's Dilemma*). Brynjolfsson and McAfee also coined the phrase "the second half of the chessboard" to describe the emerging new world. The McKinsey view, shared by many in both the scholarly and the popular business literature, see a fundamental rupture with previous economic eras and a reshaping of the whole economic conversation.

Yet little of this new approach to an essentially new and different economy – variously described as the knowledge, sharing, digital, platformed, on-demand, openly networked, collaborative, gig, app, exponential, even the WTF economy (see Tim O'Reilly undated) – has penetrated the regional development or economic geography literature, or, for that matter, economic development strategy and practice.

Now is the time for economic development practice and regional strategy to learn and to pivot. Yet despite the emergence of what should be a fairly clearly understood new economic universe, regional policy, regional strategy and economic development practice remain stubbornly wedded to legacy thinking.

- "The region";
- Regional advocacy as the basis of regional development strategizing (see Collits, *The Tyranny of the Announcable*, 2016);
- The notion of regional competitive advantage based on the bounded region;
- Casting urban primacy and the triumph of the city as the regional problem – that is, the old "balanced development" model which focuses on the regional/urban divide;
- Seeing regional inequalities and spatial welfare as the driver of policy - setting up equalising regional outcomes as the problem to be solved. This remains the policy thinking of the European Union despite the EU's use of more sophisticated methods now of achieving this outcome;
- Reliance on league tables and regional performance measures;
- Being wedded to supporting legacy, low paying industry sectors which are not likely to provide the increased jobs, and the higher paying jobs, of the future, towards which many regional strategies are directed;
- The persistence of "hunting" strategies - relocating firms to your region rather than ecosystem development;
- Prioritising hard, "old economy" infrastructure to support regional economic growth;
- Assistance to "the firm" as the prime means of business support, at a time when the "firm" itself is under threat from disruptive business models (see below).

Legacy thinking still fires so many of our regional strategies and actions. The emerging new economy, with all its disruptive power, demands that regional leaders, stakeholders and practitioners not only "re-imagine the region" but recast their thinking and actions in fundamental ways.

A word of caution is needed. We only know that megatrends are megatrends and not flavours of the month long after we have initially perceived them. It is especially important to bear this in mind when excitable types start predicting a fundamentally new world. But few would deny the likelihood of the McKinsey big four coming to pass. Urbanisation will continue apace. Ageing is a done deal already and cannot be reversed. Connectivity is here to stay. And technology driven economics has already changed the world. So let us assume that the megatrends are indeed fundamental that need to be embedded in economic strategy at all spatial scales.

Let us dig further into the core elements of this new economy.

McKinsey's Second and Fourth Trends – What They Mean

Let us begin with McKinsey's analysis:

- Greater, faster, more complex, more interconnected flows;
- Connectivity confers new power to many new players, and old players, eg consumers;
- Borders – what borders?
- Boundaries are irrelevant in the post-modern economy
- Obvious disruptees – retail, non-agile, non innovative manufacturing, business services, commercial leasing, education;
- Older workers are in big trouble;
- The firm itself is in big trouble;
- Transactions economy will strengthen – needs new skills; and
- The freelancer is both king and victim.

These are the core elements of the disruptive forces that together are upending familiar economic models and ways of thinking about business growth, the labour market and economic development. Other, sometimes overlapping formulations of the new emergent economy are detailed below.

Interpretations of the Emergent, Post 1990 Economy

The new economy is one predicted by the great prophet of innovation, Joseph Schumpeter, in *Capitalism, Socialism and Democracy* and other works – an economy characterised by "creative destruction". It is super-charged creative destruction, however, or creative destruction on steroids, enabled by massively growing computer power and its "killer apps", and by exponentially improving and pivoting technology.

The new world of business has been summed up thus:

- Uber – the world's largest taxi company owns no vehicles;
- Facebook – the world's most popular media owner creates no content;
- Alibaba – the most valuable retailer has no inventory;
- Airbnb – the world's largest accommodation provider owns no real estate (This formulation is all over the internet, see for example Tom Goodwin at TechCrunch).

