

Local Entrepreneurial Culture: A Conceptual Approach

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1 FROM OLD TO NEW REALITY

It has been customary to analyse economic life from the point of view of concrete factors such as technological innovations, financial support systems and acts of legislation. Economic policy at the levels of, both State and local government has focused principally on specific projects such as helping firms in trouble, building necessary accommodation for production, attracting firms to move etc.. Cities and communes have sought to adjust to trends without trying to find their own solutions and unique answers to their urgent economic problems.

Economic planners have been eager to grasp and manipulate phenomena which are obvious, concrete and measurable. They have not, however, given a thought to economic history, which shows beyond doubt how decisively important both non-economic and non-technological factors have been for economic development (see for instance Rosenberg-Birdzell 1986). Vesa Mäkinen comes straight to the point when he says that in discussion of developing economics and in solving its problems the most important objective is not how to create new rules, design new financial systems or improve techniques of management (Mäkinen 1979). These topics, Mäkinen goes on, are in spite of their importance no more than symptoms of much more fundamental problems which we must be able to recognise and solve in order to create entrepreneurship, develop the skills of entrepreneurs and establish a sound economy.

It is tempting to contemplate that the designing of a strong and sustainable economy will demand a drastic shift from a macro-economic to a micro-economic policy and will be based on the capacity of local authorities to create and maintain their own unique entrepreneurial culture. The problems of entrepreneurial culture are likely to prove basically the problems of the higher level to which Mäkinen refers and which

we must be able to solve in order to obtain concrete and lasting results in the long run.

If a local entrepreneurial culture is valuable, rare and difficult to emulate, as Barney (1986) assumes, it will for instance help local authorities to attain invisible but unused resources, activate people to work for their community and lessen vulnerability to outer economic forces. The given local entrepreneurial culture may well be the factor which explains why one of two local governments which are equal as to population, properties and resources, will succeed and thrive better than the other.

Local entrepreneurial culture will obviously be of greater relevance in the context of local economies than in the national economy. It is true that we have tried to solve our economic problems with the help of macro-economic policy models in whose equations local economies are held only as manipulative variables. However, in the opening reality of increasing change, complexities and turbulence, macro-economic operations may be seen to lose attractiveness and effectiveness, because the logic and characteristics of the new reality are qualitatively different from the old.

It is also contended that the new reality is inevitably local. It may thus be tempting to consider the national economy less as a unified whole and more as a collection of heterogeneous and constantly changing units (see Jacobs 1985). If we accept this we must conceptualise local governments micro-economically as self-guiding and self-organising, capable of creating new possibilities and eager to learn from mistakes. Seen thus, local governments are a principal source of diversity, versatility and change in society.

In this article my main task is to define those concepts upon which a local entrepreneurial culture at once valuable, unique and difficult to emulate can be based. In doing this I am not referring to any concrete examples drawn from Finnish local government, albeit that their number is already great and steadily increasing.

2 MAIN CONCEPTS OF LOCAL ENTREPRENEURIAL CULTURE

How can we define the concept of local entrepreneurial culture in general? According to Allardt culture in its most general sense can be defined as a historical collection of human thinking and acting (Allardt 1983:56). When we understand culture in this way we must logically deduce that individuals and firms will be born into a given culture, they are moulded by that culture and their possibilities to affect the culture are at best very modest. Another and common way of defining local entrepreneurial culture stresses prevailing assumptions, values, norms and practices within organisation (see Kilmann 1986:48).

Using Kilmann's definition we may conceive local entrepreneurial culture as a continuous process in which central stakeholders — politicians, administrators, entrepreneurs, opinion leaders etc. — will generate and maintain a shared dedication, experiences, sense of community and responsibility. A local entrepreneurial culture is thus based on this process and at the same time affected by the problems, circumstances and needs of the local economy. The definition which stresses process differs from those stressing stable elements in a culture.

It is important to realise how frail this process basically is. Stakeholders will pursue it if they see it profitable and useful. They will also occasionally evaluate it critically if it is in conflict with their objectives. It is therefore a critical function of local authorities to maintain the process which allows stakeholders to defend or remove some components of the entrepreneurial culture in order to safeguard its significance. If, however, some local entrepreneurial culture is used to erect barriers or override the process, it will turn into a vehicle of pure power and lose its organic and invigorating nature.

