

## EXPLORING THE FIELD

### LOCAL ENTERPRISE INITIATIVES: BETWEEN STATE AND MARKET IN ESPERANCE\*

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**Abstract:** This paper presents an analysis of the Esperance Local Enterprise Initiatives Committee, which is at the heart of an archetypal emerging pattern of local economic development distinct both from top-down statist models and from market alternatives. The model is composed of a mixture of state resources (notably finance, information and legitimacy), elements associated with entrepreneurialism, grass-roots orientation, bottom-up implementation, the pursuit of profit, and a network system which interlocks the ELEIC with different government departments and agencies.

Whilst these developments are distinctive in terms of conventional models of action, they are certainly not unique but broadly representative of a movement towards more grass-roots orientation of public policy and re-examination of the role of the state in Western Australia, Australia generally and Western Europe. Whilst on one hand the study may offer positive lessons for policy-makers, difficult questions remain arising from the local policy orientation, particularly concerning accountability and equality of provision, and concerning its transportability to different socio-economic environments.

#### *Glossary of abbreviations:*

CES	Commonwealth Employment Service (Commonwealth)
DEET	Department of Employment, Education and Training (Commonwealth)
DET	Department of Employment and Training (WA)
DRDNW	Department of Regional Development and the North West (WA)
ELEIC	Esperance Local Enterprise Initiatives Committee
ESD	Esperance Sashimi Development
EST	Esperance Smoked Tuna

FTE	Full-time-equivalent (jobs)
MLA	Member of the Legislative Assembly
NES	New Enterprise Scheme
OLG	Office of Local Government (Commonwealth)
SBDC	Small Business Development Corporation (WA)
TAFE	Technical and Further Education, Department of (WA)

Our main empirical focus is on the Esperance Local Enterprise Initiatives Committee and the work of its key employees, or facilitators as they call themselves. It is representative of a broad emerging trend which neatly fits neither state nor market models. Within the work of local economic development in Australia, and even abroad, Esperance has achieved something of a reputation for its fresh approach to local enterprise generation, and for claims of creating a large number of new businesses and jobs at relatively low cost, contributing additional cash to the Esperance economy, with considerable savings in unemployment benefits. The success was attributed to a philosophy which gives opportunity (and responsibility) to interested individuals to initiate and pursue their own ideas for enterprise. Economic and organisational formulas are disdained, with an emphasis instead being placed on individuals realising their own business visions, with assistance from facilitators who are not proactive, but responsive. Thus the role of the facilitators is to listen to the ideas of would-be entrepreneurs and respond primarily in the provision of relevant technical, legal or

\* This paper draws on the findings of Moon and Willoughby (1988) commissioned by the Commonwealth Office of Local Government and the WA Department of Regional Development and The North West, but it remains the sole responsibility of the authors.

commercial information. They are not expected to motivate the would-be entrepreneur, but simply to act in parallel with the motivation levels and enthusiasm of their clients. The Esperance philosophy presumes that this is the key to unlocking viable business opportunities, whereas public handouts only perpetuate dependence and incapacity. It is not a baby-sitter philosophy, in contrast to the incubation model of small business whereby young enterprises are protected from the vicissitudes of the market during formative years. It is not directed at any particular economically or socially defined group, though public resources thus earmarked may be drawn upon in individual cases.

Although there have been other attempts by Australian governments to stimulate local enterprise community-based employment initiatives for some years, the Esperance philosophy is distinct. It could be seen as a market variant, though interestingly such a model has been espoused by the non-collectivist left of politics as well as by the neo-liberal right in Australia and Western Europe. It is clearly antithetical to familiar notions of state action which would be characterised by equality of provision, strategy, subsidy, hierarchy and accountability, social and economic targeting, and rules and procedures. We should also underline that in Australia the state (usually in the form of Australia's six component state governments) has traditionally played a major role in regional and local economic development (see Head 1986). What also might be worth underlining is that these developments have taken place at a time when there are Labor governments both in the Commonwealth and in Western Australia.

Acknowledging ELEIC's rather notable impacts, we will highlight the key features of the Esperance model (by which we mean the practice rather than just the philosophy), and ask how these relate to conventional notions of state and market<sup>1</sup>. We commence with a brief social and economic profile of Esperance, and of ELEIC's record of achievement. We will then present the key features of ELEIC with particular reference to the philosophy proposed; the formation and function of ELEIC; and the work of its facilitators. Assessment will then be

made of the role of the state in the record of achievement: has it been rolled back, or does it share responsibility for the Esperance model? In conclusion we will discuss

- whether our findings do point to something of a distinctive model with particular reference to orthodox notions of state and market;
- whether our findings are primarily a function of highly individual circumstances or whether they constitute part of a more fundamental policy trend; and
- whether our findings offer any lessons for policy-makers.