Another standard characterisation of the new world of business is the so-called "VUCA" world, one of:

- Volatility
- Uncertainty

- Complexity
- Ambiguity (adopted, for example, by Christopher Luxon, CEO of Air New Zealand).

Patrick Hollingworth has also written about VUCA world (Hollingworth 2016; see also Bennett and Lemoine 2014; the term was first used, in a US military context, in 1991). Hollingworth speaks of three forces driving the brave new (economic) world – people, places and technology – leading to a flatter, more transparent and more connected world.

These forces – however described – and in particular their interaction with one another, are overturning the old economic order, with far reaching implications for doing business, for business models, for industry sectors, for the firm itself, for customers and for the workforce and the labour market.

According to Simon Bond:

> "Today, we stand on the threshold of an economy where the familiar economic entities are becoming increasingly irrelevant. The Internet, and new Internet-based firms, rather than the traditional organisations, are becoming the most efficient means to create and exchange value (Bond 2015)."

Now we routinely use the language of "disruption", succinctly analysed by Christensen and others and now embedded in the business literature. While Schumpeter may not have used the term, this is what he meant. The new economy, however, is uniquely suited to the disruptive model of capitalism because it is technology enabled and, in particular, it has reduced transaction costs massively allowing easy and cheap business formation and ready scalability, indeed global scalability. This leads us to a reconsideration and a refresh of the theory of the firm and to fundamentally new business models (see Blank 2013).

Ronald Coase and the Theory of the Firm

The Nobel Prize winning economist Ronald Coase developed a theory of the firm in the 1930s century based on his thinking about transactions costs, essentially arguing that firms internalised transactions costs and, in effect, "insourced" functions in order to reduce costs and increase control (Coase 1937). This is why the firm has existed in the form it has over the last century or so.

Now, with transaction costs approaching zero, it is cheaper for firms to outsource much of their former core business functions. This is essentially why most mature and large firms are shedding staff and not growing. It is one of the reasons why there is such massive and rapid turnover of twenty first century S&P 500 and Fortune 500 companies.

Here is Esko Kilpi:

> "For most of the developed world, firms, as much as markets, make up the dominant economic pattern. **The Internet is nothing less than an extinction-level event for the traditional firm.** The Internet, together with technological intelligence, makes it possible to create totally new forms of economic entities, such as the "Uber for everything" type of

platforms / service markets that we see emerging today. Very small firms can do things that in the past required very large organisations."

> "In the past, global flows were dominated by labor-intensive flows from low-cost manufacturing nations and commodity-intensive flows from resource rich economies. But today knowledge-intensive flows account for half of global flows, and they are gaining share. For instance, knowledge-intensive goods flows are growing at 1.3 times the rate of labor-intensive goods flows."

> "Digitization reduces the marginal costs of production and distribution and is transforming flows in three ways: through the creation of purely digital goods and services that are either transformations of physical flows or entirely new products, through "digital wrappers" that enhance the value of physical flows, and through digital platforms that facilitate cross-border production and exchange. Moreover, digitization has begun to change the mix of flows. Some goods flows are becoming services flows, for instance. All this is creating significant new opportunities for innovation and disruption (Kilpi 2015)."

Kilpi skilfully links various elements of the Coase thesis to a number of the forces of disruption, including rapidly declining transaction costs, scalability, digitisation and their threats to the very existence of the firm. An extinction event, no less. Yet "firms" often remain the focus of strategy.

Here in summary are some of the drivers of the second industrial age economy, taken from my survey of the literature and taking the McKinsey disruptive global trends as a useful point of departure:

- The transition from the production of goods to the production of services;
- Hypermobility and its various impacts, including what Isenberg has termed "diaspora networks" (Isenberg 2008);
- Borderlessness and hyper, technology enabled globalisation;
- Technology (digitisation)and chaotic disruption;
- The emergence of the knowledge economy – increasing returns from skill, knowledge, creativity and the emergence of information rather than assets as the foundational unit of building wealth (see Paul Romer, Brian Arthur, Richard Florida);
- Close to zero transaction costs and the Kilpi type impact on the firm;
- A new world of work and shaky labour markets – mobile, remote, freelancer, short term contracts, project driven, uncertain – and a fundamental recasting of "career";
- The takeover of the workforce and of the marketplace by Gen Y (or "millennials" in the USA);
- The Global Financial Crisis, deep recession, deflation , a jobless recovery;
- A secular decline in returns on assets (Deloittes 2009);
- The easy start-up and the rise of "micro-multinationals", firms that, from birth or soon thereafter, control and manage value-added activities in more than one country (Terjesen undated);
- Totally new rules, new platforms – cloud computing in particular;
- The coming robotics, big data, Internet of Things and artificial intelligence revolutions (Startup AUS 2016);
- Software is "eating the world" (Andreessen 2011);

