CHAPTER 11

Negotiating Order: Sectoral Policies and Social Learning in Ontario[1]

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INTRODUCTION

Innovation and learning are closely linked in the literature on technological change and the global economy. From the perspective of both evolutionary economics and regional studies, the capacity to innovate in turn is linked to the ability to successfully harness new knowledge in the pursuit of commercial applications or fashion significant improvements in product and process technologies. This trend has led many observers to describe the industrial countries as knowledge-based economies, however, it may be more appropriate to describe them as a learning economy. As the rapid pace of change associated with the "frontiers" of economically-relevant knowledge accelerates, the economic value of individual pieces of knowledge diminishes the more widely accessible they become. The increased availability of information resulting from the rapid diffusion of new information technologies and the emphasis on learning are thus linked. Learning in this respect refers to the building of new competencies and the acquisition of new skills, not just the acquisition of information (Lundvall and Borrás, 1998, p. 35).

The capability of firms, regions and nations to learn and adapt to rapidly changing economic circumstances will likely determine their future success in the global economy. Learning as a part of the innovation process is strongly conditioned by the broader social and cultural context in which it is embedded. The firm's capacity to absorb new knowledge and improve its internal routines for learning is strongly conditioned by the broader societal factors that shape its environment. Given that learning, as opposed to the dissemination of knowledge, is a highly localized process, regions are coming to be seen as a relevant site or level of study for those trying to analyse or understand the factors that contribute to, or impede, the potential of organizations to develop new learning capacities.

These facts pose a particular challenge for older industrial regions with mature or established economies, such as those in the industrial heartland of North America and Europe. In these economies, institutional practices are embedded in well-established cultural and social practices. In some instances, these practices may support innovation and social learning, but in others, they may not be particularly well suited to the institutional requirements of the learning economy. In these cases, the need to "forget" may be a prior condition of the ability to learn. The inertial effect exerted by the power of old routines and habits may block the ability of firms or networks to develop new learning processes (Gregersen and Johnson, 1997, p. 480). The challenge is particularly great for those economies that are based in a market-oriented, liberal politics with a weak history of collaborative relations and networking, either between firms or between the public and private sectors. Societies with a weaker tradition in this regard may experience special challenges in making the transition to a more innovative and learning economy.

The current case study, based on Ontario, the largest province and industrial heartland of Canada, represents just this kind of instance. The Ontario economy is dominated by more traditional manufacturing industries, especially the auto industry, and its industrial culture is characterized by features associated with the liberal or Anglo-American business model, which is governed by the values of rugged idealism, self-sufficiency and competitive rivalry. The election of a New Democratic Party government in 1990 marked a significant turning point in the history of the province. It represented a political breakthrough for Canada's social democratic party in the country's most populous province, but unfortunately, it came just as the economy entered its most severe recession since the 1930s. The impact of the cyclical downturn was compounded by a process of structural transformation triggered by the broader forces of technological change and Canada's integration into the North American Free Trade Agreement. The task of crafting a distinctive approach to industrial policy and structural adjustment was one of the most challenging faced by the NDP government in its attempt to promote the conditions conducive to a learning economy.[2] This chapter explores one of the central pieces of this approach — the formation of distinctive sector strategies in an attempt to foster a process of social learning across broad sectors of the provincial economy.

SOCIAL LEARNING AND INSTITUTIONAL REFLEXIVITY

The challenge of effecting a change to a learning economy raises important questions about the appropriate role for the state and public policy. Some have suggested that the state, especially at the regional or sub-national level, retains a positive role to play in the transition to a learning economy, but it requires a different conception of the state than that which has traditionally prevailed. The kind of interactive learning described in the introduction to this volume requires a degree of *reflexivity*, or the ability to self-monitor and learn from past successes and failures, in other words, to learn how to learn. This notion of institutional *reflexivity* poses important questions about the nature of public policy formation in modern democracies; for it is not only private institutions that must learn and adapt to the changing realities of a more innovative economy, but public ones as well. In the traditional Weberian conception of bureaucracy, the administrative apparatus is the repository of all relevant policy knowledge and expertise. The policy revolution of the postwar period, with its emphasis on the rational approach to policy formation, reinforced this traditional foundation. This approach downplayed questions of conflicting interests in the formation of policy and highlighted the potential contribution that expert analysis could make to solving complex problems.