### **Esperance: a social and economic profile**

The Shire of Esperance, comprising almost 10,000 people, is situated in the south east corner of Western Australia, and consists of the town of Esperance and a rural area of 28,477 square kilometres. The town is about 400 kms south of Kalgoorlie (the heart of the Goldfields Region) and about 725 kms south-east of Perth (Western Australia's commercial and administration centre). It was settled relatively recently; from 1971-86 the population increased by 38 per cent. There has been a recent spectacular increase in agricultural activity in the area: in 1954 there were only 36 farmers using 8,000 hectares of land; by 1986 this had risen to 536 rural holdings covering over one million hectares. Farming (notably sheep grazing, cattle rearing, and the cultivation of wheat and barley) remains the main source of wealth. Fishing has been the second wealth generator, tuna being the foremost catch followed by herring, salmon and shark. There has traditionally been only a modest amount of secondary industry: 30 manufacturing establishments were identified in mid-1984 employing 188 people, but this was almost twice the 1977 level. There has been a relatively rapid increase in retail and service establishments: 96 in 1973-74 and 187 in 1985. The other main form of economic activity has been in tourism, contributing about \$24.5 million for the Esperance-Goldfields economy in 1984-85. The fortunes of the Esperance economy have been closely tied with those of agriculture, though

fluctuations in employment appear to have been buffered by the proximity of the Goldfields region.

There is something of a pioneering, new land ethos in Esperance. The rapid growth during the 1950s and 1960s attracted many new young farmers from interstate. There are high participation rates in bodies such as the Esperance Shire Council, the WA Farmers Federation, the Agricultural Research Committee and other "off farm" groups. Something of this "new land" spirit has contributed to the self-image among Esperance people of being entrepreneurial, and the recent growth of manufacturing and service establishments lends credibility to this image. Esperance people appear to be strongly attracted to the place: once they move into the area they appear motivated to stay. In combination, the relative isolation of Esperance, the residents' commitment to it, and their pioneering ethos may well create conditions conducive to self-reliance in economic life.

The moratorium on the release of new land in 1982, combined with the growth of farming-related environmental problems and drought in 1985-86, followed by the mid-1980s rural recession and the down-turn in tuna fishing, created new challenges for Esperance, generating a stimulus for experimentation and entrepreneurship. Having had low unemployment compared with the whole Goldfields-Esperance region and the whole state (with some fluctuation due to seasonal and climatic factors), Esperance experienced a general increase in unemployment during the early to mid-1980s from 7.4 per cent in June 1983 to 10 per cent in June 1987<sup>2</sup>. Although by some comparative standards this was not too drastic, it was a cue for the establishment in 1985 of the Esperance Local Enterprise Initiatives group, the precursor of ELEIC, with the aim of "transforming individual dreams into jobs and ... creat[ing] an environment which was conducive to cooperation and trust" (WA Government, undated).

### **ELEIC's record of achievement**

#### *The businesses created*

From May 1985 to April 1988 ELEIC was

associated with 54 business projects, of which 45 were operating enterprises at the end of the period. Of this total, 29 are new businesses, 12 are existing businesses with new owners, and four are diversifications of existing businesses. A few would have commenced without assistance from ELEIC, but this does not detract from ELEIC's overall performance. They have a combined annual turnover of over \$7 million, of which about \$4 million is accounted for by the two flagship enterprises, Esperance Sashimi Development (ESD) and Esperance Smoked Tuna (EST). The remaining 43 enterprises are therefore responsible for a combined turnover of about \$3.1 million. The average turnover for individual operating enterprises is about \$158,000 (or if ESD and EST are excluded, about \$72,000).

The high proportion (67 per cent) of genuinely new businesses created indicates a significant level of entrepreneurship amongst the assisted proprietors and a direct addition to the stock of enterprises in Esperance. Of these, 69 per cent (37 cases) fall within the general area of "retail, trades, services, art, craft, tourism and recreation". Eight cases (or 16 per cent) are concerned with some kind of manufacturing or processing, while another eight are in primary production.

Just over half of the enterprises (29 cases) have been operating for over a year, while another 16 have been operating for less than a year. It is early to judge reliably their prospects, but some patterns have emerged. The distribution of the 54 primary projects according to their annual turnover varies considerably (year to 30 April 1988). Only two of the enterprises recorded turnovers of more than \$1 million (ESD and EST); 28 per cent fall into the very small category (under \$20,000); and 47 per cent in the small-medium range (\$50,000-\$200,000).

A surprising number (70 per cent) made no use of the range of public sector start-up loans, though half of them borrowed from orthodox financial institutions. The main public sector source was the New Enterprise Scheme, through which the WA government provided small loans (normally less than \$5,000) for unemployed people to establish businesses<sup>3</sup>. Generally speaking, with most loans under

\$50,000, these enterprises may be described as "low cost businesses". Over 75 per cent of the enterprises with loans are repaying them either as agreed or more rapidly than required. Only 4 per cent have defaulted, and the remainder are repaying their loans slowly - not invariably the result of business failure! Notwithstanding their modest size, their capacity to service debts suggests that the majority are performing soundly.

That almost three-quarters of the enterprises have been started by unemployed people, or by individuals with backgrounds outside mainstream business circles, could invite scepticism about their likely performance. The majority are certainly quite modest in scale, but from humble beginnings many display a certain resilience. Only five of the total 54 projects were aborted businesses and we have only judged another five to be commercially in doubt. In other words, less than one-fifth of the enterprises failed or are likely to fail. We estimated that at least 60 per cent were operating on a sound basis.

#### *Employment effects*

The 45 operating enterprises provide a total of 98.5 full-time-equivalent jobs. The net additional employment, taking into account existing jobs absorbed by the new enterprises, amounts to 77 FTE jobs. ESD and EST together account for 30 of the FTE jobs, and 28 of the net additional jobs. The average employment level of individual operating enterprises is about 2.2 FTE jobs (or 1.6 excluding ESD and EST). The average direct addition to employment in the economy by individual operating enterprises is about 1.7 FTE jobs (or 1.14 excluding ESD and EST). Using the figures for public sector contributions set out below, the following conclusions may be drawn. If all relevant public sector expenditures are included, then the cost to the public sector over the three years for each enterprise created is \$9,696; the equivalent cost per net additional job is \$5,666, while the equivalent cost per gross job (including previously existing jobs) is \$4,429. If only core costs of ELEIC and payments to the enterprises are included, the respective figures are \$6,481, \$3,788 and \$2,961.