- Firms giving way to networks and supply chains;
- The all-powerful consumer and firms co-creating with customers (Facebook);
- Sectors are giving way to global value chains;
- Big firms are shedding labour and outsourcing;
- Increasing importance of the speed of ideas movements or "metabolism" of ideas (see Richard Florida's various references to the work of the Santa Fe Institute);
- **The fact that these things are happening at the same time;**
- **The fact they are accelerating.**

Clearly, a lot has happened in a very short time. Things are changing rapidly, for firms, for workers, for careers, for entrepreneurs, even for commercial real estate (with the co-working revolution and the rise of new forms of innovation district; see Katz and Wagner 2014).

Disruption is the New Normal

As suggested above, while Schumpeter did not (to my knowledge) use the term "disruption", this is at the heart of his understanding of creative destruction. Disruption is now reshaping not only businesses but whole industries and creating new business models. Technology often drives the forces of disruption. New platforms allow businesses not only to reach more customers easily, but also to recraft more fundamentally the way services are delivered, both B2B and P2P service delivery models. Technology also allows extremely easy scalability and the reach of new business entitities beyond their local markets and their region's boundaries. "Functional economic areas" themselves have gone global, with international linkages not only between producers and consumers but between JV partners and across supply chains.

"Platformed" businesses include those like Hourly Nerds, which links MBA graduates from the top 40 business schools in the world to companies needing problems solved. This has the potential to "uberise" the consulting industry. These new businesses often recast the delivery of physical goods and services too, including laundry and house cleaning. They can be created in urban and regional economies. They provide work for the less skilled. Competition, including competition from disruptive new business models, is now both local and global, as are customers and joint venture partners. The sources of innovation are potentially anywhere, with distant customers and global value chains.

According to Steve Blank, the co-founder of the lean start-up methodology and author of *The Four Steps to the Epiphany*:

> "The problems companies were trying to solve in the early 20th century were how to manage an enterprise across vast geographic distances, how to build and manage multiple customer segments, and how to build brands to engage the newly emerging U.S. middle class. In the 21st century the problems are now inverted. The world is not only flat but it's instantaneous. Consumers are connected. Entrepreneurs are connected. The cost of entry for most new ventures has plummeted. The speed to reach new users is growing in record and accelerating time…

> … Competition comes not only from companies in local, regional or national markets, innovation now comes from everywhere on earth. The Internet accessible to a wired planet means most markets are being re-imagined as part of a connected world. This relentless wave of disruptive innovation is marching through not only technology industries such as computers and communications, but is destroying industries thought of as forever stable and predictable: newspapers, entertainment, energy, healthcare, education, construction, transportation, retail commerce, finance, and even governments themselves (Blank 2013)."

The Deloitte's Big Shift Index is another tool for analysing the drivers of the disruptive economy. The most important drivers of business volatility and VUCA world include the following:

- Lower computing costs = pace of innovation accelerates;
- Plummeting computer storage costs;
- Accelerating internet adoption =more pressure, more opportunity;
- Continual connectivity for knowledge exchanges;
- Increased economic freedom for producers and consumers;
- Greater inter-firm knowledge flows;
- Dramatically increased scalability of connections;
- Bigger cities and more migration, since F2F encounters increasing in value;
- Travel and connectivity are BOTH up;
- Social media = scalable connectivity;
- Brand loyalty has gone with great consumer information;
- Competitive intensity increasing;
- Technology = innovation = enabling AND forcing long term productivity increases;
- Topple effect accelerating;
- Winning companies are "barely holding on" (Deloittes 2009; see also Appendix).