There are two processes where by the effects of local entrepreneurial culture will be generated and channelled into the local economy and made known to stakeholders. These processes are that of development and that of exchange (Normann 1976:29). Development processes entail some kind of invisible metastructure for automatic and continuous creation and discovery. They will determine for instance the stand stakeholders take to their environment, its problems and challenges and the way

they react upon them. Exchange processes, in turn, will improve and further interaction between stakeholders in the local economy.

Table 1 shows the main concepts and differences between entrepreneurial cultures in the old and new reality.

Table 1. Local entrepreneurial culture in the old and new reality

<i>Old reality</i>	<i>New reality</i>
A. <i>Building and maintaining physical infrastructure</i>	A. <i>Development processes</i> <ul style="list-style-type: none"> • <i>entrepreneurial climate</i> • <i>local values</i>
B. <i>Legislation, supervision</i>	B. <i>Exchange processes</i> <ul style="list-style-type: none"> • <i>owners: from one-dimensional success to multi-dimensional success</i> • <i>personnel: from given management to participatory leadership</i> • <i>customers: from imperatives of production to quality</i> • <i>local economy: from atomic to synergistic networks</i> • <i>the State: from command to new union</i>
C. <i>Economic support</i> <ul style="list-style-type: none"> • <i>loans</i> • <i>guarantees</i> 	

3 THE DEVELOPMENT PROCESS IN LOCAL ENTREPRENEURIAL CULTURE

1. Entrepreneurial climate

Entrepreneurial climate can, according to Edgar Schein (1985), be defined as basic assumptions which, if widely adopted by stakeholders will exert a unifying influence on their behaviour and choices (see also Gustafsson-Johannisson 19/1983:6—7). Defined this way the entrepreneurial climate, if widely enough adopted, will prove viable and constitute the hard core of entrepreneurial culture in two senses. Firstly, the basic assumptions will take precedence over the personal characteristics of individual stakeholders so that psychologically and cognitively different individuals can employ them. Secondly, the basic assumptions have a possibility to penetrate through the structural, but often invisible barriers between different sectors and interests in the local economy and gain acceptance as a mode of behaviour and choice by the centres of power.

Emphasis on equality and idealism

Equality and idealism, writes Schein, are very important factors in the context of politics and economics. They will be adopted, often involuntarily like other assumptions, and they will be applied in making everyday choices. In the political sphere equality means that every citizen has equal possibilities to influence political decisions in a constituency. In the economic sphere equality means equal opportunity to participate in economic life in different roles, worker, producer, financier and innovator.

Markets produce not only success, as is often assumed, but also failure, bitter loss, subordination and also hierarchy. These can be as harsh as dictatorial political domination. This may be one of the reasons why private economy is so often despised and resisted. A society where wide and deep differences in equality prevail is basically unstable and therefore also an unhealthy society. The stress on equality and idealism advances action to narrow these differences.

The Italian Carlo Trigilia has contented that in local economies where differences in equality are not unbearable, private enterprises are accepted and entrepreneurship is nurtured. In such localities, says Trigilia, class antagonism is minimised and social mobility is encouraged (Trigilia 3/1986:164—165). In local economies where cultural, economic, political and social barriers seriously hinder equality and idealism it is difficult for entrepreneurs to act and gain a footing.

Emphasis on performance

Emphasis on performance will, according to Schein, explain the attitude of stakeholders towards action and the way they appreciate its results. It is frequently observed that stakeholders will not search very actively for new possibilities or dare not experiment with them if the prevailing climate stresses inaction. There is also reason in this connection to recall that there are strict limits to inducing performance by appealing orders and obedience. Natural performance is based on assumptions which stress continuous experiment, openness to new experience, independence of authorities and suppression of fatalistic attitudes (Allardt 1983:187).

If emphasis on performance is half-hearted, stakeholders will believe there is no way for

them to influence decisions on their own fate and environment. If emphasis on performance is overactive, stakeholders will probably be ready to plan only for the future in order to adjust to forecast trends. If emphasis on performance is by nature interactive, stakeholders will be ready to create the future, not only be prepared for it. It will also be natural for stakeholders to invent ways of realising a desirable future.