The overwhelming majority of the enterprises are very small: over 90 per cent have

employment levels of three FTE jobs or less, 83 per cent have two or less and 54 per cent have one or less. Much of the employment which we have classified as FTE tends to be flexible, but it does enable people to make a living from their work or be independent from social security payments and charity. About a quarter of the enterprises have created some additional casual work that was not counted.

### **The Esperance model in practice**

#### *The philosophy*

The philosophy behind the model has been articulated most forcefully by Ernesto Sirolli, a half-time consultant to the Western Australian Department of Regional Development and the North West with a roving brief to assist in local enterprise activities in Esperance. He has described his approach as people-centred: assuming that people cannot be motivated by outside experts and enthusiasts; that government subsidy does not lead to enterprise; and that it is inappropriate for "experts" (in the public or private sector) to tell people what business to run or how to run it. He rejects the "nanny" role for government in nurturing enterprise, but rather suggests that the best that can be done is to "help people who want to work, to transform their ideas into business" (Sirolli 1987). Much then depends on the aspirations and motivations of the people in the locality, not on public sector resources available.

To what extent has this philosophy been realised in Esperance? Certainly in the case of the first two enterprises, the ELEIC flagships ESD and EST, Sirolli played a central role in setting up the business, obtaining financial assistance and exploring markets. Since then Sirolli and the other facilitators have not gone out looking for would-be entrepreneurs; rather paths have been beaten to their doors. Whilst much undoubtedly does depend on the continuing motivations of these incipient entrepreneurs, some continuing nurturing by the facilitators has been required by just under half of the enterprises.

Perhaps then the philosophy has gained some further attributes with the passage of time, and with the need to set some formal guidelines

for the employment of facilitators after Sirolli. For example, their job description includes the reference to acting "as a coordinator in fostering business opportunities within the geographical area defined by the Committee". The word "foster" clearly suggests such activities as providing support and helping develop — consistent with Sirolli's contribution to ESD and EST, and consistent with an aspect of the work of the current facilitators. The distinctive features of "never initiating a project", and never "motivating people to undertake any activity that they had not expressed a desire in" do not appear to have been compromised. The emphasis is on other people's dreams, not on the facilitators' blue-print for local economic development. Nor is the grass-roots, one-to-one approach compromised. Secondly, the job description includes the development "of a network system at all levels of government and community". Again, there is a proactive role here, though much depends on the attitudes of potential network members as well as on the development skills of a facilitator.

#### *ELEIC: formation and function*

ELEIC is an independent community organisation incorporated under the Associations' Incorporation Act of WA. As such it has formal legal status and may own property, enter into contracts, engage in litigation (or be sued by others), and enjoy a range of privileges and responsibilities appropriate to incorporated entities. Under the Act membership of ELEIC is open to any citizen and, within the guidelines of its articles of association, its members may alter its policies and practices. It is a community-based body, legally subject to democratic control by its members. It does depend virtually entirely on government funding to sustain its activities; and while this would appear to place practical limitations on the independence of the ELEIC, it is formally still free to control its own affairs.

The ELEIC Management Committee is effectively the main policy-making body. When formed in June 1985 its membership was intended to reflect a balanced range of people whose status or professional or community experience would contribute. Membership has changed somewhat over time, but generally the

committee has been composed of local businessmen, officers of major public sector organisations (based both in Perth and Esperance), local government representatives, and other motivated Esperance citizens.

In April 1986 ELEIC was awarded a grant of \$36,000 from the Commonwealth Office of Local Government to finance a pilot scheme to evaluate and document a grass-roots approach to economic development. Considerable initiative and effort in obtaining the grant came from the office of the Hon. Julian Grill, member for Esperance in the Western Australian Legislative Assembly and then Minister for Agriculture. This provided the opportunity for Sirolli to apply his philosophy in Esperance. He is now something of an Esperance personality, but comes from outside Esperance. The state Department of Employment and Training has assisted in a wide range of community-based initiatives since 1984 and provided early encouragement for the Esperance group to pursue legal incorporation: an incorporated body was necessary for receipt of the original OLG grant. The point here is that the structures and patterns of activity which have been part of the Esperance model emerged jointly from the interaction of local and non-local people, and from the interplay of forces at the local, state and Commonwealth levels.

ELEIC has provided a way in which people from a whole range of vantage points may interact to explore and support local economic development initiatives. The employment of the facilitators is perhaps its key function: these after all are the key field actors. Further, it provides legitimacy and legal protection for the facilitators both in respect of would-be entrepreneurs and the formal institutions of government and the private sector with which the facilitators have to deal. It guarantees a system of accountability, and provides them with a reference point, support and overall supervision. The corporate status of ELEIC also makes possible a variety of financial transactions and the management of assets essential to its work. Finally, ELEIC is a symbol with which local people can identify. The Management Committee meets monthly to discuss policy, make financial decisions, approve guarantees and loans, receive reports

from the facilitators and give feedback, and for information sharing. Some of the work is conducted at a sub-committee level, and much activity takes place through the informal cooperation of its members alongside their day-to-day responsibilities.

