



**KNOWLEDGE GOVERNANCE AND CREATIVITY  
IN THE ORGANISATION OF PRODUCTION:  
WHAT IS IN THE INTERESTS OF 'PUBLICS'?**

Silvia Sacchetti and Roger Sugden

*Institute for Economic Development Policy  
Discussion Paper Series*

**2008-03**

**KNOWLEDGE GOVERNANCE AND CREATIVITY  
IN THE ORGANISATION OF PRODUCTION:  
WHAT IS IN THE INTERESTS OF ‘PUBLICS’?**

Silvia Sacchetti and Roger Sugden\*

30<sup>th</sup> July 2007

*Abstract:*

We fuse previously distinct analyses to identify the essence of the production organisation problem. The focus is especially on the creation and use of knowledge so as to make choices over strategic direction. We then explore what that entails for creativity through a public interests criterion. The approach differs markedly from topical analysis on creative industries and competitiveness. We emphasise all people using their imagination and ideas, and suggest ‘public creativity networks’: socio-economic networks of mutual dependence in which creativity is nurtured through communication, so that together people might identify publics and realise those publics’ interests.

*JEL Classification:*

D20, D63, D80, L23, L26

*Acknowledgement:*

The authors would like to thank Christos Pitelis for comments and discussion, particularly as regards the analysis in Section II. Thanks also to participants at the *Ideas Laboratory* of the *International Festival on Creativity and Economic Development* (Gambettola, Italy, May 2007), where aspects of the paper were discussed.

---

\* Institute for Economic Development Policy, University of Birmingham, Edgbaston, Birmingham B15 2TT, UK;  
[S.Sacchetti@bham.ac.uk](mailto:S.Sacchetti@bham.ac.uk); [R.Sugden@bham.ac.uk](mailto:R.Sugden@bham.ac.uk)

## *SUMMARY*

The paper critically summarises and fuses two previously distinct analyses of the theory of the firm: the competence-based and strategic choice approaches. We thereby identify the essence of the problem of organising production in a modern economy: to create and use knowledge so as to make choices over the strategic direction of activity, which may then facilitate the further creation and use of suitable knowledge. Recognising that this knowledge governance perspective makes creativity an integral concern, we explore what that involves by considering a particular criterion for assessing economic relations, behaviours and activities: a Deweyan concentration on the interests of publics. Our analysis treats creativity very differently to that in topical debate about ‘creative industries’ and market competitiveness. We point to the significance of creativity from all people with an interest in the organisation of production, not in the pursuit of private objectives, but so that public interests might be served and no person be denied the joy of using their ideas and imagination so as to cause things to happen. Although achievement of such outcomes on a widespread scale might seem an ideal, we point to the practical potential of ‘public creativity networks’: socio-economic networks of mutual dependence in which creativity can be supported and nurtured through communication, so that together people might not only identify publics, but also realise the interests of those publics. Accordingly we advocate public policies to support such networks.

‘... there is the dream and the will to found a private kingdom, usually, though not necessarily, also a dynasty. The modern world really does not know any such positions, but what may be attained by industrial or commercial success is still the nearest approach to medieval lordship possible to modern man ... Then there is the will to conquer: the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of the success itself. From this aspect, economic action becomes akin to sport ... Finally, there is the joy of creating, of getting things done, or simply of exercising one’s energy and ingenuity’

(Schumpeter (1912, p. 93) on the motives of entrepreneurs)

## I. INTRODUCTION

Creativity is a topical issue because of the argument that it can offer firms and territories competitive advantage in a global context. One reason for this is that in the last few years there has been increasing stress on the potential of ‘creative industries’ as a source of market generated wealth (Caves, 2000; Florida, 2002). However, such analysis has not centred on creativity as significant for the fundamentals of how industries are actually organised, which is the subject of this paper.

A second reason that creativity is a topical subject is because of the view that in a modern knowledge economy the focus of market competitiveness is the pursuit of inter-related aims such as productivity growth, high-value and innovation (OECD, 1996), which are argued to depend (in part) on people’s creative potential. However, we would argue that this approach has tended to focus on creativity amongst exclusive groups of people in economies that are hierarchical and constraining because of concentrated power – the sort of economy reflected in Rothschild (2005). In contrast, this paper considers the potential of people more generally; most especially, it is concerned with publics.

We hypothesise that empowering publics in the organisation of production by unleashing their creative capacities in the governance process would fulfil currently unimagined potential. In effect our focus is on catalysing widespread entrepreneurship in the third sense identified by Schumpeter (1912, as quoted above; which is not to say that Schumpeter himself would have seen that as

possible or desirable). Consistent with this, the paper culminates in proposals for public policies that stimulate and nurture people's imagination, that provide forums for expression and interaction, and that therefore raise the possibility of people shaping and seizing innovative opportunities for new organisation.

The substance of our analysis begins with a discussion of an essential factor in production organisation, in Section II. The intention is to offer an enlightening perspective (without presuming it to be all-encompassing) that focuses consideration on core issues, in particular on knowledge governance (where governance here refers not to government – as in Quibria (2006) – but to the power to control production, to determine its strategic direction). The originality in this Section is its marrying of two previously distinct strands of heterodox economic analysis on the theory of the firm: we critically summarise and fuse the competence-based and the strategic choice approaches.<sup>1</sup> Thus we identify the essence of the production organisation problem in a modern economy as being the creation and use of knowledge so as to make choices over the strategic direction of activity, which may then facilitate the further creation and use of suitable knowledge.

This analysis is direct in its reference to imagination and ideas being used so as to cause things to happen; in other words, explicit in its focus on creativity as integral to the production organisation problem.<sup>2</sup> What more particularly this might involve is then assessed, using a criterion that we develop in Section III.

The novelty of this criterion is an express focus on 'public interests', some notion of which typically sits behind much of economics but in an obtuse way; what public interest might mean and entail rarely emerges into the shadows, let alone the limelight. Specifically, as a suitable assessment standard we draw especially on Dewey (1927) and build from Branston *et al* (2006a) in advocating the interests of publics.