Yet the more recent acceptance in the policy literature that rationality is bounded and that conflicting choices and values underlie our conception of the public interest leads to a more contingent approach. In this alternative perspective, the role of policy analysis contributes to the discourse and bargaining within which public policy is formed. The organizational and institutional structures within which policy is formed are also critical. The design of appropriate policy depends to a large extent on the design of organizational structures capable of learning and adapting to what is learned. This concept is not entirely novel; it has begun to appear with increasing frequency in the literature on "policy making as social learning." Yet, as Hall points out, the concept has been presented in only the sketchiest of terms and for the most part, it has been rooted in the literature that emphasizes a strong degree of state autonomy. To the extent that social learning describes the policy process, it applies to a process internal to the state (1993, pp. 275-76). As such, it remains grounded within the traditional Weberian conception of the state and its bureaucracy.

The idea that institutional learning is relevant to policy-making must go beyond the stage of policy formation. Although policy is formulated at the highest levels of government, it is generally carried out by lower levels of government, frequently in interaction with private parties. The actual policy as it is implemented on the ground involves working out conflicts among winners and losers as it is implemented; the broadly defined policy may change in the process. What ends up being implemented often differs radically from what the policy makers originally had in mind (Majone and Wildavsky, 1984). The effectiveness with which policies are implemented depends on the capacity of the institutional structures to adapt to this reality.

> . . . if one views policy making as a continuing process, the organizational and institutional structures involved become critical. Public policies and programs, like private activities, are embedded in and carried out by organizations. And in a basic sense, it is the organizations that learn, and adapt. The design of a good policy is, to a considerable extent, the design of an organizational structure capable of learning and of adjusting behaviour in response to what is learned.
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> . . . just as many analyses of the workings of the market economy tend to abstract the private economy from public policies, programs and institutions, too many analyses of public policies and programs do not recognize adequately that their effects will be determined, to a considerable degree, by private and not governmental actors (Nelson and Winter, 1982, p. 384).

This insight offered by Nelson and Winter suggests a radically different approach to public policy formation than that conventionally followed. It substitutes the exclusive role of the public bureaucracy for a more mixed public/private model and emphasizes the context of institutional structures and learning. It involves the devolution of more autonomy and responsibility for the policy outcome onto those in the private sector directly affected. It corresponds closely with the concept of the associational state that has emerged recently.

In a number of articles, including his contribution to this volume with Dylan Henderson, Kevin Morgan outlines a conception of the associational state more suitable to the context of a learning economy. In his view the key issue is not the scale of state intervention in the economy, but rather its mode of intervention. The key factor is not the boundary drawn between the state and private economic actors, but rather a framework for appreciating the effective interaction between the two. One of the key challenges for the state is to create the conditions in which firms, associations, and public agencies engage in a collective process of interactive learning that is essential to innovation in the modern knowledge-based economy (Morgan, 1999).

Amin suggests the associational model embodies a conception of the *reflexive* state that includes four key principles. The first is a degree of decision-making pluralism, which involves delegating decision-making authority to the levels and bodies at which policy effectiveness can best be achieved. The second involves the notion that the state provides strategic leadership and capacity to coordinate. This is not a role that follows from the politics of command and control. Effective leadership requires the combining of authority with a capacity for consensus-building in the appropriate arenas. The third point involves the adoption of a process of dialogic rationality. The relevance of dialogic democracy involves a lasting consensus that results from interactive reasoning. The fourth point involves the commitment in the process of democratic practices to transparent and open government.

The appeal of the associative model of governance lies precisely in the fact that it substitutes a mix of public and private roles for the exclusive role of the public bureaucracy. It devolves a greater degree of responsibility for the policy outcome onto those organizations that will either enjoy the fruits of the policy success or live with the consequences of its failure. Wolfgang Streeck and Philippe Schmitter describe a similar model of associative order as a form of "private interest government." They employ the term to refer to the self-government of specific categories of social actors based on their collective self-interest. They also restrict the use of the concept to arrangements where efforts are made to make associative, collective action contribute to the achievement of public policy goals. For Streeck and Schmitter, "the corporatist-associative delegation of public policy functions to private interest governments represents an attempt to utilize the *collective self-interest* of social groups to create and maintain a generally acceptable social order, and it is based on assumptions about the behaviour of *organizations* as transforming agents of individual interests" (Streeck and Schmitter 1985, p. 129).

