The Schizophrenic Corporation:

Corporate Governance in a Clustered World

- Discussion Paper Only -

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1. Introduction

The purpose of this paper is to examine the changing governance context of firms and clusters, and then to formulate the considerations for a regionally based strategy for sustaining their growth. This paper argues that in order to foster a solid foundation for clusters to expand and adapt continuously, the cluster must first be understood internally – both within and across company boundaries, as well as externally – from a regional dimension.

Accelerated by globalization, the empowerment of local factors creates the need for effective collaboration and territorial-based alignment - factors shaping new governance capacities for the locality as a whole [Storper 1997]. Partnerships among all stakeholders become the stated norm, along with new and immense coordination challenges across all sectors. As this new environment reshapes local and regional development capacities, organizations in all sectors must adapt – both individually and collectively.

One result of this changing landscape is a growing emphasis on embedding clusters locally. In fact, a key premise of this paper is that sub-national forums - city-regions particularly - are quickly displacing national systems as the central locus for business-government-society relationships. While the nation-state is not about to disappear, particularly as an actor in the transnational environment shaping new governance regimes, it is locally where the value of multi-sector governance must be understood in order to foster successful approaches for cluster growth.

Yet, at the same time an exclusive focus on the local dimensions of economic clustering is incomplete. New business models increasingly involve networks that extend globally as well as locally, and it is not uncommon for leading enterprises to be present in a significant way in multiple cluster settings. Adding a corporate governance dimension to understanding clusters allows for a better inclusion of the new parameters of market activity, both globally and locally, and the resulting consequences for new mixes of both competitive and collaborative strategies.

The interdependence between the changing nature of both intra-firm and inter-firm linkages on the one hand, and the collective performance of city-regions on the other is not one that has been well examined in the literature. Our objective, then, is to explore a possible nexus between corporate governance and regional governance, and how a better understanding of these ties can underpin more effective multi-stakeholder strategies to nurture competitive clusters.

2) Corporate Governance and Shareholder Concerns

Governance is fundamentally about guiding systems for decision-making and coordination in a world of dispersed power, knowledge and information. With globalization, technology and innovation creating spaces for new business models thriving more on change and less on stability, it is natural that along with such shifts come underlying debates as to how corporations govern themselves. Indeed, understanding the changing nature of corporate governance at the firm level is a prerequisite to effectively addressing inter-firm processes of clusters, and inter-sectoral forums that embed and shape these clusters.

What is a corporation? Fundamentally, it is a mechanism to allow a variety of partners to cooperate. To facilitate such cooperation, rules have evolved over the past few centuries in order to create a generally accepted regime of business practises (at least, and particularly in the Anglo-Saxon world). These rules have emphasized limited liability rights, transferability of interests, legal personality and centralized forms of management.

Yet, it is important to underscore that the corporation remains a nexus of contracts and relationships, and it is this nexus that is being redefined today. Globalization has created a forum where different visions of this nexus – and the governance regime that results - clash. Most prominently, there is a contrast between the Anglo-Saxon notions of the corporation as the private property of its shareholders versus the more Asian-European view of the corporation as a social institution [Allen 1992].

In the private property conception, the corporation is nothing but shareholders (in the radical version), or rather it is considered to be in the best interests of society if the property owners act as if they were the sole owners, for it entails a better management of the corporation. In this property-based vision, the only relevant providers of capital are those who supply finance to companies. Thus, good corporate governance entails the design of structures that increase and maximize shareholder return. In such a world, an expansion of the firm to include outside partners is strictly limited to formal bonds of financial investment and shared (in a legal sense) entities. The market becomes the sole judge of corporate behaviour and as a result, the focus is primarily – and often exclusively on the formal decision-making apparatus of the corporate structure. In such a case the Board and the Directors are accountable only to shareholders – and the central challenge that results is the principal agent problem.

In the more institutionalist conception, the corporation is perceived as a compilation of various constituencies that provide various sorts of capital – i.e. financial, intellectual and social. Thus, the Board should be accountable to all relevant stakeholders, as they may be regarded as trustees charged with augmenting the value of the collective assets and balancing the various claims of different capital providers.