In Section IV we use that criterion to explore the requirements for, and implications of, creativity in the organisation of production from a knowledge governance perspective. These are taken up in Section VI, which concludes the paper with some remarks about its policy consequences, including the prospect of catalysing 'public creativity networks'.

---

<sup>1</sup> Heterodox in economics, the competence based approach is considered mainstream in business schools.

<sup>2</sup> According to the Oxford English Dictionary (Oxford: Oxford University Press), creativity refers to the use of ideas and imagination so as to cause something to happen, including bring something into existence.

## II. KNOWLEDGE GOVERNANCE

Drawing on the insights of Penrose (1959),<sup>3</sup> the seminal contribution by Richardson (1972) provides a basis to explain different modes of organisation. He reasons that the firm and the market are not the only means for co-ordinating production, as Coase (1937) has been argued to suggest. Rather, further possibilities include 'complex networks of co-operation and association' amongst firms (p. 892). He warns that there is no 'sharp line of distinction' between modes, rather (p. 887):

'a continuum passing from transactions ... where the co-operative element is minimal, through intermediate areas in which there are linkages of traditional connection and goodwill, and finally to those complex and inter-locking clusters, groups and alliances which represent co-operation fully and formally developed.'

The particular stress of the 1972 paper is the inter-firm 'co-operative element in business relations' (p. 895), but the concepts that Richardson identifies are seen as explicitly relevant to production organisation more generally. These are issues that he takes up in subsequent work, notably Richardson (1998) on *intra*-firm industrial organisation.

To explain why one form of co-ordination emerges instead of another Richardson (1972) builds on the Penrose (1959) argument that knowledge, experience and skills constitute capabilities, which define what a firm can do. He (p. 888-889) conceives of industry as carrying out 'activities'. These are 'similar' when they 'require the same capability for their undertaking.' Whether similar or dissimilar, activities may also be 'complementary', in which case 'they represent different phases of a process of production and require in some way or another to be co-ordinated.' He reasons that firms tend to focus on similar activities (both complementary and not); and that non-isolated firms interact with each other so as to ensure quantitative and qualitative coordination of dissimilar but complementary activities. More particularly, 'complex networks of co-operation and association ... exist because of the need to co-ordinate closely complementary but dissimilar activities' (p. 892).

---

<sup>3</sup> On which see Richardson (2002).

A clear implication of this summary of Richardson's insights is the critical significance of knowledge. For him, capabilities are the driver of the analysis and knowledge is the essence of capabilities (a point that is incontrovertible once it is recognised that the essence of experience and skill are reducible to particular forms of knowledge). Hence the 'knowledge problem' is the essence of the problem of organising production.

## II.1. Competence

Together, Richardson (1972) and Penrose (1959) provide the precursors to the so-called competence-based view of the firm, developed more recently in the work of, for example, Prahalad and Hamel (1990) and Teece and Pisano (1994). This view has also been the subject of contributions that address issues in the knowledge-based economy, including Amin and Cohendet (2000), Steinmueller (2000) and Cohendet and Meyer-Krahmer (2001), and that convincingly place knowledge at the centre of modern production activity.

For Amin and Cohendet (2000, p. 93-94), the competence-based view conceives the firm in the following terms:

'A processor of knowledge (Fransman, 1994), a locus for setting up, selecting, using and developing knowledge... [This] leads to the recognition that cognitive mechanisms are of central importance and that routines play a major role in keeping the internal coherence of the organisation.'

Therefore, it is argued, for a given firm the ways in which knowledge is produced, absorbed, memorized, shared and transferred become major concerns.

In line with this view, the creation and use of knowledge is analysed to necessitate commitment, including finance and resources invested in its development, transmission and reproduction. It follows that the creation and use of competences by an organisation is subordinate to the way in which the organisation commits itself to the creation and use of its knowledge assets.

Further, the creation and use of these assets requires co-ordination; recalling Hayek (1945) and echoing the language of Richardson (1972), in the competence-based approach 'a primary role of the organisation becomes that of co-ordinating the dispersed knowledge' (Amin and Cohendet, 2000, p. 97). In fact, the commitment required to create and to use knowledge might be so high that it

points to the desirability of co-operation and association across networked organisations. For example, the more the acquisition of complementary pieces of knowledge entails dissimilar activities, the greater the commitment that would be required from a single organisation for it to undertake such activities internally, but the relatively better placed might be complementary organisations to co-operate in acquiring that knowledge.

More precisely what the co-ordination of knowledge might require is also indicated by Amin and Cohendet (2000, p. 97) when they point to the possible need for ‘commonly shared bodies of knowledge – sets of facts, notions, “models of the world”, rules and procedures which are – at least partly – known to all the members of the organisation involved in a given interaction.’ Again this echoes Richardson, who suggested that co-ordination across organisations relies on ‘reciprocal undertakings, habits or conventions’ (Richardson, 1998, p. 47).

However, whilst this previous literature has identified elements through which commitment could be realised and coordination implemented, a drawback is that it does *not* provide an in-depth consideration of how those elements might be governed. More specifically, we would argue that when analysing the organisation of industry the competence-based view on knowledge needs to be complemented by a strategic choice perspective on the governance of activity (see, *inter alia*, Cowling and Sugden, 1998a, 1998b; Branston *et al*, 2006a).

## *II.2. Strategic choice*

This perspective has strong ties with Penrose in its rejection of determinism. Severely criticizing the relevance of biological analogies in explaining the development of firms, Penrose (1952, p. 818) concludes:

‘our knowledge of why men do what they do is very imperfect, but there is considerable evidence that consciously formulated human values do affect men’s actions, that many decisions are reached after a conscious consideration of alternatives, and that men have a wide range of genuine choices.’