In sum, the committee is a critical element in the Esperance model. It enables ELEIC to avoid being a clumsy administrative encumbrance or irrelevant mechanism imposed on the facilitators. Rather it provides a range of useful supports and services for the facilitators. It plays a dual role of locating and legitimising the facilitators and their clients for the formal metropolitan-based institutions, while opening up and humanising the bureaucracies and formal bodies for the people of Esperance.

#### *The facilitators in action*

ELEIC is usually encountered by would-be entrepreneurs through direct contact with the facilitators and their secretary. The rented office is very basic and unimposing, with no plush trappings. The upshot is that many Esperance would-be entrepreneurs who might feel intimidated by normal business houses, banks, government agencies, or professional advisers, appear to approach the ELEIC facilitators free of such inhibitions.

The characteristics of the facilitators most appreciated by the clients include: swift response to requests for help; persistence; availability; one-to-one relationships with clients; unpatronising approach; personal interest in the projects; continuing assistance after the launch of the enterprise; and a general caring attitude. The facilitators also appear adept at communicating with official institutions to obtain further information and support for their clients. Thus they act as brokers between their grass-root clients and the mainstream support providers, often translating information from the latter into a form amenable to the former. Indeed their role in respect to public organisations and resources could itself be described as entrepreneurial. They simply act to win what resources they are able from wherever they are able; they do not attend overly to bureaucratic lines of responsibility and hierarchy, or to organisational boundaries.

Facilitators act to provide legitimacy and respectability for their clients in dealings with financial institutions; they assist with financial planning, marketing, and feasibility studies, and help build coalitions and partnerships among complementary enterprises. Assistance is often given on a bit-by-bit basis, thus obliging clients to work some things out for themselves, and also to avoid wasting resources on people who are not really committed. Equally the facilitators can fulfil an important psychological function in building the confidence of clients with ideas but little belief in themselves.

#### **The public sector contribution**

The Esperance model does not consist only of a philosophy, ELEIC and its facilitators, but also of a public sector contribution of publicly-based resource infrastructure (financial, human and physical resources). Further, the informed, imaginative, and even entrepreneurial ability to access and exploit such resources, by particular publicly-funded Esperance-based facilitators, has been a crucial theme. The facilitators have been able to make comparatively informal use of knowledge and advice networks, and to construct imaginative funding packages. The public sector has participated in several ways: first in the "direct core contributions" to ELEIC and associated enterprises; secondly, in the "indirect core contributions;" thirdly in "primary network contributions"; and, fourthly, in "secondary network contributions."

#### *Direct core contributions*

These fall into four categories: salaries; running costs; finance for loans and guarantees to enterprises made *via* ELEIC; and *ad hoc* payments. The salaries of the facilitators and their secretary come from a number of sources: the Commonwealth Office of Local Government, the state Department of Employment and Training, and the Commonwealth Department of Employment, Education and Training. DEET (through the Community Employment Program) also granted ELEIC \$10,279 towards the cost of employing someone for its "Future Local Enterprise Initiatives" research project. These payments, highly crucial to the Esperance record, have all been made on a one-off basis,

and there can be no presumption that similar contributions will be made in the future, or that imitative endeavours will be funded as a matter of course.

Secondly, ELEIC has received payments from public sector bodies for loans and guarantees to enterprises. In 1986 \$40,000 was paid by DET to ELEIC to spend along the lines of the New Enterprise Scheme, though in practice ELEIC has tended to use this for guaranteeing bank loans to entrepreneurs rather than as a separate source of loans. Thirdly, there have been several *ad hoc* contributions towards ELEIC activities. Thus DET paid \$1,235 and

The second type of direct core payment consists of Commonwealth government employment and training subsidies to ELEIC-assisted enterprises. These may be paid if the entrepreneur had been unemployed prior to establishing an enterprise; if the entrepreneur is an Aboriginal person eligible for subsidy under training schemes; or if the entrepreneur employs individuals who fall into either of the aforementioned categories. These payments do, of course, go straight to the individual rather than through ELEIC, so we cannot assess their total cost. Twelve of the entrepreneurs received subsidies under the New Enterprise Scheme.

TABLE 1  
Direct public sector payments to the ELEIC and enterprises

Organisation	Category	Amount
		\$
<i>Commonwealth government</i>		
OLG	Salary	36,000
	Running cost	22,000
DEET	Salary	43,280
<i>Western Australian government</i>		
DET	Salary	25,000
	Loan/guarantee	40,000
	<i>Ad hoc</i>	1,235
DRDNW	Running cost	5,000
<i>Local government</i>		
Esperance Shire	<i>Ad hoc</i>	300
Subtotal		172,815
Interest and miscellaneous payments		17,230
Total		\$190,045

the Shire Council \$300 for a Local Enterprise Week. There have also been contributions to ELEIC's running costs: \$5,000 from the DRDNW, and \$22,000 from OLG.

ELEIC has been entirely dependent upon public money. The total amount covered by the above categories is \$172,815. In addition ELEIC has earned around \$17,000 interest on this capital bringing the total to \$190,044. It is appropriate to count this interest, as it constitutes an opportunity cost to the public sector. Table 1 presents a summary of these direct public sector payments.

Four entrepreneurs received employment subsidies from various Aboriginal agencies, but paid through DEET. In at least five cases there were subsidies of employees and trainees of the enterprises (as opposed to the entrepreneurs themselves), amounting to about \$59,000.