The responsibility of the corporation is the same in both environments—to maximize returns. In the shareholder model, the benefit to be maximized is clear—profits—and so the corporate governance mandate is also clear. In the more institutionalist world, the much broader notion of stakeholders encompasses the entire network of capital providers – of all sorts (financial, human, and social). The differing agendas of the multitude of corporate stakeholders make the corporate mandate extremely difficult to fathom. The challenge to the corporation in that case lies in assessing the nature and distribution of the benefits to be provided.

The resulting challenges of good governance focus on both coordinating these competitive activities and sharing the relevant forms of risk and returns that arise from this socially-embedded view of market behaviour. At the same time that the shareholder and stakeholder interests need to be balanced by the corporation, the balance of inputs and outputs among all the stakeholders must be found. These are new and sometimes daunting challenges that tax the talents of managers brought up (and successful) within the traditional shareholder model and governance style.

Numerous forces have brought about clashes between these camps and what they imply for the governance process of organizations, particularly modern corporations. The acceleration of technological change, the globalization of finance, investment, and production processes, and the information and communication revolution have been central [Marshall 1994; Paquet 1997]. On the one hand, the expansion of markets, and market-based appraisals augments the case for property rights and the power of shareholder measures of return. On the other hand, the growing complexity of the value-chain that defines successful forms of business innovation demands an approach more conducive to networks of stakeholders, formally and informally.

3) The Case for Stakeholder Governance

We might suggest that, in the terminology of Michael Enright, the "globalization of competition" fosters a shareholder perspective, while the "localization of competitive advantage" fosters the stakeholder view. Note too that corporate collaboration represents only an extended example of the shareholder model, where all partners share the imperative to maximize profits. They have simply decided that they can do so better through collaboration than by going it alone. The distribution of profits between the partners is generally negotiated through a legal agreement.

Yet, collaboration among firms is only one dimension of a collective governance template which includes non-market actors as well. Evidence suggests that in order to better understand complex environments of competitiveness, learning and collaboration, the stakeholder view provides a better foundation on which to build.

In a knowledge-based economy, defined by technological, economic, and institutional evolution, Best characterizes the complexity and creativity of corporate behaviour as characteristic of the entrepreneurial firm, emphasizing flexibility at the expense of size. For the entrepreneurial firm, the key success factors are ongoing capacities for product, process, and organizational innovation - abilities dependent on *learning systems* (similar to Cohen and Levinthal 1990)[1]. Weiss and Birnbaum [1989] conceptualize a link between the entrepreneurial firm and its institutional environment which they call the technological infrastructure. Their fundamental conclusion is noteworthy: technology strategy is about institution building--it is about defining the boundaries of an extended enterprise, or in other words it is about stakeholding.

The case for stakeholding has been made in a variety of ways: first, as a way to describe better what is really going on; second, as a way to design a more effective collaborative mechanism; and third, as a way to acknowledge the notion of property as a bundle of rights. For Donaldson and Preston [1995], this third approach would appear to be the most persuasive.

But one may add to this view and tie it to many of the new realities that have expanded the prominence of clusters. In the old world of competition (to borrow the phrase of Best), governance enjoyed greater clarity and stability. The normal corporate governance model for publicly traded companies was based on three pillars: the sovereignty of the shareholder, the delegated authority of the Board on behalf of the shareholders and the compliance of management [Bowman and Useem 1995]. But in today's more turbulent environment, new forms of organizations and new forms of governance regimes become both conditions for survival and strategic imperatives for success. As such, new corporate models such as Dell and Cisco redefine themselves according to process as much as product (and in these examples, even the shareholder-defined mechanism of performance would appear to recognize their success). The new challenge of governance is to ensure integration and coordination through non-centralized arrangements that allow constant renewal through learning and adaptation.

In a production age that is both global and digital, wealth creation now depends on a diversity of stakeholders with unique sets of competencies and specialized investments at risk. For some, there is a need to shift from corporate-based management to more contractual forms of governance, where rights and obligations become formalized through a nexus of treaties [Kester 1992; Blair 1995]. While there is little doubt that this contractual view of the world is an important dimension of the value chain that defines the new business model, it does not tell the whole story; absent are the more relational forms of governance activities based on trust, and at times, proximity.