Likewise the strategic choice approach: it embraces voluntarism – albeit in the context of an analysis founded on the importance of economic power<sup>4</sup> – and

---

<sup>4</sup> Contrast the voluntary exchange principle at the core of extreme mainstream approaches, including perfect competition.



emphasises people's positive freedom to act (Cowling and Sugden, 1998b; Bailey *et al*, 2006).

The approach focuses on the governance of economic processes and systems, and the actors therein, in the sense of analysing which people make strategic decisions, on what basis and to what effect. Its contention is that the critical (but not exclusive) determinant of what does or might occur in production activity is strategic choice. Each and every type of economic process, system and organisation is argued to be characterised by a particular type of governance, and different types of governance are associated with different efficiency and distribution effects (on which see Cowling and Sugden, 1998a).

In the case of inter-firm co-operation, for example, Sacchetti and Sugden (2003) distinguish two types of network governance. First, a network of direction is a system to plan activities according to the exclusive objectives of a core, with or without the agreement of others. Strategy making across and within the network is dominated by the core; in the extreme, a core firm decides about network firms' relations with each other and with 'outside' firms, as well as about firms' geographical orientation and other elements of strategy (on the scope of which, see Zeitlin, 1974). Such circumstances enlarge the borders of the core firm from those defined by its legal boundaries to those defined by its ability to direct resources in the network. Those resources include directed firms as reservoirs of investment capacity, economies of scale and, indeed, knowledge. Second, and in stark contrast, a network of mutual dependence features the absence of hierarchy and, therefore, no strategic decision-making core. Rather, strategies are defined consistently with the interests shared by all the actors; there is a diffuse process of co-ordination amongst partners that allows and encourages each and every firm in the network to contribute to strategic choice.

Within and across a network, the commitment to creating and using knowledge and the co-ordination of this process would differ significantly according to whether it is a network of direction or of mutual dependence. For example, there would be a difference in the choice of – and search for – common rules and models of the world. Whilst a network of mutual dependence would have an interest in developing shared bodies of knowledge that enable each and every actor to participate in joint production activities on equal terms, a network of direction is of its essence based on unequal relations and would have no

positive concern with such knowledge. On the contrary, its core organisation might prefer such knowledge to remain hidden. Moreover, this causality operates in reverse. In a network of direction, a concern with creating and using knowledge that fosters the concentration of strategic decision-making power in the core, might enable the core to strengthen its hold on strategic choice. The strategic options that are available and the strategic choices that are made depend crucially on the creation and use of knowledge, because it is that knowledge which is the essence of capabilities.

Consider more specifically the case of Italian industrial districts, recently argued to have been moving towards a 'leadership' model in which technology transfers from the lead firm to its suppliers. Some observers have viewed this as a desirable trend because, it is argued, the leader can stimulate modernisation across the district, taking it towards new competencies and higher competitiveness (Lazerson and Lorenzoni, 1999; Brioschi *et al*, 2002; Guerrieri and Pietrobelli, 2004). In contrast, we would be more cautious in our assessment. There might be no advantage for a district in adopting a leader model - a network of direction - because that would imply a concentration of power in the leader and, perhaps, a corresponding restraint on others, whose interests might therefore be undermined. We would stress in particular that the more that the creation and use of knowledge depends upon a core firm whose role and therefore objective is to determine network strategy, the better placed is that core to succeed in its objective. Were it to do so, however, there is nothing in the model to require the decision-making leader to (continue to) take account of the wider, public interests in the district.

### *II.3. The essence of production organisation*

Drawing this discussion together, then, we suggest a characterisation of production that focuses on two inter-acting elements, knowledge and strategic choice. The concern with each element follows two previously separate strands of literature, respectively: the depiction of knowledge as central to understanding the organisation of production activity; the emphasis on decisions over strategy as the critical determinant of what does or might occur in production activity. A

stress on their interaction is an implication from our discussion of the competence-based view of the firm.

We conclude that in the organisation of production the strategic options that are available and the choices that are made depend crucially on the creation and use of knowledge, because it is that knowledge which is the essence of capabilities. However, there is also a reverse causality: both the commitment to creating and using knowledge and the co-ordination of this process depend crucially on the strategic options available.

More succinctly, the essence of the problem of organising production in a modern economy is to create and use knowledge so as to make choices over the strategic direction of activity, which may then facilitate the further creation and use of suitable knowledge.<sup>5</sup>

### III. THE INTERESTS OF PUBLICS

If this perspective is valid it clearly positions creativity as an integral concern at the heart of the organisation of production: it reasons that an essential problem is to use imagination and ideas so as to cause things to happen – specifically, so as enable choices to be made over the strategic direction of production.

The perspective treats the subject of creativity differently to topical arguments about so-called creative industries, increasingly focused upon in recent years as a potential source of market generated wealth for particular firms and territories. Caves (2000, p. 1) has suggested that whilst economists have studied most sectors ‘that display some distinctive form of competitive behaviour or pose distinctive problems for public policy,’ they have long missed the ‘industries supplying goods and services that we broadly associate with cultural, artistic, or simply entertainment value.’ The idea is that visual and performing arts, indeed cultural activities more generally, are associated with the production of goods and services that can be traded on markets to desirable economic effect (see also Florida, 2002). In contrast our focus differs, not least because it embraces creativity as an issue in the *organisation* of production, and it spans

---

<sup>5</sup> The word ‘suitable’ implies knowledge relevant to the making of choices over the strategic direction of economic activity (as against other forms of knowledge).

industries more widely (which is consistent with its being applicable to so called creative industries; and in a cross-sector, perhaps macro-economic context, to its perhaps being relevant to choices about those as against other industries).<sup>6</sup>

More incisively, however, our analysis not only embraces industries in general, it enables creativity to be thought about in terms of people in general. It can provide insight into which people may be engaged in using their imagination and ideas or, from the reverse angle, into which people may be constrained in their creativity.