#### *Indirect core contributions*

These are public sector contributions which have not gone directly to ELEIC or to associated enterprises, but which were cardinal to the record of achievement (summarised in Table 2). These include the salary and expenses

of the catalytic figure, Ernesto Sirolli. He continued to act in parallel with ELEIC, although his involvement has steadily decreased over the three years, and is now more narrowly concerned with activities related to agriculture and fishing. Secondly, there were contributions by the three most active Esperance offices of government departments and agencies (the state DRDNW, the state Department of Technical and Further Education<sup>4</sup> and the Commonwealth Employment Service) in the form of personnel time and office resources to ELEIC and associated enterprises. This is difficult to assess precisely, especially as the officers were active within the "primary network" of enterprise creation in Esperance (see below). Some made substantial contributions out of hours which have varied over time. We conservatively put the cost at about \$28,000<sup>5</sup>. Thirdly, public sector bodies located outside Esperance have paid for particular activities under the aegis of ELEIC. DET has met the travel expenses to Esperance of one of its officers who is also a member of the ELEIC Management Committee. Part of his time in Perth is also spent on Esperance business. Finally, the Esperance Development Strategy Committee (see below) contributed \$1,000 towards the cost of an Esperance "trade mission" organised by ELEIC.

TABLE 2  
Combined indirect core contributions, 1985-88

	\$
Sirolli's costs	50,000
DRDNW, CES & TAFE	28,300
DET	34,000
Esperance Dev't Strategy C'tee	1,000
Total	\$113,300

#### *The primary network contribution*

This consists of public sector contributions supportive of the core activities of ELEIC, but notionally separate from them. We refer here to broader activities of the Esperance offices of DRDNW, TAFE and CES than those covered above, and to some of the activities of DET. Without these the initial creation of ELEIC and the subsequent pursuit of its objectives would have been in doubt. The office of DRDNW has played a key role in the establishment of

supportive networks, by its sponsorship of the Esperance Development Strategy<sup>6</sup>. This has provided an impetus for thinking about the development of Esperance and, by bringing local business and public sector people together, a forum in which attendant issues could be discussed. Secondly, it has highlighted the aspects of Esperance's socio-economic fabric suitable for further development, and conducted research work in various commercial sectors. Thirdly, it has contributed to the marketing of Esperance. Finally, it has been a particularly important vehicle for the mobilisation of public sector resources in local economic development. By attending to issues which necessarily involve a strategic dimension, its work complements that of ELEIC. This is not to suggest that DRDNW has been especially keen to impose a package upon the community through the Strategy Committee. Rather it has been responsible for providing momentum and continuity, some financial resources, and a considerable amount of office resources. It provides the hub of an overlapping Esperance-based network complementary with that of ELEIC.

The Esperance offices of TAFE and CES have provided important back-up to ELEIC, especially in its formative period (e.g. office services). Successive TAFE Regional Co-ordinators have consciously steered their activities towards the encouragement of enterprise, in the form of hire of appropriate teachers and provision of relevant courses (ranging from business studies courses to one-day events on new activities for the fishing and farming sectors). When appropriate, CES officers refer their clients to ELEIC.

The primary network goes beyond Esperance. DET in Perth has been seeking to promote local employment initiatives in Western Australia for some time, setting up the Community Employment Initiatives Unit in 1984. It was active in Esperance prior to ELEIC's inception, and one of its officers has been a member of ELEIC from its genesis. DET's early experiments in Esperance were aimed at supporting novel approaches to addressing the problems of the unemployed, and it financed two projects to this end. Further it has also played a catalytic role in building the



human and organisational networks which have been essential to the Esperance model. We can only count the costs of the projects (\$19,335) in our final calculations.

The primary network contributions have underpinned the core activities and were more significant than the *ad hoc* and supplementary category of public sector contributions set out below. Taking account of changing priorities of the offices over the three years, we conservatively estimate the overall public sector cost of the primary network to be \$144,645<sup>7</sup>.

#### *The secondary network contribution*

There have been other public sector contributions to enterprise creation in Esperance, though these have tended to be of a more *ad hoc* variety than those already mentioned, and not expressly linked to ELEIC's activities. One example will suffice to illustrate this. The Esperance Port Authority has for some time diversified its narrow function of controlling its port and maintaining and preserving the property in it, by contributing to the upgrading of the land surrounding the port and along the seafront, thus contributing to the attractiveness of Esperance to visitors. Plans are being made to establish marine attractions around the old Esperance Hospital (recently relocated to the seafront). The Port Authority has also made use of the Community Employment Program scheme which effectively paid labour costs for some of the projects. It played a key role in the Esperance Development Strategy, initially underwriting it to the tune of \$5,000.

Administrative activities performed by public sector bodies outside Esperance have also contributed to this secondary network. The facilitators have drawn upon an array of governmental sources of information and expertise. More specifically, DET has provided help to individual enterprises, exporters have in one or two cases received advice from Exim<sup>8</sup> on overseas markets and, via the Western Australian Small Business Development Corporation, an export subsidy from Austrade was arranged for one small exporting company. A representative of SBDC makes a bimonthly visit to Esperance. Whilst this has made little direct contribution to the enterprises associated

with ELEIC, it should be noted that it does not necessarily constitute a redundancy. SBDC offers an alternative source of expertise and advice which may be more attractive to some entrepreneurs than that of ELEIC's facilitators. We have not considered it to be appropriate to estimate the cost of the secondary networks against ELEIC, partly because of difficulties in quantification, but mainly because a substantial portion would have been incurred without ELEIC being active.