It is in this sense that the notion of a cluster has found renewed interest since the 1980s. The idea of groups of companies sharing conditions for production and innovation is not new, as it dates back to Alfred Marshall's early vision of industrialization. Yet, whereas Marshall could be interpreted as having some recognition of the stakeholder view (his intangible elements that define the industrial culture of companies), Michael Porter's more recent contributions to

[1] Best provides an interesting distinction with respect to firms and learning: "learning suggests that a distinction be made between information, a core concept for the conventional theory of the firm, and knowledge and its refinement. Creating production knowledge by problem-solving involves more than the flow of information: information is already existing; problem-solving is the creation of knowledge. The latter is the secret weapon of the entrepreneurial firm" [Best 1991, p. 38].

clustering, and the business and policy strategies that result, centred almost exclusively on an implicit embracing of the shareholder world. For Porter, it was the locus of competition, aided by proximity that explained global success – and the competitive dynamics between companies merely re-enforced the internal dynamics of successful companies.

In the Canadian setting, D'Cruz and Rugman partially recognized the shortfall here, suggesting that clusters are really business networks – where competition and cooperation are both at play (much like Best's new competition). Saxenian's more recent contribution, from within the much-lauded environment of Silicon Valley, attempts to tie these elements together to some degree. She recognizes that corporate governance (corporate organization in her model) must co-evolve with external networking strategies (industrial structure) and the contributions of local stakeholders (local institutions and culture).

Yet, all of these models, while useful in shedding light on the multi-stakeholder dynamics of networked-based governance, suffer from taking only a superficial look at corporate governance. This means that the specific nature of different types of firms are poorly examined. Also, as stated at the outset of this paper, the over-reliance on the factor of proximity in these same models oversimplifies the governance dynamics at play – revealing local linkages but ignoring their interdependence with global pressures and transnational business models. Thus, our view is that it is unwise to choose between global and local processes; rather, they must both find a place in an effective regional strategy for cluster development.

In this way, we might argue that there may be a space in which both the shareholder and stakeholder models are reconciled. If it is true that the stakeholder model, through localization strategies, does in fact produce the best results over the long term for the corporation, then the shareholders' interests are best served through the stakeholder model. Yet, this reconciliation may not occur if the shareholder-based system of accountability is not properly sensitised to stakeholder relations and their link to performance: in the absence of a proper value attached to a local stakeholder strategy, some level of conflict may still ensue.

Our view, however, is that there is a case to be made for linking the globalization processes that would appear to favour a shareholder approach with the localization context of stakeholding. Indeed, making this link is absolutely essential to understanding clusters that often comprise actors with systems of governance that transcend this global – local quandary. In other words, corporate governance is equally about the global federated architectures of modern corporations and the locally embedded networking dynamics of learning regions. A strategy to facilitate the growth of clusters must first understand these new parameters of corporate activity, and their likely impacts on the locality.

4) Global Architectures and Local Ecologies

The nucleus of localization lies within a setting of interactions and interdependencies rooted by territorial proximity. In terms of embedding these clusters in their multi-stakeholder environment, the key message is that good local governance provides a capacity for integrative local action [Stoker 1996]. Such an integrative view of local action, however, implies that corporate activity may be exclusively focused on a single locality – an increasingly dubious assumption to make.

Thus, two dimensions define the evolution of an existing cluster. First, clusters encompass new sets of linkages between firms of various sizes, and the emergence of this locally based value chain is now as much a part of the firm's decision-making systems as what goes on inside of the company. This new value chain is as much about "stakeholding" as it is about shareholder value. While successful entrepreneurs have often been ahead of the much-relied upon market analyst's view of the world (one leaning strongly toward shareholder value – particularly the Anglo-Saxon view of the world), new business models such as those typified by Cisco and Dell suggest that this emerging ecologic web of intra-company linkages is being recognized. In this sense, larger companies are, in fact, defining their own form of cluster – one that encompasses a variety of internal growth strategies and external acquisitions - generating an extended firm, or a new form of corporate architecture of a sort not seen in the past.