To understand this we need to consider an aspect of the strategic choice approach to production governance in more detail, notably its explicit concern with public interests as a criterion for assessing economic relations, behaviours and activities.<sup>7</sup>

### *III.1. A criterion for economic assessment*

Economics has employed many varied criterion when analysing actual, potential or indeed hypothetical situations. Different criteria can provide complementary insights, each offering a particular dimension from which to understand and assess. In part this variety no doubt reflects the breadth of views, and differences of opinion, about the meaning and content of economic science. Nevertheless, despite economics being ‘notoriously difficult to define’ (Backhouse, 2002, p. 3), for many economists it clearly entails a concern with satisfying human interests; for example, many are likely to agree that economics ‘is about how production is organised in order to satisfy human wants’ (Backhouse, 2002, p. 4).<sup>8</sup> This suggests that it is legitimate to focus on the interests accounted for as a basis for assessing economic relations, behaviours and activities.

What more precisely is meant by the notion of ‘interests’ has been pursued in contributions to the strategic choice approach to the theory of the firm (especially Branston *et al*, 2006a; 2006b). Consistent with those, we here identify a spectrum of governance possibilities that is reflected in a parallel spectrum of different private and public interests that may, or may not, be accommodated in any particular organisation.

As illustrated by the earlier review of network types, according to the strategic choice approach governance possibilities (in hypothetical situations and in practice) range from relations based on direction to those characterised by

---

<sup>6</sup> Choice amongst sectors – for example, of where to target public policy – presumably depends on the perceived relevance of each sector to achieving competitiveness, or more broadly the aims of economic development (Branston *et al*, 2006b). That relevance would likely be impacted by the manner in which a sector creates and uses knowledge affecting its strategic direction.

<sup>7</sup> Policy-makers are sometimes heard to profess a concern with public interests as an assessment criterion, without necessarily being at all clear what such interests entail. Indeed, Eichenberger and Frey (2002, p. 269) remind us that politicians’ ‘civic virtue, which mirrors the intrinsic motivation of the ... politicians to contribute to the public interest, ... is an indispensable factor for a successful democracy.’ By drawing in detail on Dewey and others, our paper offers a clarification of what public interests entail, especially as regards creativity and the organisation of production.

<sup>8</sup> A drawback with this approach is that it is human-centric. Non-human animal and wider environmental interests might also be deemed pertinent.

mutual dependence. For example, in an inter-firm network of direction there is hierarchy and concentration of power in an exclusive core – in other words, concentration in the hands of specific private interests. (The precise make-up of those private interests might vary across situations; some networks might have a narrower core with a correspondingly diminished set of private interests.) In contrast, in an inter-firm network of mutual dependence there is a diffused process for identifying and pursuing shared interests. There is mutual agreement about the network's objectives and its strategy more generally. This does not mean that each of its firms, individually, necessarily has the same strategy. Rather, each may have a unique approach, but each nonetheless has a strategy that is consistent with each other and with the overall strategy of the network as a whole. In making a strategic choice, the decision-makers in each firm are aware that their acts impact on the interest of others in the network, not least on those determining the strategy in other firms.

Following Branston *et al* (2006a), an exclusive core might be expected to govern in pursuit of its own objectives (on the basis of the standard assumption in economics that decision-makers opt for choices in their own best interests), hence to adopt strategies that other interested parties (following other objectives) would not implement if they were making the decisions. However, this is argued to imply a significant and so-called strategic failure, because it is desirable for production to be undertaken 'in the broader interest – in the interest of the community at large' (Cowling and Sugden, 1999, p. 361). In direct contrast, it is also argued that there would be no such strategic failure with a diffused process appropriately based on the identification and pursuit of shared interests; to use the terminology of Branston *et al* (2006a), no failure with a process that appropriately reflected public and not merely private interests.

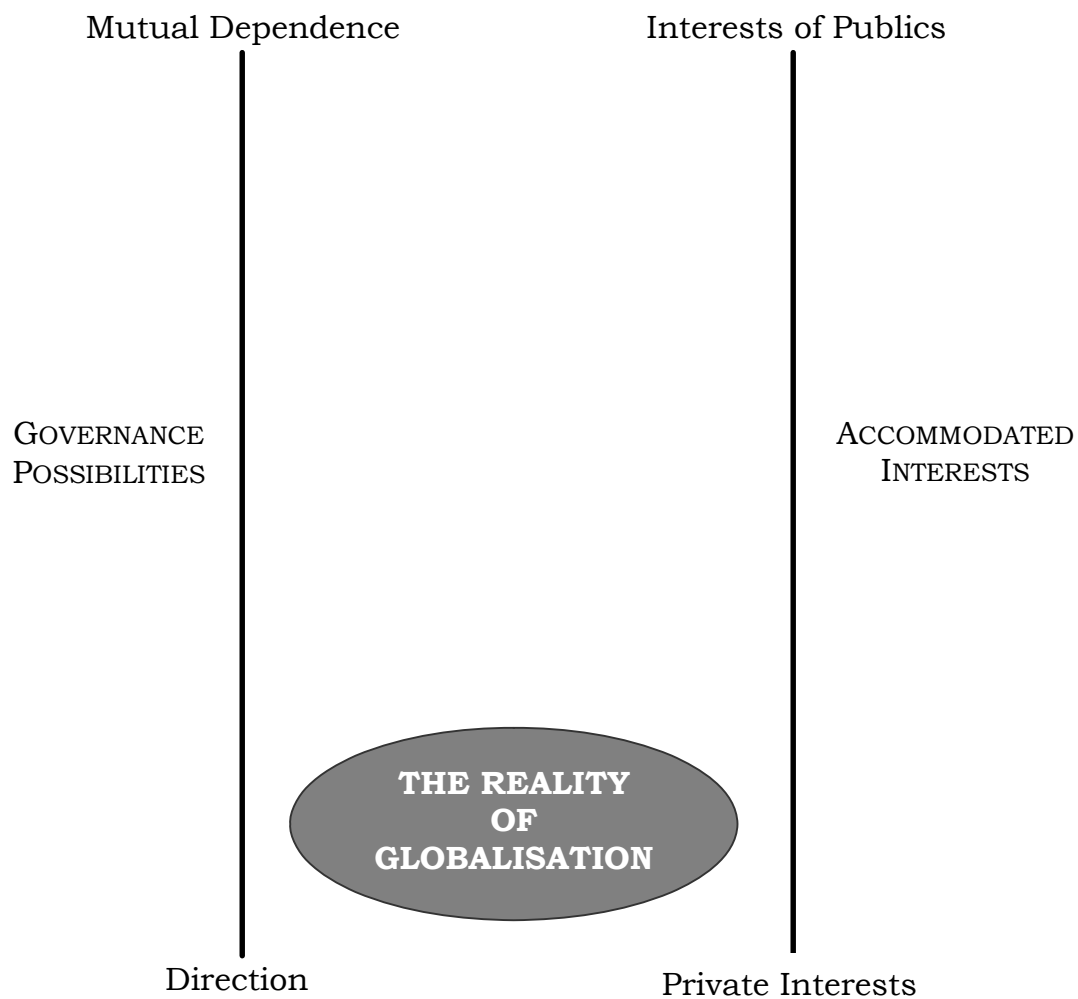
This reference to public interests is based on Dewey's (1927) seminal analysis. The idea is that an act – for example, the making of a strategic choice – might have significant consequences both for those directly engaged in it, and for others. The direct participants are said to have private interests in the act, whereas the others have public interests. Dewey (1927) is also clear in acknowledging that an act might bring into existence more than one public, each of which, according to Long (1990, p. 171), has 'a shared concern with consequences' of the private act.