#### *The public sector contribution assessed*

Table 3 summarises the costs we were able to quantify; a total of \$506,990 over the three-year period. The biggest single consumer of public resources within the core activities (directly and indirectly funded) has been salary and staff support costs. This raises the policy question, which we will return to, of how local enterprise committees can continue to find funding for this most vital of functions. DET, DRDNW and DEET have been the biggest contributors (all over \$100,000).

TABLE 3  
Summary of the quantified public sector  
contributions to the activities of the ELEIC,  
1985-86 & 1987-88

	\$
Direct core contributions	231,815
Interest and miscellaneous	17,230
Indirect core contributions	113,300
Contributions to primary networks	144,645
Contributions to secondary networks	not costed
Total	\$506,990

It could be argued that we should deduct the savings in unemployment benefits from the costs to the public sector. This is however very difficult to quantify due to the counterfactuals problem, that of not knowing what otherwise would have happened, and to inadequacy of the available data. We can crudely estimate the number of jobs created that were filled by the previously unemployed; the number of enterprises which would probably have come into operation anyway, what the average duration of unemployment of these people would have been, and what the average level of

payment to these people over the three years would have been. Thus we estimate a total saving of \$70,686<sup>9</sup>. If this figure is deducted from the cost of the core contributions (\$362,345) we have a net cost of \$291,659. If it is deducted from our figure for total costs (\$506,990) we have a net cost to the public sector of \$436,304. Hence if all relevant net expenditures are included, we may attribute the cost to the public sector over the three years to 30 April 1988 for each enterprise created as \$9,696; the equivalent cost per net additional job is \$5,666. If only the costs of the core activities of ELEIC are included (excluding the costs of the networks), the costs are \$6,481 and \$3,788 respectively.

The considerable public sector cost does not detract from the work of ELEIC. On the contrary, one success of the Esperance model has been the constructive use made of public money in enterprise creation. A second has been the establishment of working partnerships with public sector officials in Esperance and with the support networks built up outside Esperance. Clearly ELEIC and its facilitators have been catalytic in assisting entrepreneurs and would-be entrepreneurs. Our argument is that they would not even be in that position were it not for salaries, *ad hoc* and running costs, and additional payments made by the public sector. Similarly, enterprise creation has been assisted by the availability of public funds for loans and guarantees, and the formative periods of some enterprises have been assisted by employment and training subsidies. ELEIC's performance has been enhanced specifically by the activities of representatives of three government offices, through core contributions and the primary networks. The role of public organisations has given breadth and substance to the important network characteristic of the Esperance model. A pattern of mutual dependencies has emerged. This is complemented by common goals which are both specific enough to encourage action and broad enough to dispel the temptation to apply any single formula to achieve them.

### Conclusions

#### *The Esperance model, the state, and the market*

The philosophy which has inspired much of the Esperance model offered a distinctive

alternative to state-based solutions to the challenge of local economic development. Essentially it could be described as a market model: the critical unit was the individual and his or her aspirations, abilities and efforts. Protection in the form of subsidy and shelter was seen as counter-productive, if not corrupting. The pursuit of profit by the entrepreneurs is central. It could perhaps be characterised as something more than an economic market model, as it emphatically links profit with notions of personal fulfilment — wealth generation apart. The philosophy runs clearly against the drift of the notion of the state being an economic and social manager and provider.

Our research suggests that the philosophy has only been partly realised: in practice the model has had a significant state input. Indeed, we should put it more strongly: by virtue of its redistributive capacity, the state has been able to provide the vital financial underpinning for almost every aspect of ELEIC's work. These financial resources have been complemented by public organisational and informational resources (the primary and secondary networks) which ELEIC and its facilitators have also drawn upon. In these respects public policy has hardly been privatised! Interestingly, the Western Australian DET passed money to ELEIC to administer the NES framework in Esperance. This is certainly more than an administrative or even a political devolution of responsibility, for ELEIC has no constitutional standing whatsoever. Even here we could only speak of privatising the implementation, not the provision of the resource. The very emergence of ELEIC owed something to the initiatives of a minister and public servants, the provision of early risk money, and the creation of policy space for grass-roots developments. We have seen no significant mobilisation of private sector resources and networks such as has characterised trends in British local economic development (see Richardson 1983, Moore & Richardson 1988). Finally, one aspect of the philosophy, that assistance ought only be of the "mid-wifery" sort, has been clearly over-ridden in practice. There has been considerable post-natal care for enterprises, and to good effect in our opinion.

Recognising these important qualifications to the philosophy should not, however, distract from some rather distinctive features of the model at work. The operating style of ELEIC and its facilitators bears little or no resemblance to that of a government department, agency or field office. Rather it is characterised by some traits more akin to a market model. First, the people-centred, locally-oriented, bottom-up approach to implementation has been realised in practice. The facilitators are pressed for help by would-be entrepreneurs, and in response they look "up" the system for appropriate information or other resources. Secondly, the structure of ELEIC has provided a potent combination of flexibility and room for activists either on the committee or in its employ, coupled with legitimacy in the eyes of Esperance citizens and public servants. Thirdly and relatedly, the facilitators have been able to act as policy entrepreneurs, packaging public resources to best assist their clients: departmentalism has not been a problem here. The *modus vivendi* of the facilitators is *action*;

they do not operate in a rule-bound, hierarchical structure — which public service bureaucracies necessarily do. Finally, although ELEIC itself is not a profit-driven organisation, it expressly encourages the pursuit of profit by its clients. Implicitly the collective goal of a healthy Esperance is seen to some extent as subordinate to the wealth creation and personal fulfilment of the individual entrepreneurs.