Despite assertions to the contrary, the adoption of an associative model does not necessarily imply an abandonment of a central role for the state, but rather a rethinking of its role. In an associationist model, the relevant level of the state is to be one of the institutions of the collective order, working in relationship with other organizations, rather than operating in its traditional command and control fashion. Streeck and Schmitter refer to their notion of "private interest government" as a mixed mode of policy-making where the associative order emerges through the form of a mixed politics (Streeck, et al., 1985, p. 134). The state in this model continues to establish the basic rules governing the operation of the economy, but it places much greater emphasis on the devolution of responsibility to a wide range of associative partners through the mechanisms of "voice" and consultation (Amin 1996, p. 19). The key challenge in the associationist model is to achieve the most effective balance between the state's need to provide direction and the desirability of providing greater "voice" through the devolution of responsibility.

The associational conception of the state also implies the devolution of power in the state system from remote bureaucratic ministries at the national level to local and regional levels of government better positioned to build lasting and interactive relations with firms and business associations in their regions. In addition, it may involve the delegation of certain tasks like enterprise support services from formal government agencies to accredited business associations because the latter possess relevant assets, such as a knowledge of, and credibility with, their members, which the state needs to enlist in order to ensure the effectiveness of its support policies. Devolving power to the lower levels of government creates the opportunity for more meaningful dialogue to take place at the regional level. This is important because dialogue or discussion is central to the process by which parties come to reinterpret themselves and their relationship to other relevant actors within the local economy (Morgan, 1999).

Building trust among economic actors in a local or regional economy is a difficult process that requires a constant dialogue between the relevant parties so that interests and perceptions can be better brought into alignment. Authors, such as Charles Sabel (1992) and Michael Storper (this volume) underscore the critical role played by soft factors, such as talk, in building trust and the kind of long-term relationships that underpin the institutionalized learning economy. Storper suggests that talk and confidence are more likely to succeed when they occur in a setting that is geographically localized and that small, repeated low-cost experiments can help to generate interactive learning between parties in an environment which has previously been characterized by distrust or antipathy. Morgan notes that these same concerns lie at the heart of the regional innovation experiments currently underway in Europe. To those more familiar with the economic environment and business culture of North America, this characterization seems somewhat optimistic to say the least. The critical issue is whether it is possible to create the necessary conditions of trust and interaction required to achieve this level of cooperation.

The literature on reflexivity and associative governance prescribes a potential path that governments can take in attempting to foster the conversion of their respective economies to that of the learning economy, but it does not offer much help on how or why the institutional structures of different regions and nations may or may not this capacity for institutional learning. The comparative politics literature affords a different perspective on this question. The institutional structures within which policy is formulated and implemented reflect the outcomes of past struggles and alliances among social and political actors as refracted through their economic interests – primarily, but not necessarily, their interests as producers. Shifts in the resulting policy regimes can and do occur as a consequence of shifts in the perceived interests or power relations among the relevant actors. Therefore it is essential to specify the historical context within which the policy regimes are formulated (Pontusson, 1995, pp. 140-41; Gourevitch 1986).

The broader strategies and goals of public policy discussed above depends to a great extent on the organization of industry within a specific territorial unit and the sectors within that industry. To the degree that industry already enjoys a cohesive organizational culture or has a strong set of industry or sector specific associations with a tradition of acting collectively to solve its problems, there will be a stronger basis for the industry or sector to collectively search for new solutions to economic challenges or deal with the problems of structural adjustment. However, to the extent that the sector is characterized by a more fragmented and competitive business culture, the solutions chosen will likely reflect this underlying culture. Hollingsworth and Streeck suggest that the relations among firms within a sector are shaped by the distinctive properties of the sector – especially by the properties of technology on the one hand and products and product markets on the other – as well as by broader national or regional differences in culture and institutions. Patterns of relations with individual sectors and countries evolve over time and determine the social conditions under which firms must adapt to broader changes in technology and the economy (Hollingsworth and Streeck, 1994, p. 278).

The comparative study of how different countries and regions respond to the challenge of economic change and structural adjustment suggests the possibility of a variety of possible responses. One which is relevant to the current case, is the response by Scottish industry to the problems of adjustment faced in the 1980s. In their study of this process, Chris Moore and Simon Booth propose a simplified typology of possibilities. Between the more conventional responses of macro-level corporatism and the traditional forms of pluralism, they suggest a third possibility for arriving at sectoral level solutions, which they term a negotiated order. The arrangements derived from this form of negotiated order combine some degree of public and private interests at the sectoral level in the formulation and implementation of an agreed strategy. They differ both from the traditional market-led approach to adjustment to the extent that private associations and interests assume some degree of collective responsibility for the agreed upon policy. But arrangements of this nature lack the consistency and coherence usually associated with more formal corporatist arrangements because they lack the hierarchical order and the ability to discipline their members that characterize those types of arrangements:

> These arrangements inhabit a world between corporatism, market and the State. In these sectors both government and private interests recognize the benefits of consensus in order to achieve either a greater strategic advantage for individual companies or to aid economic adjustment (Moore and Booth, 1989, p. 84).