Our conclusion is that an act governed by direction fails because it ignores public interests, which is the complete opposite of what happens under mutual dependence, where strategic choices reflect the interests of each and every public.

### *III.2. Current reality*

By way of illustration and further explanation, Figure 1 positions reality under (the current form of) globalisation as depicted in Rothschild (2005) within the parallel spectra of governance and interests that we have been discussing.

FIGURE 1: GOVERNANCE AND INTERESTS UNDER CURRENT GLOBALISATION



On the left hand side of the Figure we map the spectrum of governance possibilities, ranging from mutual dependence to direction. Parallel to this, on the right hand side we map the accommodation of interests, from publics to private.

Rothschild (2005, p. 444) sees the world as in a state of rapid change, due in part to technological influences that provided opportunities for 'large-scale production and organization' across much of economic activity. For him:

'These opportunities, connected with a political and ideological turnabout to an extreme neo-liberalism, which meets – with its emphasis on liberalisation, deregulation, and privatization – the interests of the quickly spreading big and transnational companies, created the explosive mixture of globalisation and world-wide liberalisation which lies behind many new developments and problems.'

In particular, he sees the large transnationals as having 'become – nationally and internationally – an especially powerful interest group' (p. 445). In fact, his analysis is very much in line with the strategic choice approach to the theory and impact of the firm; the latter is rooted most notably in an analysis of transnational corporations, focusing both on the exclusive determination of the strategic direction of such firms, and on their power and influence in economic systems (*inter alia* Cowling and Sugden (1998a) on the essence of the firm; see also Cowling (2006), positioning such theory in an appreciation of prosperity and depression in modern economies).

In other words, Rothschild is painting a picture in which the world's economies are being driven by powerful firms who follow their own, private interests with little regard for the publics that they impact upon. Hence we depict current reality in the space defined by the extreme ends of the governance and interests spectra in Figure 1.

#### IV. INTERESTS IN CREATIVITY

We earlier (at the start of Section III) positioned creativity as an integral concern in the organisation of production: it was reasoned that an essential problem is to use imagination and ideas so as to enable choices to be made over

strategic direction. However, the assessment criterion that we have just presented makes it clear that if this direction is concentrated in private hands, then it will be those private interests that determine the strategy of knowledge creation and use. Therefore, in such a case the stress on creativity will not be on publics, rather there will be a confinement to the use of imagination and ideas amongst (a) those constituting the private interests and (b) others, but then only in furtherance of the private interests and subject to the governance of those interests.

For example, referring again to the reality of current globalisation illustrated in Figure 1, the implication is that the power of the private interests governing transnational corporations is used so as to restrain and constrain creativity more generally. Echoing Schumpeter (1912, p. 93), we might argue that exclusive interests governing transnational corporations either represent private kingdoms, or/and are the consequence of attempts to conquer, to prove superiority over others; we would certainly argue that the governance approach would seek either to deny to most people ‘the joy of creating, of getting things done, or simply of exercising one’s energy and ingenuity’, or to harness and constrain the fruits of such creativity for narrow, private gain.<sup>9</sup> It is inherent to such a reality that creativity is constrained because public interests are denied.<sup>10</sup>

Again, then, we are suggesting that creativity be treated quite differently to that in other, topical analysis. In particular, there has been considerable attention on creativity as a significant determinant of innovation, high value and productivity growth, the inter-related aims underpinning the search for competitiveness, hence competitiveness policies, in modern market economies under globalisation (OECD, 1996). Indeed, such attention can be associated with the competence-based analysis of the firm. However, whereas that creativity argument is made in the context of an economy that is hierarchical and constraining because of concentrated power (and in fact is an analysis that pays

---

<sup>9</sup> Some might argue that not all people have the inherent capabilities to create. We would dispute such a view, not least citing Chomsky (1975) in his analysis of education, emphasising the inherent creativity in each person.