Yet, the second dimension is based on the equally important premise that clusters can only be partially based on proximity. Technological and economic forces that drive globalization are also extending the boundaries of the new business models beyond any single country or region. Thus, clusters must be understood from a global perspective (the changing parameters of the industry and its players), as well as from a local perspective (where the company is embedded).

In an important contribution to this discussion, and its relationship to these changing corporate structures, Dicken [1994] synthesises the many schools of thought on the different characteristics of transnational business organization. Building on the work of Bartlett and Ghoshal [1989], Dicken distinguishes between the Multinational, the National, and the Global organization.

In terms of their structural configuration, a continuum of federalist to centralist principles is offered. The multinational organization is denoted as a decentralized federation, with decision-making authority vested in different regional or national units. The international organization is a coordinated federation, with some flexibility coupled with a notable degree of autonomy. Finally, the global organization is a highly centralized operation with assets, resources, and responsibilities for decision-making concentrated in a single location; operations outside of the home country are little more than the delivery agents of this unified architecture.

Dicken then describes the different management mentalities associated with each model, and how they differ. Whereas the multinational model is viewed as a portfolio of largely autonomous units, the global model imposes order on an operation that is dispersed geographically, but not in any real governance sense. In between these two poles, the international model attempts to coordinate power-sharing, often creating forms of transversal governance arrangements in the process.

Two trends are noteworthy since this dichotomy was proposed as such. First, the centrepiece of this continuum, the international plane, has emerged as the gravitational centre of corporate activity and the shareholder governance regime. Yet, whereas new technologies offer capacities to coordinate decision-making across a transnational environment, the need for empowerment, entrepreneurship, and intrapreneurship across a knowledge workforce pulls in the opposite direction. This latter set of forces is also strengthened by the production and learning externalities offered by select locales. The net impact is that international firms struggle to find a balanced and workable form of federalism, with important consequences for countries and city-regions.

Therefore, a key consequence of the emergence of international federated business models is the second trend of the 1990s, which is the shift in federated boundaries from a global - national spectrum to one that is global - local. Not only may companies operate in multiple locales across the globe, but lines of accountability may no longer be drawn according to national boundaries. In fact, there is a need to distinguish between those truly international organizations with global reach, and those corporations, growing and aspiring to such stature, but still relatively rooted in a single locale.

The consequences for clusters are profound, as any locally-based strategy for cluster development must make an effort to encompass the transnational and shareholder dimensions of corporate governance on the one hand, and the local and stakeholder dimensions of both corporate and collective governance on the other. A starting point for action is to therefore understand the new industrial composition of firms within a cluster, and how their performance will be shaped by their place within such a continuum.

Locally, there are three classifications of firms that can help guide us, each of which characterizes a firm's attachment to local governance in a separate way: they are flagship enterprises (FE), emerging enterprises (EE) and small and medium-sized enterprises (SME) [Rudolf 1998; Paquet, Roy and Rudolf 2000]. Each of these industrial types is responding in a unique fashion to the shareholder – stakeholder tensions described above.

For flagship enterprises, these actors are the multinational entities referred to by Dicken and others. Their operating spectrum is international, and their local presence is significant to a degree where a local cluster is identified as prominent if it comprises one or more such companies. In the past, such companies were recognized primarily by nationality; today, their identity is increasingly federated via multi-country mergers and acquisitions and also by their presence in many locales across the world. What may well matter more than the national identity of such a company is their home base locale, where the local linkages may be particularly vibrant. Yet, increasingly flagship companies are forging transversal strategies to embed themselves in world-class settings, the key measure of which being human and intellectual capital – and as a result, it may be necessary to differentiate between those flagship companies rooted with their home base in a specific locale (e.g. Cisco in Silicon Valley), flagship companies with significant operations in a particular place (e.g. Nortel Networks in Ottawa), and flagship companies on a global scale but with only fleeting operations in a particular locale (e.g. IBM in Ottawa).