The model is not as much a departure from the state orientation as one might conclude from reading the philosophy. The practice does appear to constitute a distinctive marriage of central public resources with grass-roots action and implementation responsibility. The networks we have identified run between and overlap the state and market features of the model. The grass-roots activity has not attended to such state-oriented notions as distributive justice, equality of provision, and uniformity of service. On the contrary it has acted according to market-oriented notions of responsiveness to individuals' ideas and energy. They have treated public resources themselves in an

FIGURE 1: The Esperance model, the state and the market

STATE			MARKET	
Not evident	Evident		Evident	Not evident
Top-down style	Public money	N	Bottom-up policy style (initiative, energy, direction)	Private resources
Targeting	Information	E		Self-financing
Integrated bureaucracy	Organisation	T	Entrepreneurial approach to public resources	Deregulation
		W		Profit motive for ELEIC
Equality of representation (e.g. social partners)	Legitimation (policy space and imprimatur)	O	Responsiveness (to would-be entrepreneur)	
		R		
Uniformity of provisions		K	Participation of the interested	
		S	Profit through individual entrepreneurship	
Primacy of collective goods				
E S P E R A N C E			M O D E L	

entrepreneurial fashion. Figure 1 sets out the characteristics of the Esperance model, indicating which state and market characteristics are, and are not, evident. We are not the first to discover that state/market, government/non-government, public/private relationships are complex; that is now well known (e.g. Hague *et al* 1975, Streeck & Schmitter 1985). We have, however, tried to point to a particular set of roles and relationships embracing business enterprise as the policy goal, entrepreneurial policy implementers with a grass-roots orientation, and public money from state and national governments.

*Esperance: exceptional or part of a pattern?*

Without doubt there are Esperance-specific factors which to some extent explain the impact of the model on the local economy. The characteristics and attitudes of the population seem well-suited to the activist and entrepreneurial aspects of the model. Esperance is blessed not only with agricultural and fishing resources, but proximity to the Goldfields, possession of a port, and natural features attractive to tourists. Sirolli, the facilitators and the ELEIC activists have shown high degrees of energy, commitment and aptitude. All these things have assisted in making Esperance well suited to this model of local economic development.

Yet it would be a mistake to conclude that Esperance is an historical freak. On the contrary, it is part and parcel of a movement which has been steadily gathering momentum in Western Australia. The Esperance story has given credibility to a loose set of ideas about the fusion of personal and economic development at the local level. These ideas have largely been located in the vocabulary of self-help groups, certain academics and a small number of public servants and political advisers (see Kenyon 1983). The Esperance record appears to have taken a set of ideas and a vocabulary into more mainstream policy-making circles. Interestingly there is evidence from the United Kingdom of similar "alternative" groups having a distinct effect on the way central policy-makers perceive social problems (Marsh 1983). On a broader front the Western Australian government has,

since the premiership of Brian Burke, given a more concerted focus to the themes of economic development and small business, and re-organised the Department of Regional Development and the North West precisely to decentralise its functions (Moon & Fletcher 1988).

Nor are such developments confined to Western Australia. Whilst distinctive because of the growing role of the corporate business sector in local economic development, the United Kingdom experience shares the characteristics of grass-roots orientation, local-level responsibility combined with the tapping of public sector financial and other resources in entrepreneurial fashion, and emphasis on small enterprise creation (Moore *et al* 1985, 1989). As a recent study demonstrated, such trends are even observable in the attempts to develop *socialist* local economic strategies since the early 1980s (Cochrane 1988). Cynics might retort that this is all to be expected in Thatcher's Britain. They might finally be convinced that some policy sea-change is taking place if it could be demonstrated that developments were also broadly evident in, say, Sweden. Notwithstanding important differences in UK and Swedish national economic strategies, those systems do appear to be sharing the adoption of aspects of market models for local economic regeneration. This not only includes the participation of the corporate business sector (the missing factor in Esperance), but also the dramatic increase in local activity. Locally oriented economic development institutions have sprung up tapping national public resources, yet retaining responsibility not for applying nationally derived formulas but for meeting locally defined challenges on a comparatively *ad hoc* and responsive basis (Moore & Pierre 1988).

*Lessons and questions for policy-makers*

We should first reiterate that aspects of the Esperance model were already evident in the thinking of the Western Australian government, and thus not to be wholly explained by ELEIC. Following a report on ameliorating the local impact of the rural recession in May 1987, the state government decided to establish an Inter-departmental Committee on Local Economic

Development Initiatives<sup>10</sup>. This has continued to propound the philosophy and language of local economic initiatives and recommends a policy of state involvement in such initiatives. As a result the cabinet has provided the committee with resources to fund local economic initiatives for up to three years. The committee's approach appears to be flexible; there is no rigid view as to what constitutes a group representative of a local community; emphasis is given to local motivation and local perceptions of most appropriate forms of local economic development; it is not restricted to having to assist particular socially or economically defined sections of the population.