<sup>10</sup> It might be argued that public interests are served in situations where all economic actors narrowly pursue their own private interests. For example, some might contend that public interests are reducible to Pareto optimality, and that the likes of Debreu (1959) and Arrow and Hahn (1971) show that an economy can be in Pareto optimality when actors pursue their narrow self interests under conditions of perfect competition. However, Rothschild (2005) is based upon the empirical validity of a reality characterised by power and imperfect competition. Nevertheless, even in such cases it might still be argued that public interests are served, for example through policies that seek to correct market failures. The difficulty with that argument would be its presumption that policy makers know the interests of publics despite, according to Dewey (1927), those publics being themselves unaware of their own existence (Branson *et al*, 2006a; 2006b).



virtually no attention to such governance concerns (Branston *et al*, 2006a)), we would treat creativity differently, focusing not on the creativity of an exclusive group (or indeed ‘class’, as Florida (2002) argues) but instead on the potential of people more generally.

#### *IV.1. What is in the interests of publics?*

An obvious answer to this question is that it is not in the interests of publics that their interests are denied; rather, they need to be met. Accordingly, we suggest that the fundamental creativity requirement in the organisation of production is for all publics to be able to use their imagination and ideas so as to make choices over strategic direction. Put another way, the interests of publics necessitate the publics’ empowerment in the use of their imagination and ideas.

What precisely this would require raises complex issues and difficulties encompassing many factors; assuming Rothschild (2005) is correct, the world’s economies are currently at one end of the governance/interests spectra (shown in Figure 1) but the requirement would be a shift to the opposite extreme.

However, indications as to how such a move might need to begin are suggested by Dewey (1927), whose immediate concern is the state and political democracy but whose insights have wider import. Analysing the implications for acting in the public interest, he reasons that ‘the prime difficulty’ is discovery of ‘the means by which a scattered, mobile and manifold public may so recognise itself as to define and express its interests’ (p. 327). Moreover, this basic necessity for recognition and expression takes him to ‘*the problem of the public*’, namely ‘the essential need’ for ‘the improvement of the methods and conditions of debate, discussion and persuasion’ (p. 365).

Dewey (1927, p. 323-324) argues that people ‘have the physical tools of communication as never before’ but that:

‘The thoughts and aspirations congruous with them are not communicated, and hence are not common. Without such communication the public will remain shadowy and formless,

seeking spasmodically for itself, but seizing and holding its shadow rather than its substance.'

Interestingly, given our critical reliance on the approach in establishing the knowledge governance perspective, the competence-based view of the knowledge economy evokes this stress on communication. For example, Amin and Cohendet (2000, p.99) consider effective knowledge circulation in an organisation as associated with 'dialogue, discussion, experience-sharing', and to 'socialising activities'. Associated with this, we noted earlier (in Section II.1) that knowledge creation and use are argued to be influenced by firms' networking. More generally, the idea is that networks are instruments that may extend the opportunities of participants. Creativity can be viewed as in significant part a cognitive phenomenon generated through interaction and socialisation; repeated contacts and joint activities can activate the cognitive resources of individuals and therefore, we would add, of publics, thus generating new possibilities. For these reasons, networking might stimulate communication and convey new stimuli, enhancing learning opportunities in perhaps unique ways, possibly leading to currently unimagined outcomes.

We therefore suggest that, in the first instance, empowering publics in the use of their imagination and ideas depends on people - the members of actual and potential publics - engaging with each other in appropriate socio-economic networks. The focus of the networks needs to be debate, discussion and persuasion. However, because the object would be the enabling of publics in the organisation of production, it would be inappropriate for such communication to be based on private interests, otherwise private aims would dominate and there would likely be a failure to shift current reality along the spectrum depicted in Figure 1. Rather, the need is for people to begin to build networks of mutual dependence focused on the methods and conditions of communication.

Openness would consequently be a prerequisite, raising issues about network size and the propensity of participants to share information (David, 1998; Foray, 2000), and about the suitable mix between 'weak' and 'strong' ties (Granovetter, 1983; also Burt (1992) on 'structural holes'). People would need to have an interest in each other's ideas and perspectives, even if they would not share or support those ideas and perspectives. They would need to (be able to)

clarify why they do not share others' ideas, and we suggest that their reasons would need to be buttressed by coherent arguments, so as to anchor the foundations for the creativity. We hypothesise that from this basis people could start – with respect for each other and hence for publics – to discuss and talk with others, to share arguments and mutually influence ideas by increasing – through discussion – the diversity of perspectives and possibilities on the organisation of production. We further hypothesise that the outcomes would fulfil currently unimagined potential.

## VI. CONCLUDING REMARKS

An original contribution of this paper is to critically summarise and fuse two previously distinct analyses of the theory of the firm: the competence-based and strategic choice approaches. We follow Richardson in identifying the 'knowledge problem' as the essence of understanding what is entailed in organising production; adopt the stress of the strategic choice literature on economic governance as the essential determinant of what does or might occur in production activity; criticise the competence based approach for sidelining strategy in its otherwise insightful analysis of an organisation's commitment to, and coordination of, the creation and use of knowledge. Drawing these strands together, we conclude that the essence of the problem of organising production in a modern economy is to create and use knowledge so as to make choices over the strategic direction of activity, which may then facilitate the further creation and use of suitable knowledge.

Recognising that this perspective identifies creativity as an integral concern, the paper explores what more precisely that involves by presenting and then considering a specific criterion for assessing economic relations, behaviours and activities: we follow Dewey in concentrating on the interests of publics. Our analysis recognises the significance of creativity from all people with an interest in the organisation of production, not so that some can found a kingdom or merely engage in a form of sport, but so that public interests might be served and so that no person might be denied the joy of using their ideas and imagination so as to cause things to happen. Achieving such outcomes on a widespread scale might seem an ideal, but we also point to the potential of what might be called

‘public creativity networks’, more specifically: socio-economic networks of mutual dependence in which creativity can be supported and nurtured through communication, so that together people might not only identify publics, but also realise those publics’ interests.