Emphasis on time

Perception of time and time-span of thinking, contends Schein, is a crucial factor explaining how stakeholders see the past, present and future and how they act upon them. Emphasis on time will decisively determine what is possible to achieve within a certain time-span (Naisbitt 1984:84). The longer the time-span of thinking and action, the more it is possible for stakeholders to achieve, and vice-versa. It is true that in daily decisions this fact is very easily forgotten. This is natural because the present is concrete and its problems are pressing, whereas the future is distant and its challenges obscure.

Naisbitt has forcibly criticised the economic culture of the old reality in that it has adopted a time-span which almost without exception emphasises the present and at best thinking in the short run. It is curious, writes Naisbitt, how eagerly leaders of firms try to gain benefits only on short term without seeing that at the same time they are probably sacrificing important possibilities in the long run. Yoneji Masuda is very explicit in his conception of time. He writes that time means value which stakeholders can create in the purposeful use of future time (Masuda 1990:49).

Emphasis on relations between stakeholders

According to Schein the emphasis on relations between stakeholders will determine how they see each other and how they take into consideration the vital interests of others. Assumptions on relationships are becoming increasingly critical as conditions for excellent performance because there are ever fewer projects which can be managed alone and more whose successful implementation demands the orchestrated and coordinated activities of many.

There are three kinds of relations between the stakeholders in a local economy. Characteristic of mechanical relations are intolerance,

a desire to manipulate, suspicion and competition for power positions (Tichy 1983:273). If relations are seen as consultative by nature, they can be characterised as development of cooperation, minimisation of conflict, increasing of mutual trust and a willingness to take on difficult problems (Tichy 1983:273—274). Thirdly, writes Tichy, relations can then be depicted as organic or natural. Cooperative networks, conscious minimisation of distances between centres of power and a willingness to strengthen mutual trust beyond interests is very characteristic of organic relations in a local economy. If stakeholders have widely shared assumptions on organic relations they are able to go beyond different and even conflicting values, interests, ideologies and types of personality and build out of them a mental community on whose differences explosive development is based. In this kind of local economy, differences which in some other locality are intolerable and paralysing are sources of necessary renewal and innovation.

Emphasis on place

Assumptions on place, writes Schein, explain how stakeholders see themselves and their vi-

tal interests in relations to the local economy. If they stress independence they only casually take into consideration their own local economy, its problems and needs. In this sense the local economy is to them exchangeable with any other locality which better serves their interests or offers more benefits. Stakeholders who share coordinative assumptions on place will give more weight to their local community than the independent stakeholders. They are concerned, within certain limits, to contribute to the local economy.

Stakeholders who have adopted integrative assumptions on place consider themselves an essential part of the miniature local society. It is self-evident to them that their success is tied to the success of the local economy. It is therefore natural for them to consider how the realisation of their own interests and objectives will promote that of local society. In turn, the decision-makers in local authorities will render the same in their own plans and strategies. Integrative assumptions on place highlight the often neglected fact of building local miniature society, namely that it is a creation by collaboration of the stakeholders. Table 2 comprises a summary of the basic assumptions as to local entrepreneurial climate.

Table 2. The basic assumptions of entrepreneurial culture

A. Emphasis on equality		
political and economic inequality	political equality, economic inequality	political and economic equality
B. Emphasis on performance		
inactive	preactive	interactive
C. Emphasis on time		
past	present short term	future long term
D. Emphasis on relationships between stakeholders		
mechanistic	consultative	organic
E. Emphasis on place		
independent	coordinative	integrative

2. Local values

Values, as Allardt defines them, are something which we learn from our environment, which guide our choices and which as such are relatively permanent and general in nature (Allardt 1983:51). Values are an essential part of the development process in a local entrepreneurial culture. Lipset notes that political systems, like local miniature societies, have an inherent tendency to adapt their behaviour and institutions continuously to changes in central values (Lipset 1971:122). One of the functions values have is to support, expand and renew the pool of basic assumptions. It is probable that values which prove efficient and useful will turn into basic assumptions (see Sathe 1983:37).