The overlaps among the different formulations of the new economy are clearly visible. There is, therefore, a consensus in the business literature that the world has changed, that change is accelerating, and there is shared understanding of the causes of the economic revolution. What then, are the spatial implications of the brave new world?

The Spatial Implications of VUCA World

Some potential spatial impacts of the new global drivers of the economy are clearly identifiable already and others are suggested, include the following:

- Agility will have a spatial dimension;
- Software is indeed eating the world, as we know, and this allows products to become services and for these services to be delivered away from the location of provider;
- Hence there are new sources of multi locational business partnerships that take us far away from the export model and export base industry multipliers;
- The division of spatial labour is shifting - must shift - but in unpredictable ways;
- Cities and downtowns and places with amenity have new advantages;

- Technology will deliver new sources of advantage to different firms;
- Mobility will increase – eg, remote work, telework mobile work, working in multiple localities, gig economy projects randomly located;
- New nodes of work will emerge – ARE emerging (co-working spaces);
- Collaborative hubs, driven by technology are the new foundations of innovation districts;
- There are new ways of building project teams, typically virtual project teams;
- The lean start-up is here to stay, can be located anywhere (almost), and can EASILY serve remote markets with online delivered services, eg cloud based B2B and P2P;
- Lifestyle businesses servicing local markets will continue but the new "basic" industries will drive economic success of regions;
- Most regions are hopelessly behind the game in thinking about how to develop the next generation of agile, technology driven entrepreneurs;
- Innovation occurs BOTH in place AND across space and must be now supported differently;
- Technology is an "extinction level event" for old regional development thinking; and
- Locations near to globally connected business nodes will prosper if they properly understand their opportunities.

Clearly, the spatial implications of the interacting drivers of the new business model are numerous and important. Agile businesses and fragile and floating regions will require agile strategy and a fundamental rethink of behaviour among stakeholders and economic development interest groups. The old ways will not suffice. Legacy thinking and legacy forms of assistance to legacy industries and legacy business models will not shift the needle in relation to new high paying sustainable jobs.

The Strategy Implications of VUCA World

In the new world, boundaries do not matter but nodes, networks and ecosystems do. Strategy needs to move towards ecosystem development, and this means twenty-first century, not twentieth century, ecosystems. The slippery world will need non-stickiness of place solutions.

What does resourcing nodes, networks and flows look like? Here is how to begin the task:

- We live locally, globally, virtually, not regionally – let strategy reflect this;
- We must learn, like entrepreneurs, that failure is ok, and is part of the process of learning, and this will be difficult for traditional (government) providers of business support;
- Government programs, never particularly agile or flexible, will have to evolve;
- Region scale and region based programs are eminently unsuited to the new economy, where the economic benefits of interventions may well be dispersed and where spending might best be done via outside-of-region plays, yet where those who make decisions about interventions and who expend resources, have to account for their interventions to local interests and voters;
- Funding of collaborations, many of which will fail, must be embraced;
- We must get over spending on non-connective infrastructure;
- We must fund connective infrastructure, especially broadband;
- We must develop connective skills, entrepreneurship skills and STEM skills in the coming generation;

- Clusters are, and always were, really networks – strengthen them by all means;
- See innovation as a connected learning process and nurture “intersections” (Johansson 2006) and third spaces;
- Turn people attraction policies into talent attraction based on ecosystem advantage;
- Siloed, managerialist, KPI’d, political world meets the shock of the new where rule books are being thrown out and difficult, often unnatural collaborations across interest groups, cultures and tribes must be nurtured when nodes of activity are discovered;
- Please - don’t waste a dime “attracting” new firms;
- “Higros” (high growth firms) as described by Gary Kunkle and others are where the action is, but we are poorly equipped to find them and help them (see Collits 2016, *The Tribes of Hawke’s Bay*);
- There will still be winners and losers, just new ones and for different reasons;
- Silicon Valley got lucky; everyone else got lucky too because they can learn the lessons;
- We need to build an entrepreneurship ecosystem, and do it with some urgency.

This is merely a shortlist of urgent and important tasks for regional economic strategy. The game is new, businesses themselves are only now cottoning on, and leaders, stakeholder and practitioners need to follow suit.