For emerging companies, their dependence on a single place, defined more likely by a locality than a country, is much stronger – even as they aspire to becoming more transnational in size and scope. These companies often carry the strongest identity of a locale, as they represent the future opportunity for global success as the cluster evolves and expands. While the factors that shape the successful performance of such companies are complex, their relative emphasis may be said to be greater on financial or investment capital in order to expand operations and market boundaries.

For SMEs, the notion of a cluster is considered to be a necessary condition for positive incubation to occur. The presence of flagship and emerging companies will itself be a positive force in spurring new SME creation – but only if this proximity-enabled opportunity is coupled with effective governance linkages – of the stakeholding variety – to share ideas, find capital investments and forge the competencies necessary to both launch and sustain a new corporate entity. While the market focus of SMEs may well be global, their launch and initial survival are likely to be highly dependent on the dynamics of place. Thus, effective entrepreneurship is a collective effort.

Each of these different corporate types responds uniquely to tensions between shareholder and stakeholder models of governance. For flagship companies, their increasingly global operations are under close scrutiny by global market structures that emphasize strong shareholder accountability. As a result, their loyalty to any one particular locality (with the possible exception of their home base locale) may well be low, particularly if the stakeholder linkages in that locality are not adequately valued and linked to performance.

For emerging companies, the connection to place (and likely, one particular place) may be relatively higher and as such, the importance of stakeholding is greater. The paradoxical impact of shareholder governance may mean that a weak performance locally, recognized and valued by the market as such, could render such a firm an attractive takeover target by a global leader. Yet, even if this fusion takes place, the global company will be under enormous pressure to remain locally embedded – only if the conditions of that locality warrant such a presence.

For SMEs, the market responsiveness to the “dot.com” phenomenon has sparked new waves of companies attempting to go public, *de facto* looking to shareholder-driven models of growth. Yet, even though the volatility of the stock market has served as a warning about such instantaneous results, the most recent studies of successful start-ups demonstrate that the importance of stakeholding will be more crucial to the early stage development of entrepreneurs.

A dynamic and globally competitive cluster will encompass firms from all three categories. Thus, the foundation of a cluster development strategy must be to foster local actions which respond uniquely to the peculiarities of each case, while rallying collectively around a common vision for local success. Being aware of the importance of shareholder capitalism's market boundaries is necessary to understand how local clusters may be tied to or dependent on global processes; yet, acting locally, more likely in favour of aggressive stakeholding will be crucial for new and emerging companies – and for the virtuous circle of clustering dynamics that can ensue.

5. Cluster Development – Nurturing versus Attracting

To summarize the argument made to this point, in order to forge an effective strategy to grow clusters, a working template requires some understanding of the inter-related dimensions of corporate governance, competitive clusters and relational networks of stakeholders.

The link between corporate governance and the cluster must emphasize firm size, firm identity, and the nature of the local environment that supports both innovation and competition. Rather than traditional notions of nationality, by identity we mean the degree of organizational embeddedness of a company within a given locality – and while the location of corporate headquarters may be one indicator it is not exclusive in representing strong ties. At the same time, proximity alone does not define cluster boundaries, as so much of this market activity takes place within dimensions that are simultaneously global and local.

These competitive and cooperative forces are linked by a value-chain that is largely market-driven. The presence of an environment where shareholder models of governance are powerful forces for transnational corporate entities must be understood. To some degree, this new global order presents constraints not only on traditional forms of national action, but also on local action that cannot be easily dismissed. As such, collective factors such as taxes, regulation and incentives must be mindful of an international environment to comply with its rules and compete with its participants. More than countries, the emerging order of participation will be denoted by city-regions.

Yet, these market components must be understood to be elements of a broader local ecology (or at least an ecology that is partly local) encompassing a dynamic set of stakeholder relationships that contribute specific elements to the growth potential of a cluster – and as such, to its corporate participants. Accordingly, a well-defined local strategy must be based on local action to stimulate those segments of the cluster most reliant on local interdependence. The necessary starting point is to decompose the cluster composition according to firm type (FE/EE/SME), while also differentiating flagship enterprises based in a locale and others with significant operations there.