There is no neat package of values in local economies. Values are different, sometimes conflicting, and different stakeholders may interpret the same values differently. It may also be true that if stakeholders strengthen one set of values they may at the same time weaken another. It is therefore useful to differentiate values into three groups as shown in Table 3.

Table 3. The critical cluster of local values

Individual	Local government	Local economy
1. An entrepreneur 2. A pool of entrepreneurs	1. Power 2. Nature of politics 3. Economic objectives	1. Change 2. Central resource 3. Versatility 4. Economic role of local authorities

Now we can outline three ideal types of local economy according as central values are interpreted and utilised in them. Let us call them simply economy-X, economy-Y and economy-Z. Because they are ideal types it is impossible to find their pure types in reality. However, local economies may correspond to them more or less well. One of the functions of ideal types is to help critical analysis and thinking on values in practical decision-making.

Values in economy-X

In economy-X no significant role is given by the powerholders to the entrepreneur. The en-

trepreneurs' needs, problems and values are seldom met and are held remote from dominating thinking. There are no orchestrated or coordinated efforts to renovate the pool of entrepreneurship in economy-X. Entrepreneurs are regarded as exogenous and there is no need to secure their interests.

Power, it is possible to say, is confined to a few in this economy. Stakeholders with real power can probably retain their positions for a long time because there is only accidental and marginal competition for power positions. It is no wonder that the nature of politics in economy-X is basically restrictive. Possible economic objectives are by nature probably formal and if they are made public there is only weak commitment to them on the side of the decision-makers.

In economy-X change is undoubtedly only incremental. This is understandable because the central resource in this economy is tradition. The structure of the local economy is presumably fairly one-sided. There is no significant role for the local authorities to perform apart from guarding tradition and warning against excessive change.

Values in economy-Y

In this economy entrepreneurship is not understood in terms of individuals, human beings, but as organisations on which a strong local economy and new work will principally depend. Organisations have taken over the functions and roles of individual entrepreneurs. Therefore an entrepreneur in economy-Y is called an institutional entrepreneur. Here renewal and strengthening of the pool of entrepreneurship will depend on collaboration and deals among institutional entrepreneurs.

It is highly probable that power in this economy is confined to groups representing dominant sectors of production in the local econo-

my. From the point of view of democracy this is not problematic in any way, but it may become so if the dominant groups start defending their interests against compelling change or if they try to acquire privileges by exploiting their strategic positions. Economic growth is the most common objective of the local authorities in economy-Y.

In economy-Y the stakeholders will accept change as a fact of economic life but will want to manage it by planning it comprehensively. Technology as the most important resource of economy-Y will emphasise the need for rational planning. In any case, as all the statistics show, the economic structure of this economy is slowly diversified. In economic thinking Y economies will trust hard big corporations and the State.

Values in economy-Z

In the Z-type economy entrepreneurs are understood not as organisations as in economy-Y but as creative individuals. Therefore the central task of the stakeholders is not to design organisations or render their arrangement more efficient and streamlined, but to create an environment where the creativity and imagination of individuals is freed. Every citizen from child to the old is held as a potential entrepreneur. This attitude pervades the whole community and on it the revitalisation of entrepreneurship is based.

In such an economy power is used by ever-changing coalitions. Participation in power coalitions and positions is understood as only tem-

porary. Local politics are by nature supportive, empowering and cultivating. Stakeholders are encouraged to participate and share their ideas. There are no certain fixed roles and functions which are conserved for certain privileged stakeholders. It is probable that continuous development will be stressed in the economic objectives of this type of economy.

In economy-Z change is accelerated and preferred by the stakeholders. This means in practice that the structure of the local economy will be diversified and complex. Here the economy will appreciate human qualifications as its most important resources, and the cultivation of human resources will be one of the critical functions of the stakeholders. For them the basic economic problem, which they must be able to solve, is that their local economy must earn with their own export the import needed for local consumption (see especially Jacobs 1985). Therefore the local economy's capacity for import-replacement will be emphasised in the objectives of this economy. The results on an analysis of the local values in the three ideal local communities are summarised in Table 4.

