

The power of proximity

In an age when digital technology connects us on a global scale, entrepreneurial success still depends largely on the networks, resources and demand found in local communities

Enterprise is more of a verb than a noun. It is a doing word: entrepreneurs do. And whatever it is they do, they do somewhere. Mostly, they draw upon a mix of distinctive individual capabilities that exist in the locality in which they live and work. Entrepreneurs seek the opportunities nascent in a locality and its communities and realise them through action.

This was supposed to be a world in which geography would become irrelevant as the internet gradually abolished the friction of distance. Proximity to the source of geographical comparative advantage and closeness to markets were not supposed to be important in the 21st century because, it was predicted, the internet would 'flatten the world'. You would be able to sell me a product or a service from anywhere in the world, no matter where I wanted it delivered.

What hype: locality still matters. Opportunities and capabilities are still reflected and refracted through geography. While capital is global, the vast bulk of labour power is deployed locally. Where you live has a bearing on your life chances, and where you work has a bearing on your economic potential.

Some places are simply more propitious for entrepreneurs than others, whether because they are plentiful in natural resources, have a strong historical tradition of specialist enterprise, are natural connections to other places or networks, or are sites for the exercise of creative imagination. Opportunities exist both in an area's physical landscape and in the soft cultural landscape of its communities. Certain areas may be fruitful for people to develop, sell their skills or connect with others. If you live in a place where there is a large community from, say, Brazil, it is likely that you can build connections with Brazil. Connection is about both geographical closeness and close ties between people.

American management theorist and previous RSA Journal contributor Rosabeth Moss Kanter argued more than 15 years ago that, to thrive in the global economy, localities needed to have two properties: 'magnets' and 'glue'. Magnets act as the attractors of talent, resources and attention. Successful local industries act as magnets as they build on the agglomeration economies that fuel the local clustering of economic activity. Glue is a social adhesive that binds people together by producing a sense of community. Strong civic cultures act as a form of glue by establishing powerful norms of civil and social behaviour.

Kanter's basic argument remains relevant. It explains why enterprise tends to

bubble up from local places rather than trickle down from a central government stimulus. Government cannot command enterprise to happen, but local government can create favourable conditions in which enterprise can more easily thrive. Central government can assign localities as enterprise zones; however, if labour market conditions and established social and economic networks are wholly unfavourable to enterprise, this approach may be as successful as casting seeds on stony ground.

Cultivating resourcefulness

Local government does more than create fertile conditions for successful enterprise. As well as providing a delivery mechanism for public services, it is a vital vehicle for self-governance. As such, one of its core functions is to make its citizens more resourceful and self-reliant. Local government should, at its best, seek to build the active capabilities of its citizens, and not their passive dependency. This is all the more pertinent in the current climate, in which the state is retrenching. A local culture that is dynamic and enterprising enables people to help themselves, think about solutions to the challenges in their local communities and support one another. So how should local authorities sustain enterprise in the communities that they govern?

Conventional approaches suggest that local government should focus on making unemployed people more employable through supply-side initiatives. Alternatively, they try to link their purchasing power to the local supply of goods and services. This localising of supply and demand would, all other things being equal, enhance the environmental credentials of local authorities. Yet as a strategy, it is limited. We may be able to cut one another's hair and grow one another's food, but we cannot build one another's iPods.

The government's clever rebranding of civic conservatism into the Big Society has undoubtedly whetted the appetite for mission-driven public and social enterprises. If local government spending is to reduce by an average of 28% over the next four years, it is likely that local enterprises will have ample opportunity to step into the space left by the withdrawal of monopoly state providers. After all, the government's aim, according to the 2011 Localism Bill, is to "break up public-sector monopolies" and stimulate a more diverse supply of public-service provision. This creates a fertile landscape of opportunity for local enterprises. As councils reshape their services, a new ecology of service providers with differing capabilities will come forward. The future is variety.

To be successful, local enterprises need to build competitive advantage on their unique and distinctive capabilities. These may come from their local knowledge, experience and connections with networks in the community. They may have developed high levels of trust among their employees and may have been able to drive higher levels of trust in their products and services as a result. But this needs to be tested, not just asserted. Local enterprises will only succeed in the long term if consumers and service users continue to favour them over the alternatives.

Imagine that your car needs fixing: do you go to a branded dealer who has proven expertise or do you put your faith in a local independent trader? What are the factors that make you more likely to trust one over the other? What is true of car repairs may also be true of home repairs, home care and even personal social care. Service users want competence, reliability and trustworthiness, whatever the character of the service. And so the next question is: who is more likely to be viewed as the most competent, reliable and trustworthy? Am I more likely to receive a better service from a local social enterprise than from a nationally franchised business?

At present, local social enterprises have a 'policy halo' effect. It is often assumed that they must provide better public services as they are owned locally and mission-driven. This may be so. Over time, however, public-service users are more likely to be attuned to the competence, reliability and trustworthiness of their service provider than to their organisational form and ownership. Services that are run by users or the workforce on a mutual basis may be able to establish closer connections with their users, but only if they are designed and delivered to the highest standards. Failure can occur in local social enterprises as readily as in other forms of business.

Furthermore, councils must be wary of nurturing enterprises that are too reliant on the state for contracts and funding. They need to encourage enterprises to seek markets not just in state service provision but also in the private economy. It is imperative that local enterprises are economically viable and financially independent. While councils may provide financial support to new enterprises in the form of grants and short-term contracts, these organisations must not underestimate the continuing demands of capital. The requirements of working and operating capital loom large over every business, as does the opportunity cost of, for example, selling fixed capital in order to realise a receipt for alternative investment.

Trial and error

If local authorities are to encourage enterprises to develop on the back of public-service changes, they need to accept that there are no risk-free paths available. Entrepreneurs will inevitably try new ways of doing things in order to discover what works best and what delivers better outcomes for service users. Equally, local authorities must embrace the fact that local enterprises will be free to move away from their place of origin, taking with them their capital, knowledge and talent. This should be regarded as a positive indicator of the health of the sector, rather than a loss on the investment.

When seeking enterprising talent, local authorities must not focus exclusively on their own areas. Enterprise is fluid, not fixed: it crosses administrative boundaries. Local authorities should, at all costs, avoid parochialism. They should foster entrepreneurship throughout their localities – building growth from below – to develop their whole economy. They should promote the benefits of their area to entrepreneurs and take practical steps to foster a more positive business

environment.

But local authorities face a quandary. They are regulators of public risk and, as such, are responsible for ensuring that public services are sustained locally and that service users are not left at risk if service providers fail. Local authorities will need to balance their role of facilitating and encouraging enterprise with that of regulating unreasonable risk.

Our most distinctive capabilities tend to be the ones that are the most local, and our biggest advantages come from how we blend resources and people together at the local level. Close ties within a locality and with other places worldwide can act as powerful threads of change. All entrepreneurs start somewhere. Albuquerque, New Mexico, was the home of Bill Gates' Microsoft in 1976 and, less than 30 years later, a Harvard dorm was the site of Mark Zuckerberg's fledgling Facebook site. Locality is both the source and the site of productive advantages. Enterprise needs propinquity to power its success.

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