The next phase of cluster development is to recognize the three basic capital requirements that shape the collective governance of a cluster. They include: financial capital – or investment capital supplied by the markets to underpin market expansion; human or intellectual capital – the skills and research that are found both in the local workforce and research infrastructure; and social capital – the degree of trust and collaboration, and the presence of collaborative networks to effectively nurture inter-firm ties within the cluster as well as productive linkages between clusters and non-market institutions. While all companies share requirements for each of these capital sources, their relative need varies according to size and socio-economic circumstance.

The interactions of these two layers of analysis will yield appropriate sets of local action to strengthen the cluster's growth potential. What must be understood are the potential contradictions at work between the globally-based pressures of shareholder governance and the more localized incentives of a stakeholding strategy. The choice cannot be between them, but rather what must be understood is how the latter strategy is crucial for both corporate and community success, even as the former context shapes a certain portion of market-based activity.

We consider two forms of strategic localism that contrast endogenous-based action with a more exogenous-based strategy aimed globally.

> 1) Nurturing – this endogenous view of cluster growth suggests that social capital and trust among stakeholders locally is the central ingredient of a collective strategy for entrepreneurship. Other forms of capital (financial, human, intellectual etc.) will grow in importance when and if a start-up is nurtured from its inception into a viable entity. As such, limited public resources and civic partnerships must be mobilized in specific and complementary efforts to help incubate new ventures and socialize risk.
>
> 2) Attracting – this exogenous view remains valid provided there is a reframing from traditional efforts at international promotion aimed at specific firms (i.e., seeking inward investment) toward a people-centred strategy (i.e., inward flows of people and ideas). A strategy to attract human and intellectual capital is meant to focus on the entire quality of life, educational opportunity and workforce expansion picture of a locality that will determine the location choice of workers, rather than companies. Such a strategy is equally about creating a vibrant setting to both attract students to local institutions and retain them beyond educational tenures.

Our central line of argument is that there is little question that all three types of action are required to both levels of strategy. Nurturing is fundamental to SMEs and most EEs, whereas attracting human talent and research resources requires a collective strategy aimed less at promoting a locale's strengths internationally and more at nurturing them in order to attract interest across both an increasingly mobile workforce and increasingly open markets.

Paradoxically, the shareholder governance pressures rooted in globalizing economic markets may well re-enforce the need for strong stakeholder strategies locally – as international marketing is made less costly and nearly redundant in a smaller, more competitive and wired world. In the new economic context, the best exogenous strategy appears, in fact, to be to achieve endogenous success within a locality which, in turn, will attract attention globally via the corporate, media and human channels of exchange that provide the fabric of globalization.

Ottawa as a case study:

The industrial composition of Ottawa will be examined by pooling together participants from two of the area's leading clusters, Telecommunications Equipment and Microelectronics. In fact, demonstrating the importance of dynamic and open definitions of clusters as opposed to rigid boundaries, these two clusters have many companies which overlap both. Such a mix augments the importance of looking at corporate governance within a cluster, as specific sub-units and spin-off operations from within the same corporate family may look to nurture connections and collaborations within separate but quite related clusters – as they have been defined by a locality.

Within Telecommunications and MicroElectronics then, a profile of some of the leading companies reveals an impressive foundation of corporate activity.

FE – Nortel *, JDS Uniphase **, Cisco, Nokia, Alcatel

EE - Mitel, Tundra, Corel, Mosaid, Cadence

SMEs - Over 1000 such companies in the Ottawa area

The evolution of these clusters is interesting and typically dynamic of an industry shaped, and often reshaped by a global logic of capitalism that clearly leans to a shareholder logic. JDS Uniphase, the only flagship member truly based in Ottawa, has grown into an internationally prominent leader by virtue of its international acquisitions – particularly those in California's Silicon Valley. Nortel is rooted significantly in Ottawa – though based elsewhere in Canada, Cisco and Nokia are recent arrivals to the Ottawa scene and as such their operations remain at a modest scale, and Alcatel's entry came via their acquisition of Newbridge Networks (a good example of a locally rooted emerging enterprise).