4 THE EXCHANGE PROCESS IN THE LOCAL ENTREPRENEURIAL CULTURE

1. From one-dimensional to multi-dimensional success

In the old reality the most important criterion for success was undoubtedly the accumulation of capital. William Halal (1986), in his

Table 4. The critical cluster of values in ideal local economies

Values	Economy-X	Economy-Y	Economy-Z
<i>A. Individual:</i>			
1. An entrepreneur	exogenous	institutional	communal
2. A pool entrepreneurship	scanty	increasing	abundant
<i>B. Local authority:</i>			
3. Power	an elite restricting	governing class guarding interests	changing coalitions empowering, reflective economic development
4. Nature of politics			
5. Objectives	formal, no commitment	economic growth	
<i>C. Local economy:</i>			
6. Change	minimum one-sided tradition	planned, controlled becoming versatile trust in the State and big business	increasing versatile importreplacing
7. Versatility			
8. Basic resource			

"The New Capitalism", goes straight to the point when he says that in the old reality leaders of firms had to satisfy the demands of those who owned capital and this fact sparked off the inexorable and undeviating quest for profit which neglected social consequences almost totally. To the old reality continuously increasing profits formed the cornerstone on which both private enterprises and whole economy were able to function. Continuously increasing profits were prerequisite for absolute and proportional growth of capital. Economic growth became the key and money became the king (Toffler 1983:237). It was an undeniable fact that capital and its accumulation was in the old reality the basic source of all economic and social power (Galbraith 1967:77).

The formula of one-dimensional success as a search for profit without attention to its wider consequences meant that enterprises had primarily to satisfy the economic demands of the owners of capital. Only after this was it possible for enterprises to try to satisfy the needs of other stakeholders. This one-dimensional success has produced problems which are difficult to eradicate. Enterprises in pursuit of profit have voraciously used non-renewable natural resources, pumped voluminous poisons into the air, desolated whole regions and completely ignored those who have been unable to resist (Toffler 1983:112).

The concept of one-dimensional success was necessary because it gave managers a legitimate right to make use of their fellow citizens, employees and customers in economic acts (Halal 1986:209). In unrestricted pursuit of profit a man will easily become a wolf to another man (Skolimowski 1984:77). The inevitable consequence of the pursuit of profit has been that it suppressed humaneness and humanity between people, and therefore they have felt suspicion and hostility towards it. This is perhaps one of the reasons for critical attitudes towards private business.

In the new reality local economies must be capable of replacing one-dimensional with multi-dimensional success. This exchange process will help owners to adjust to the demands of the new reality and make their success possible. Owners will meet spiralling difficulties and even the threat of being swept from the market if they fail to navigate into the new reality which demands of them an ability to satisfy first the needs of larger constituencies as a prerequisite for higher profits (Ansoff

1976:43, Halal 1986:240—241, Korten 1984:342 and Rhenmann 1972:11). Halal calls enterprises which have abandoned the old one-dimensional formula of success multipurpose enterprises.

According to the multi-dimensional success formula, Halal contends enterprises must create social quality, try to realise or help to fulfil social objectives and solve or help to solve urgent social problems in order to get profits. It is completely futile to assert, as it often is, that in acting thus owners will lose all possibilities of profit (Halal 1986:242—243). On the contrary, Halal goes on, multi-dimensional success will yield to owners much higher profit than they could ever hope for in the one-dimensional success of the old reality. Multi-dimensional success will open to enterprises new business ideas and options. The multipurpose enterprises will form natural strategic alliances with the local authorities on whose soil they operate. The local authority can make use of these alliances in many ways depending in the circumstances, problems and aspirations of its citizens.

Economic and social life are not in opposition to each other, but support and maintain each other. In the old reality this simple fact was rarely properly understood, because the stakeholders regarded each other as antagonists and they defended interests which in their minds were conflicting. For owners in the new reality multi-dimensional success is not giving up or losing ground, but searching and finding. In the words of Halal this means a strengthening and legitimising of the foundations of private enterprises.