Following Cowling and Sugden (1998a), if the deliberate intention was a significant shift from a current reality of globalisation that is simultaneously focused on governance by direction and the pursuit of private interests, then purposive public policy would be essential. They consider (*ibid*, p. 82-83) a challenge to the power of large transnational corporations through the development of production networks that capture key elements of experience in Italian industrial districts, and conclude:

‘The shifting of the boundaries between the domains of the major corporations and the industrial districts in favour of the latter ... would need to be done as a matter of purposive public policy rather than evolving naturally... [This] does not deny the social efficiency of the industrial district; rather it reflects a realistic assessment of the power of the major corporations.’

A similar conclusion would hold as regards our more specific concern with shifting the emphasis of creativity in the organisation of production; leave matters to existing private organisations, chance or hope, and entrenched power would sniff out flames of change.

However, even if the ambition were not to take on the power of the transnational corporations at a global level, we would continue to advocate the desirability of purposive policy to catalyse appropriate public creativity networks. That is because the experiences most people have from their everyday lives under current globalisation are very far removed from the potential that we have identified, hence encouragement and opportunity for change would typically necessitate the deliberate support of policy; suitable networks might be expected to erupt in some sense spontaneously in some circumstances, but more generally that would seem to be at best extremely unlikely.

To this end we would emphasise that information and learning opportunities – hence policy towards the education system, scientific research, as well as broadcasting media – are crucial. For example, providing people with valuable insights on alternative possibilities is part of an appropriate

communication process, as is the opportunity to explore those insights. These are preconditions on the ability of people to access knowledge and build their own understanding of issues that might be of public concern. Viewed from another dimension, access to such opportunities may emancipate, where here emancipation refers to the capability to discuss, to exert critical thinking on relevant issues with respect to one's interests, including one's participation in and understanding of various publics.

Moreover, we would stress that the stimulation of public creativity networks puts under scrutiny the influence of artistic activities, including visual and performing arts, writing, sound recording and cinema. These are included in the activities of so-called creative industries and, as we have observed, have been highlighted for their potential contribution to market generated wealth in a modern economy. For that reason they are important in the economics of creativity. However, the implication of our arguments is that artistic activities are especially significant to economic understanding for another, different reason: it is because of their impact as an essential viaticum for the stimulation and expression of people's awareness, imagination and critical thinking. Indeed, there is a sense in which we view people's access to and participation in artistic activities as the starting-point, a crucible for catalysing public creativity networks that might lead to such a shift in production organisation that publics could use their imagination and ideas so as to make choices over strategic direction.<sup>11</sup>

---

<sup>11</sup> This is to suggest that artistic activities can have *ex post* consequences, but it does not argue that they should be pursued as *ex ante* functional to those consequences. We would not advocate planning of artistic activities so that they impact on people's creativity in the economy. Indeed, there is a sense in which any attempt to plan *ex ante* functional consequences might limit the achievements of artistic activities, and in the extreme it might be argued that any constraint of artistic freedom runs the risk of constraining imagination and analytical powers more generally, including in the economic sphere.

## REFERENCES

- Arrow, K. and Hahn, F. (1971). *General Competitive Analysis*. San Francisco: Holden-Day.
- Amin, A. and Cohendet, P. (2000). Organizational Learning and Governance through Embedded Practices, *Journal of Management and Governance*. 4: 93-116.
- Backhouse, R. E. (2002). *The Penguin History of Economics*. London: Penguin.
- Bailey, D., De Propriis, L., Sugden, R. and Wilson, J. R. (2006). Public Policy for Economic Competitiveness: An Analytical Framework and a Research Agenda, *International Review of Applied Economics*. 20(5): 555-572.
- Branston, J. R., Cowling, K. and Sugden, R. (2006a). Corporate Governance and the Public Interest, *International Review of Applied Economics*. 20(2): 189-212.
- Branston, J. R., Rubini, L., Sugden, R. and Wilson, J. R. (2006b). The Healthy Development of Economies: A Strategic Framework for Competitiveness in the Health Industry, *Review of Social Economy*. LXIV(3): 301-329.
- Brioschi, F., Brioschi, M. S. and Cainelli, G. (2002). From the Industrial District to the District Group: An Insight into the Evolution of Local Capitalism in Italy, *Regional Studies*. 36: 1037-1052.
- Burt, R. S. (1992). *Structural Holes. The Social Structure of Competition*. Cambridge (Mass.): Harvard University Press.
- Caves, R. E. (2000). *Creative Industries, Contracts between Art and Commerce*. Cambridge (Mass.): Harvard University Press.
- Chomsky N. (1975). Toward a Humanistic Conception of Education, in: W. Feinberg and H. Rosemont (eds.), *Work, Technology and Education: Dissenting Essays in the Intellectual Foundations of American Education*. University of Illinois Press: Urbana.
- Coase, R. H. (1937). The Nature of the Firm, *Economica*. IV: 386-405.

- Cohendet, P. and Meyer-Krahmer, F. (2001). The Theoretical and Policy Implications of Knowledge Codification, *Research Policy*. 30: 1563-1591.
- Cowling, K. (2006). Prosperity, Depression and Modern Capitalism, *Kyklos*. 59(3): 369–381.
- Cowling, K. and Sugden, R. (1998a). The Essence of the Modern Corporation: Markets, Strategic Decision-Making and the Theory of the Firm, *The Manchester School*. 66(1): 59-86.
- Cowling, K. and Sugden, R. (1998b). Strategic Trade Policy Reconsidered: National Rivalry vs Free Trade vs International Cooperation, *Kyklos*. 51(3), pp. 339-358.
- Cowling, K. and Sugden, R. (1999). The Wealth of Localities, Regions and Nations; Developing Multinational Economies, *New Political Economy*. 4(3): 361-78.
- David, P. A. (1998). Communication Norms and the Collective Cognitive Performance of 'Invisible Colleges', in: G. Navaretti, P. Dasgupta, K. Maler and D. Siniscalco (eds.), *Creation and Transfer of Knowledge*. Heidelberg: Springer.
- Debreu, G. (1959). *Theory of Value*. New York: John Wiley and Sons.
- Dewey, J. (1927). *The Public and its Problems*. Denver (Co.): Holt. Page numbers refer to the reproduction in: J. A. Boydston (1988). *John Dewey. The Later Works Volume 2: 1925-1927*. Carbondale and Edwardsville: Southern Illinois University Press.
- Eichenberger, R. and Frey, b. S. (2002). Democratic Governance for a Globalized World, *Kyklos*. 55(2): 265-288.
- Florida, R. (2002). *The Rise of the Creative Class*. New York: Basic Books.
- Foray, D. (2000). *The Economics of Knowledge*. Cambridge, Mass.: The MIT Press.
- Fransman M. (1994). Information, Knowledge, Vision and Theories of the Firm, *Industrial and Corporate Change*. 3(3): 713-757.
- Granovetter, M. (1983). The Strength of Weak Ties: A Network Theory Revisited, *Sociological Theory*. 1: 201-233.