In terms of the group of emerging enterprises, it is here where one finds companies which simultaneously possess the greatest capacity for global – flagship status and the greatest dependence on the Ottawa locale for such a realization to take place. These companies are shaped by both a shareholder and stakeholder logic: in terms of the former, their aspirations are global, as to some degree are their accountability systems via the marketplace; yet, their performance capacities are strongly rooted in the three types of capital that comprise the Ottawa governance system. For companies of such a size, the most dramatic of circumstances aside, outright relocation is virtually not an option – and it would be impossible for such companies to recreate the degree of local identity and embeddedness that they posses in the Ottawa area.

A company such as Newbridge Networks demonstrates the partial danger of this reality, as the Ottawa-born technology star, itself the mother of over fifteen spin-off operations in the Ottawa area, now finds itself a node in the Alcatel global federation. To a large degree, this acquisition was in response to, and facilitated by shareholder governance forces responding negatively to Newbridge's recent performance and positively to Alcatel's expansion prospects – of an accelerated variety. While some local commentators suggest that the loss of local ownership is a blow to Ottawa, the countervailing force – in favour of stakeholding – is the tremendous pressure on Alcatel to effectively embed themselves in the Ottawa area in order to retain the critical intellectual and human resources that led them to purchase Newbridge in the first place. Yet, the debate may not be settled until an economic downturn reveals the degree of local strength as it is valued within an Alcatel value chain based elsewhere.

At the level of SMEs, the case for stakeholding is strongest – even as a significant infatuation with shareholder returns permeates the cluster. The recent purchase of SkyStone Systems, an Ottawa-based start-up for nearly CDN$90 million by Cisco is indicative of the capitalization logic that is significantly permeating the local economic culture of the area. The potentially negative consequence of this transaction for other firms is to suggest, even implicitly, the opportunity for "striking it rich" quickly--in other words, the market logic of acquisitions and initial public offerings (IPOs) shortens the strategic outlook and may look for quick and extraordinary financial returns, even at a time when recent market instability demonstrates that a fundamental business logic remains crucial to survival.

This logic is primarily about stakeholding – and any interpretation of the new economy taken to mean that shareholder-driven models alone can harvest collective economic success, beyond a few exceptional cases for a cluster or region as a whole, is misguided and dangerous. Moreover, as a successful economic climate attracting a growing segment of venture capital and inward acquisition-rooted investment, social capital becomes a more crucial ingredient for most SMEs. Thus an effective strategy for nurturing clusters cannot be centred on the exceptional and volatile considerations of a global market place driven by shareholder logic. Rather than rejecting the logic itself (a clear motivator within the global – local dimensions of the market place and its clusters), the regional or local dimension to growing clusters must be based on the central premise that cluster development – of a sustainable sort – requires an effective stakeholder logic to both nurture success and lever such success into the only sort of international promotion that will properly garner attention within the global and shareholder-rooted marketplace.

7. Conclusion

The dynamics of clustering involves more than inter-firm linkages enabled by proximity. A cluster is an increasingly diverse forum of companies of multiple sizes and structures, with varying degrees of connectivity, loyalty and attachment to any given locality. While many companies are increasingly consumed by a logic of corporate governance rooted in a shareholder perspective, the collective intelligence and shared performance of a cluster, in turn the economic engine of the locality, remains closely tied to a stakeholder logic.

In this sense, the nurturing strategies of a locality must be focussed on efforts to sustain SMEs in their early stages, to build on the strong connectivity between emerging enterprises and their home base locales, and to encourage positive stakeholder actions that strengthen the interest and local presence of flagship enterprises. In those rare instances where a globally-recognized flagship company is rooted in a particular locale, this company must be recruited as a key local stakeholder and an important international ambassador.

The logic of stakeholder governance within a given locality is itself complex, dependent on not only inter-firm proximity but also intra-firm networks and strong partnerships between market and non-market actors. In this sense, the greater the degree to which cluster participants are rooted positively in collective efforts for the locality, the greater the likelihood that the virtuous circle of local success breeding global attractiveness will take hold. Conversely, a locality, particularly the non-market actors with the greatest responsibility for collective action of a stakeholder variety, that ignores this logic and allows the infatuation of shareholder governance globally to guide strategic action runs the risk of merely attempting to duplicate the sorts of functions best undertaken by the marketplace. In this sense, the most effective local strategy for attracting is, in fact, locally rooted processes of collaborative engagement that can strengthen the nurturing power of existing clusters to spur both new firms and new clusters.