2. From given management to participatory leadership

The code which was meticulously followed by organisations private and public in the old reality was of course the centralisation of decision-making. There was no alternative to the conception that authority must flow hierarchically from top to bottom in any organisation. For employees this meant that they entered the organisation and started to obey the given management, whose purpose was to secure orchestrated and coordinated action in order to realise the objectives of the organisation. In the old reality there were no credible alternatives to given management.

There is of course no denying that in the new

reality the task of the managers is still to get things done efficiently and economically. Their crucial role is to get everyone to realise that their jobs and salaries depend not on the organisation but on the customer's willingness to buy and consume. Nonetheless, managers who in this resort to the old patterns will soon wake to find that they have less and less means to assert themselves. The more they trust in authoritarianism, paternalism and hierarchy the less they will be able to achieve.

In the new reality managers must begin to realise what has already been evident for some time, that an organisation which sticks to the given management will shrink in growth and deteriorate in productivity (Naisbitt 1984:202). Enterprises in the new reality must search for new energy and vitality in participatory leadership instead of given management. The basic idea of participatory leadership is a realisation that managers must be able to give more room for their employees to lead themselves, increase their autonomy and empower them to fulfil different role orientations. They must replace their old roles with new ones like trainer, mentor, teacher and motivator.

The participatory mode of leadership requires organisations to extend the possibilities for personnel to participate. From this point of view leadership is understood as certain functions which must be accounted for if the organisation wants to function efficiently and profitably. And from this point of view participatory leadership demands that managers make sure that opportunities to fulfil different leadership functions will be divided roughly equally among employees. In other words participatory leadership stresses more leadership functions and less persons.

Enterprises whose organisational arrangements are based on participatory leadership will be called self-governing enterprises (Dahl 1985:91). Here decision-making will correspond to the imperatives of the democratic process, whose sole purpose is to further equality and democratic rights among the personnel. There is a shared understanding in self-governing enterprises that commitment of personnel can be tied only temporarily by means of intensified orders and tightened control. The only source of sustainable commitment is the constitutional rights given by an enterprise to its personnel.

An essential part of participatory leadership are economic incentives such as different schemes of profit-sharing and joint ownership.

These are necessary in the process in which self-governing enterprises seek to promote economic equality and narrow the gap between those who own and those who do not. Enterprise can thereby create an atmosphere where employees can see directly the connection between their efforts and rewards (Halal 1986:186). These schemes, writes Halal, do not, as might be thought, undermine private enterprise, they only invigorate it. It is no wonder that these schemes have become very popular (Halal 1986:185 and Naisbitt-Aburdene 1985:55).

In addition to economic schemes there are also important social innovations with which participatory leadership can be promoted. One of these is the quality of work life movement. The idea of the QWL, asserts Halal, eschews any particular method, but relies on developing a sound labour-management relationship to devise various alternative work patterns (Halal 1986:186). The QWL helps both personnel and management in the search for new possibilities and frees unused resources within organisations.

Participatory management is from the point of view of the old reality difficult to realise. It will, however, suit to the conditions and challenges of the new reality very well. In self-governing enterprises it will make profitable investments possible, create new jobs, speed up progress and further efficiency and effectiveness. One may safely say that a local economy where there are many such self-governing enterprises can be confident about the future and give an inspiring example to other local authorities. For these reasons participatory leadership is for local economies the important exchange process.

3. From imperatives of production to imperatives of quality

In the old reality the well-being of the consumer was reduced to a mere act of buying and consuming on the market. When the purchase was completed the producer was no longer interested in what the customer did with his new product or what meaning it had to him. There were two critical tasks for the producer; that of producing efficiently and that of selling quickly. For this reason there was antagonism and hostility, sometimes open, sometimes hidden, between the producer and the customer. It is no wonder that marketing was often taught as

warfare where selling meant victory and failure to sell defeat.

However, in the new reality relationships between producers and customers are drastically changing and the traditional ways of handling these relationships are thus also doomed to fail (Toffler 1985:82). The fundamental reasons why the imperatives of production are being replaced by those of quality are the customers' movement, their option not to consume, their courage to criticise and the diffusion of higher mental values which are replacing with increasing speed material needs in society. If enterprises fully realise the fundamental significance of quality for customers' choices and if they are ready to act upon this, quality will become a new source of energy, imagination and vitality in the enterprise. For this reason the imperatives of quality are an essential part of the exchange process.