- Guerrieri P. and Pietrobelli C. (2004). Industrial Districts' Evolution and Technological Regimes: Italy and Taiwan, *Technovation*. 24: 899-914.
- Hayek F. A. (1945). The Use of Knowledge in Society, *American Economic Review*. 35: 519-530.
- Lazerson, M. and Lorenzoni, G. (1999). Resisting Organizational Inertia: The Evolution of Industrial Districts, *Journal of Management and Governance*. 3: 361-377.
- Long, N. E. (1990). Conceptual Notes on the Public Interest for Public Administration and Policy Analysts, *Administration and Society*. 22: 170-181.
- OECD (1996) *The Knowledge-Based Economy*. Paris: OECD.
- Penrose, E. T. (1952). Biological Analogies in the Theory of the Firm, *American Economic Review*. 42(52): 804-819.
- Penrose, E. T. (1959). *The Theory of the Growth of the Firm*. Oxford: Blackwell.
- Prahalad C. K. and Hamel G. (1990). The Core Competence of the Corporation, *Harvard Business Review*. 68(May-June): 79-91.
- Quibria M. G. (2006). Does Governance Matter? Yes, No or Maybe: Some Evidence from Developing Asia, *Kyklos*. 59(1): 99-114.
- Richardson, G. B. (1972). The Organization of Industry, *The Economic Journal*. 82: 883-896.
- Richardson, G. B. (1998). Some Principles of Economic Organisation, in: N. J. Foss and B. J. Loasby (eds.), *Economic Organization, Capabilities and Co-ordination*. London: Routledge.
- Richardson, G. B. (2002). Mrs Penrose and Neoclassical Theory, in: C. N. Pitelis (ed.), *The Growth of the Firm. The Legacy of Edith Penrose*. Oxford: Oxford University Press.
- Rothschild, K. W. (2005). New Worlds – New Approaches. A Note on Future Research Strategies, *Kyklos*. 58(3): 439-447.
- Sacchetti, S. and Sugden, R. (2003). The Governance of Networks and Economic Power: The Nature and Impact of Subcontracting Relationships, *Journal of Economic Surveys*. 17: 669-691.



- Schumpeter, J. A. (1912). *Fundamentals of Economic Development*. Cambridge (Mass.): Harvard University Press.
- Steinmueller E. W. (2000). Will New Information and Communication Technologies Improve the 'Codification' of Knowledge?, *Industrial and Corporate Change*. 9(2): 361-376.
- Teece D. J. and Pisano G. (1994). The Dynamic Capabilities of Firms: An Introduction, *Industrial and Corporate Change*. 3(3): 537-556.
- Zeitlin, M. (1974). Corporate Ownership and Control: The Large Corporation and the Capitalist Class, *American Journal of Sociology*. 79(5): 1073-1119.



**KNOWLEDGE GOVERNANCE AND CREATIVITY  
IN THE ORGANISATION OF PRODUCTION:  
WHAT IS IN THE INTERESTS OF ‘PUBLICS’?**

Silvia Sacchetti and Roger Sugden

*Institute for Economic Development Policy  
Discussion Paper Series*

**2008-03**

<b>Previous 2006-2007 IEDP Discussion Papers</b>		
2006-01	David Bailey and Keith Cowling	Industrial Policy and Vulnerable Capitalism
2006-02	Davide Parrilli and Silvia Sacchetti	Linking Learning with Governance in Networks and Clusters: Key Issues for Analysis and Policy
2006-03	David Bailey and Lisa De Propris	EU Regional Policy, Enlargement and Governance: Issues for the next Reform of the Structural Funds
2006-04	Keith Cowling, Silvia Sacchetti, Roger Sugden and James R. Wilson	The United Nations and Democratic Globalisation: A Reconnaissance of the Issues
2006-05	David Bailey, Alex De Ruyter and Noel Kavanagh	Lisbon, Sapir and Industrial Policy: Evaluating the “Irish Success Story”
2006-06	David Bailey and Seiji Kobayashi	Life After Longbridge? Crisis and Restructuring in the West Midlands Auto Cluster
2006-07	Lauretta Rubini	Development and Health: “Relational Learning” as a tool for Democratisation
2006-08	David Bailey and Roger Sugden	<i>Kūdōka</i> , Restructuring and the Potential for a ‘New’ Industrial Policy in Japan

2007-01	Mario Davide Parrilli	A Tripartite Innovation Framework for Small Firms in Developing Countries: Key Issues for Analysis and Policy
2007-02	Silvia Sacchetti and Roger Sugden	Creativity in Economic Development: Space in an Inferno
2008-01	Lorenzo Ciapetti	Tech-based Inequalities and the New Policy Dimension in Local Economic Development: A Framework for Analysing Local Development Processes in the Knowledge-Based Economy
2008-02	Ralph W. Bailey	Is the University in Ruins?