Summary and Conclusions

Regions the world over are becoming unbounded. This was the re-imagining the region thesis. Hyper mobility and hyper globalisation, or “glurbanisation” in Hu’s phrasing, have driven the breakdown of boundary focused regionalism. Not only do we have “relational” regions but we have borderless regions and functional economic areas of increased reach and complexity.

Add to all this the new, platformed, gig economy, with all of its own complexities and uncertainties, then we have an overturned world of regional economic development, with new questions, new problems, new restrictions, and new opportunities.

Here are my core conclusions from an examination of emerging trends in business development and the attendant business literature:

- The big shift is real – we have here megatrends, not flavours of the month;
- The emergent “new business” literature has much to say to regional scientists and economic geographers;
- Place-based strategists are not yet properly on the right page;
- Regions cannot afford NOT to get on the page;
- A lot is changing but not everything is changing;
- Location IS important, but in new ways that a demand a strategic reset;
- I am still comfortable with my re-imagining the region thesis.

How we as regions, strategists and practitioners respond to all of this will, at least in part, determine how well the next generation of businesses do at creating the new world.

Appendix: Deloitte's Center for the Edge Big Shift Index

Impact Index	Markets	**Competitive intensity:** Herfindahl-Hirschman index **Labor productivity:** Index of labor productivity as defined by the Bureau of Labor Statistics **Stock price volatility:** Average standard deviation of daily stock price returns over one year
	Firms	**Asset profitability:** Total ROA for all US firms **ROA performance gap:** Gap in ROA between firms in the top and the bottom quartiles **Firm topple rate:** Annual rank shuffling among US firms **Shareholder value gap:** Gap in the TRS[i] between firm in the top and the bottom quartiles
	People	**Consumer power:** Index of six consumer power measures **Brand disloyalty:** Index of six consumer disloyalty measures **Returns to talent:** Compensation gap between more or less creative occupational groupings[ii] **Executive turnover:** Number of top management terminated, retired or otherwise leaving companies
Flow Index	Virtual flows	**Inter-firm knowledge flows:** Extent of employee participation in knowledge flows across firms **Wireless activity:** Total annual volume of mobile minutes and SMS messages **Internet activity:** Internet traffic between top 20 US cities with the most domestic bandwidth
	Physical flows	**Migration of people to creative cities:** Population gap between top and bottom creative cities[ii] **Travel volume:** Total volume of local commuter transit and passenger air transportation[iii] **Movement of capital:** Value of US foreign direct investment inflows and outflows
	Amplifiers	**Worker passion:** Percentage of employees most passionate about their jobs **Social media activity:** Time spent on social media as a percentage of total Internet time
Foundation Index	Technology performance	**Computing:** Computing power per unit of cost **Digital storage:** Digital storage capacity per unit of cost **Bandwidth:** Bandwidth capacity per unit of cost
	Infrastructure penetration	**Internet users:** Number of people actively using the Internet as compared to the US population **Wireless subscriptions:** Percentage of active wireless subscriptions as compared to the US population
	Public policy	**Economic freedom:** Index of 10 freedom components as defined by the Heritage Foundation

i TRS—Total return to shareholders
ii Creative occupations and cities defined by Richard Florida's—*The Rise of the Creative Class*—2004
iii Measured by the Bureau of Transportation Statistics Transportation Services Index

Source: Deloitte analysis

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Growing an Entrepreneurial Culture in Hawke's Bay

In confusing times it is sometimes difficult to separate the hype from the megatrend.

With so much change forecast and "exponential change" at that, today's businesses, their advisers and economic developers generally are forced to play two games at the same time. Businesses and industries have to serve their existing customers and keep them happy, and also to anticipate the customers of the future.

As well, workers of all ages and the young in particular are being asked to prepare for an unfamiliar future labor market without security. They are told to be "agile" and "nimble" and "skilled up" for a workplace that most folks agree will not be much like the one most of us have experienced.

There is one current subject of hype that I suspect is also a megatrend. That is "disruption". First analysed a couple of decades ago by the guru of innovation, Harvard scholar Clayton Christensen, the word "disruption" has only recently insinuated itself into common business conversations.