It is already possible to see that the enterprises which operate with quality are willing to create and offer customers possibilities to participate in the inner decision-making processes such as research and development. The quality enterprises regularly acquire ideas and suggestions from their customers. For them the complaints which the old logic held only as nuisance are an unexhausted source of improvement for products. The quality enterprises try to organise their inner structures through the demands of quality. Then every arrangement which cannot be defended by appeal to the imperatives of quality is then either unnecessary or wrongly designed.

It is natural for quality enterprises to cooperate in order to exchange ideas, evaluate them creatively and create new product ideas. From this point of view it is not appropriate to understand quality circles only as an inner component of production. In the local economy quality circles can also be conceptualised as a quality network between private enterprises and public authorities. The quality networks covering large parts of the local economy can help to diffuse new ideas, recognise unmet needs and teach synergistic collaboration. It is vital to realise that this is one of the most efficient ways to keep the local economy going.

4. From atomic to synergistic networks

In the old reality local economies were reduced to manipulative variables in national economic equations, whose practical values

depended on national objectives. In these formal models entrepreneurship was understood and defined only as an exogenous variable. There was no compelling reason to brood on how entrepreneurship was bound up with the values, traditions and institutions of the local economy and what were the exact relationships between them. This kind of reasoning helped stakeholders acting on the national level to assess local economies as atomic units which could be exchanged at will.

In the new reality we must be able to analyse local governments not from the point of view of the national objectives, but as synergistic networks where acting local authorities are capable of independent local choice (see especially Stewart 1986). This conception implies that local governments are not mere agents of the State without their own volition, but capable of making necessary choices and deciding the fate of the whole community. This also means that the success or decline of local governments cannot be fully explained by appealing to the activities of the State; they must be made understandable by pointing to internal arrangements within local governments and relationships between them.

The synergistic networks are necessary to local governments because the environment they act in is constantly changing. Objectives will be approved and then soon disapproved. This all requires of local governments an ability to create and re-create synergistic networks. Those which flow easily over formal borders in local government can be more important to the participant than the State.

The synergistic networks will change their shape and size continuously in the increasing change and turbulence of the new reality. They convey innovative energy to the participants. In the synergistic networks new ideas can quickly spread, transform and cross-fertilise, creating in this way new possibilities for local governments. It is the crucial task of the local economies to create, maintain and structure these networks. It is also important to realise that this task is better suited to local governments than to the State.

5. From command to new union

In the old reality the State represented original, and sovereign power. This meant that the State must organise the working of society and give part of its power to local authorities and

other public bodies to function efficiently (Merikoski I 1970:13). It is therefore no wonder that the State in its relationships with local authorities was seen as the decision-maker, commander and realiser. The task of the State was to lead society and the activities of the local authorities within the limits of legislation.

However, in the new reality ever-increasing complexities, uncertainty, change and turbulence will force the State to re-evaluate critically its old functions, responsibilities and tasks. The State must realise that by acting according to the old pattern it seriously hinders the capacity of local authorities to navigate in the new reality. It is no longer appropriate to think of local authorities as un-independent agents of the State. The State must make local authorities as strong as possible, and in this lies the possibility of great transformation in the public sector as a whole.

The State acting in the new reality must aspire to a new union with the local authorities. The basic objective for the State is not to increase or cultivate its capacity to plan, lead, supervise and control, but to realise that its possibilities to manipulate local governments and society have already dramatically diminished. Therefore the State must try continuously to activate, energise and empower local authorities. The real war is not fought between The State and local authorities, but inside the State machinery, between bureaucracies.

It is a well-known fact that comprehensive planning and statistical logic do not automatically generate ideas, suggestions and innovations. It is rather difficult to bring them about in this way, because they grow out of the right environment and atmosphere, which encourage imagination and creativity and let things simply happen (Haefele 1962:186). Therefore in the new reality the State must learn to invest in those processes in local governments which generate learning, creativity and a will to seek new possibilities. From this point of view it must be said that the real problem for local authorities is not necessarily to increase new grants or find new sources of expenditure, but to free the chained resources within local authorities.

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