The precise status and character of these initiatives does of course vary. They are all situated in the sort of position between state and market set out in Figure 1. Public sector contributors invariably include DET, and often TAFE, DRDNW (or a regional public agency, e.g. the South West Development Authority) and various Commonwealth funding agencies. The Esperance model is not duplicated exactly, nor are we suggesting that it should be. The Geraldton Mid-West Enterprise Development Committee, for example, serves a much bigger, wealthier, more economically diversified, and more long-standing community than does ELEIC. Here there is a more overt public sector involvement than in Esperance, with a more conservative working style of the facilitator. Yet both committees and their facilitators are characterised by a firm grass-roots orientation, a brokerage role between their clients and public institutions, high levels of motivation, pivotal positions in local economic development networks, and notable success in enterprise creation (Moon & Willoughby 1988).

The Esperance model offers several further pointers for consideration by policy-makers in local economic development and in other fields. Notably it suggests that contracting out responsibility both for local policy design and local implementation may offer distinct benefits. The model is especially strong in its ability to adapt to local conditions; it presumes no centrally-designed *economic* framework for local development. It presumes only a *political* framework consisting of loose organisational

and funding relationships: a novel balance of state and market forces. This "extended arm's length" relationship between the public purse and what is likely to be a very idiomatic policy style raises the weighty question of accountability. The Western Australian government has been prepared to take successive short-term risks, by contracting out the responsibility for success or failure. However this hardly amounts to privatisation, as there has been no wholesale commitment of financial resources; the money tap can always be turned off. Actually we should say money taps — and this feature of *multiple* budget sources further strengthens accountability (at least with respect to finance), in that there is an incentive provided for a good case to be made for ELEIC to "win" resources. Of course in policy coordination terms it weakens accountability, but the notion of central coordination is one of the very things from which the model seeks to depart.

From the point of view of the local organisation, the financing system could be considered as dysfunctional in terms of the resources spent on renewing income, but given the latitude otherwise enjoyed over how public money is spent this seems an appropriate control to maintain. One alternative is that the local organisations engage in wealth-creating activities in their own right. Some British counterparts are certainly active in leasing workshops and property, and even in charging for some of their services on a means-tested basis. This offers greater flexibility, but exposes them to the risk of similar dysfunctional opportunity costs as noted above.

The "network" character of the model has been characterised by overlap and potential redundancy among ELEIC, government offices and agencies, and the Esperance Development Strategy Committee. This we see as a strength: it provides a choice of helps for the would-be entrepreneur without, as far as we could detect, counter-productive institutional rivalry. Further, potential redundancy is well-suited to experiment and adaptation without thereby committing the totality of the service to a particular path. Networking it has maximised information and financial resources and energy

available.

Two rather difficult problems remain. First, just how transportable is the model? Is it one best suited to regional centres with a specific and well-designed social and economic identity, rather than to urban areas with less citizen identification and blurred economic boundaries (e.g. travel-to-work areas, economic dependencies, and trading patterns)? The evidence is patchy: the United Kingdom has seen substantial local economic initiatives in large old industrial towns and in sprawling metropolitan areas. Certainly though, a clearly definable local focus seems to help. Secondly and relatedly, policy-makers may find that areas which they consider to be *most* in need of local economic development initiatives offer *least* in the way of grass-roots enthusiasm, resources

and commitment. By definition the model offers no help here.

Turning to the future, it is difficult to know how long the model will last in its present form. Can individual local organisations maintain momentum beyond a certain period without becoming ossified? Is there a limit to new enterprise creation in a region? If so, the balance of the facilitators' roles may shift from "mid-wifery" to "nursing." Will a general upturn in the national economy bring unemployment figures down, thus removing one important impetus for action? It is likely that even if this were the case, processes of economic adjustment would continue, some of whose more painful effects could still be met by the application of critical features of the Esperance model.

#### NOTES:

1. We are of course using "state" in two senses: first, the state of Western Australia, and second, the totality of public provision and legitimation, whether from the Commonwealth or the Western Australian government. We believe the meaning will be apparent from the text.
2. These figures are derived from the actual numbers registered as unemployed with the Esperance office of the Commonwealth Employment Service as a percentage of the total labour force. They tend to be higher than the estimates of the Bureau of Labour Market Research.
3. Recipients of this loan may become eligible for an NES allowance from the Commonwealth government (the near-equivalent of unemployment benefits for one year).
4. This is nominally a state government body although the Commonwealth does pay for its buildings and for major items of capital expenditure.
5. We calculated TAFE to have contributed \$11,700; CES \$12,600; and DRDNW \$4,000 over the three-year period.
6. In contrast perhaps to some earlier attempts to stimulate regional economic development (e.g. Bunbury 2000), which had been seen as overly top-down in style, it has much of its roots in the local arena, though it was still serviced by DRDNW.
7. This consisted of: TAFE \$64,910; CES \$15,400; DRDNW \$45,000; and DET \$19,335.
8. Exim was formed in 1985 as a government-owned export promotions company, which also had specialised commercial holdings (see Harman 1986).
9. We used the following formula: A = net additional jobs created; B = percentage of people previously unemployed; C = percentage of enterprises which would not otherwise have started; D = average weekly benefit; E = average number of weeks people remain unemployed in Esperance. Thus: Amount of unemployment benefits saved =  $A \times B \times C \times D \times E$   
 $= 77 \times 0.72 \times 0.60 \times \$125 \times 17$   
 $= \$70,686.$
10. This consists of representatives of the Ministry of the Premier and Cabinet (two) and DRDNW, DET, Technical and Further Education, and Local Government, the Technology and Industry Development Authority, SBDC and the Office of the Minister for Agriculture. Its brief was "to provide a long-term policy framework for local economic development initiatives...".

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