Disruption is not new. It is as old as capitalism itself. It was the core concept of that other, much earlier prophet of innovation, the Austrian born Joseph Schumpeter, who was himself "disrupting" mainstream economics nearly a century ago.

What are new, however, are both the relative ease of starting and scaling a business, even a global business, and the importance of new businesses to the local and national economies. It is an astonishing fact that 40% of American GDP is dependent on companies that did not exist 15 short years ago. Our economic fortunes globally are increasingly in the hands of young companies.

Disruption is both threat and promise. How does a regional economy adjust to a world of hyper disruption? There are many things we in Hawke's Bay could be doing, and one of them is to continue the task of – jargon alert here – building an "entrepreneurial ecosystem". Perhaps not an immediate vote winner for our elected representatives, but core business for us all nonetheless.

What on earth is an entrepreneurial ecosystem?

For my money, it is developing a visible and networked culture of support for start-up businesses, for people with ideas wanting to start a business, for those who are growing businesses, and for young people who don't yet know they are entrepreneurs. And it is place-based. We can build this thing right here.

The sweet spot for economic development is the high growth business. Another analyst has called this type of business the "high impact entrepreneur", the business start-up of towering ambition that is setting out to disrupt a big market segment in a global market and that has the skills and resources to do this. Such a business is often technologically enabled to achieve rapid fire growth in non-local markets, but need not be in what we would think of as the "tech" sector. The high growth business is where the dream jobs, the locally based and high paying jobs, are to be found. These jobs in turn create lots of other local jobs right across the skills spectrum.

Hawke's Bay is well known to be a "SME" (small to medium business) economy. We have great businesses in global-impact sectors. We have a number of high growth firms which serve national and international markets. But we need many more if we are to maintain our lifestyles in these highly disruptive times. And to create many more of these "higros" we need to lay the groundwork.

How to create and grow an entrepreneurial culture or ecosystem? There are several tasks, and each task has its own "to do" list.

First, we need to generate more start-ups. We need a framework for identifying emerging entrepreneurs and supporting them towards starting businesses, especially young people who will be the future stars of the region's economy. This is, in effect, about growing the "pipeline" of entrepreneurs. Pipeline development will involve actively promoting the entrepreneurial mindset in the community and among our young people. It is worth remembering that by 2025 75% of the world's workforce will be millennials.

Maybe adding few words to explain it, that we need a framework to identify and get more entrepreneurs, promote entrepreneurship spirit/mindset (especially among young people)

Second, we need to lift the notoriously low survival rate of start-ups (not confined to our region), by ensuring they have access to the services and advice (and where appropriate the capital) that they need. And yes, many start-ups will still fail. These too will need support. And a start-up business failure does not mean you as an entrepreneur or a person are a "failure", if you know what I mean. Failure is ok for entrepreneurs – a business start-up failure is merely a setback. And yes, many business ideas are going to go nowhere. Tough love may need to be administered.

Third, we need to produce more "scalable" start-ups, that is, high impact businesses taking on big problems and big competitors and winning in big markets. We need to find those firms that are already growing. Then we need to support them in their quest for growth. And we need to turn start-ups that could scale up into the real thing. Bear in mind that only around 6% of start-ups generally become "scale-ups" (what the UK's innovation foundation Nesta refers to as "the vital 6%"). They are gold and they must be looked after. Why? Because these are the firms that will create the jobs of the future.

Fourth, we need to grow the entrepreneur / start-up community. Make it visible. Ensure it is networked. Link and leverage the bits of activity that are already going well. And make sure that anyone with a good business idea can find a pathway to the resources he or she needs to take the next step. Low entry barriers make for great local economies.

There are many emerging conversations in the Bay on this subject. There will be a range of views as to what we do, and in what order. Let the conversations continue and grow, and let's all roll up our sleeves to create a new and exciting Hawke's Bay economic environment for the next generation of business stars.

Lots of great things are underway. But, as always in dynamic market systems, there is little cause for complacency. Growing entrepreneurial skills and systems is a great way of de-risking and future-proofing the region. If we don't, other regions certainly will.

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