As the market place links corporate governance and clusters, non-market actors at the local level can strive to strengthen the vibrancy of stakeholder strategies – aimed at both the most precarious market-based firms and the locally tied emerging enterprises. Yet, such action will require stronger linkages across the market sector and non-market sectors such as public bodies, education and research and the community at large. These non-market dynamics are the work of civic entrepreneurs and new forms of collaborative governance mechanisms that, in turn, demands a complementary focus on initiatives that strengthen the collective logics of clusters and their non-market supports.

The shareholder model of governance was well suited to the world of the old competition, exemplified by the increasing pressures of the "globalization of competition". But as today's turbulent environment has emerged, new forms of organization and new governance regimes become a condition of survival. Speed, flexibility, variety and innovation call for organizations to become "learning organizations" capable of adapting faster locally, organizationally and managerially. The challenge of the new governance regime is to ensure integration and coordination through non-centralized arrangements, and has to be built on sufficient compactness and solidarity to ensure organizational learning and a greater capacity to transform.

As we have seen, in the complex production process of the late 20th Century economy, the wealth-creation potential of firms has come to depend on a diversity of stakeholders. Many of them have significant specialized investments at risk. As noted by Blair:

> Their rights and obligations as owners should be formalized through compensation schemes, organizational forms, or other arrangements that place significant amounts of the company's equity under the control of the at-risk stakeholders and that assign control responsibilities commensurate with their equity stake to this group [Blair 1995:17].

Yet this shift from traditional corporate governance to contractual governance, in the sense of a nexus of treaties [Kester 1992], remains rather ill-defined. Systems of contractual governance may span a broad continuum, ranging from a nexus of explicit and detailed contracts enforceable by courts of law to a nexus of relationships based on implicit, relational contracting that are informally enforced. To the extent that a stakeholder approach to governance generates a broader net of relationships that cannot be easily formalized, it represents a dual move along that continuum: first, away from the absolute property rights of shareholders in the tradition of the English-speaking world, and second, away from the formality of market contracting toward relational, trust-based and moral contracts. Without attempting to spell out a typology of all the new circumstances generating pressure on existing governance systems, it is possible to identify some of the pillars on which this new model is based. It marks nothing less than redefining the rules of the game or the rules of engagement for all stakeholders, including corporations.

We suggest that there are two key pillars of this new type of governance: all groups have to buy in to the model and to the specific operational mechanism for implementing the relationships locally; and all groups have to honour their commitments. These are the minimum requirements to engender the social capital and trust need for such collaborative decision-making.

But key questions remain. How are the inputs and outputs, i.e. the specific contributions of each group and the benefits to be expected, to be determined so that all groups are prepared to buy in and to honour their commitments? And how are the operational mechanisms to be organized in a way that meets the approval of all groups?

Our view is that government cannot set the terms of this network of relationships, because the other partners will not long accept their predominance since the government's agenda and objectives will not meet the requirements of the other two sectors, especially business (outwardly oriented, straddling shareholder and stakeholder logics). In the same way, the private sector cannot be the lead group, because the other sectors will be suspicious that its stakeholder approach will before long morph into a purely competitive shareholder approach, thereby diminishing the benefits they as locally-based actors are seeking. Therefore we hypothesize that new forms of civic initiatives rooted in multi-sector partnerships will be the preferred *honest broker* in this nexus of relationships.

The Centre on Governance at the University of Ottawa is currently exploring this issue through a three-year project funded by the Social Sciences and Humanities Research Council of Canada that compares the experiences of three successful technology communities that exemplify different forms of the stakeholder approach—Silicon Valley, Ottawa and Glasgow. We will be reporting regularly on the results of this study. In this way, we hope to identify the new forms of collaboration, based on new forms of governance, brokered by the not-for-profit sector, that provide maximum benefits for all stakeholders in meeting the pressures of the globalization of shareholders and competition on the one hand, and the localization of stakeholders and collaborative advantage on the other.

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