Although Moore and Booth do not refer to the concept of associative governance, their definition of a negotiated order bears a strong affinity to the type of intermediary relations between the state and private economic actors discussed above. The negotiated order involves a higher degree of consensus around an issue than is normally present in the pluralist type of arrangements found in most industry relationships with government, but lacks the institutional resources and the effective power to transform the agreed upon strategy into policy. Thus it still requires a certain degree of leadership by political actors to give form and content to the consensus forged within the sectoral order. One of the advantages of the negotiated order over more formal corporatist arrangements is that neither the formal political authorities nor sectoral groups need surrender any of their autonomy to the other – both the public and private sector participants can claim to have preserved their independence (Moore et al., 1989, p. 116). For the Government of Ontario, trying to cope with the economic challenge facing the province in the early 1990s, the prospect of establishing a negotiated order in some economic sectors contained the potential for creating a more associational form of governance that could underpin the transition to a learning economy.

THE SECTOR STRATEGIES IN ONTARIO'S ECONOMIC DEVELOPMENT POLICY

The critical policy challenge faced by the NDP government in 1990 lay in responding to the major structural changes affecting the provincial economy resulting from the trend towards continental integration and the impact of technological change. The problem was compounded by the relative underdevelopment of industrial policy at the provincial level.[3] Furthermore, the NDP government inherited a set of public institutions with little responsibility for, or experience in, dealing with the issue of industrial adjustment. However, the election of the NDP signalled an important shift in the institutional structures within which policy is formulated and implemented. The election result signified such a shift in three important respects. In the first instance, it fundamentally transformed the traditional relations between the business community and the government in Ontario. Traditional avenues of access were closed and to some extent a more level playing field was created for different segments of the business class. In the second place, organized labour was clearly afforded a more equal place at the table than they had enjoyed for many years. While they exerted little direct influence on the formation of industrial policy, their inclusion represented an important change in the social base of support for the new policy regime. Finally, the election of the NDP also sent a positive signal to those elements of the public bureaucracy interested in a more activist approach to industrial policy.

However, the NDP itself was not particularly well prepared for the task of framing a policy response suitable for the economic situation they faced. In part, this had much to do with the particular style of opposition politics that it had refined with great success during its years in the political wilderness (Rachlis and Wolfe, 1997); in part, it grew out of a policy discourse that was trapped in the economic realities of the 1970s more than the 1990s. An early attempt to lay out the framework for a new economic approach was presented in the background paper released with the April 1991 budget, *Ontario in the 1990s*. The paper argued that the goal of sustainable prosperity could best be realized through the creation of high value-added, high wage jobs, and strategic partnerships. The major challenge in the 1990s was to increase the overall productivity of Ontario's economy, not by minimizing cost levels for the existing mix of product and processes, but by promoting continuous improvement in products and processes across the networks of firms and sectors in the provincial economy (Laughren, 1991).

The budget paper raised several issues related to the concept of associative governance through a discussion of the role of partnerships. The government indicated that the realization of its economic strategy must be based on a broad social partnership. It required strategic public and private initiatives in a climate that allowed the respective partners to develop a sense of collective responsibility. A concerted and cooperative approach was deemed essential to achieve the government's goals with respect to economic development and sustainable prosperity (Laughren, 1991, p. 101). The emphasis placed on the role of partnerships indicated the government was prepared to contemplate changes in the way that it worked with the private sector to deliver economic development policies. It also suggested that the government was attempting to forge a new analytic and policy framework for the delivering of its economic development policy – one which diverged from the traditional command and control form of policy implementation and from the use of traditional policy instruments such as tax incentives and direct expenditures to accomplish its goals.

The direction of the government's economic development strategy was spelled out more clearly in the *Industrial Policy Framework*, released in July, 1992. The framework reiterated the overall goal of facilitating the transition of the Ontario economy towards those sectors and firms with the capacity to generate higher wage, higher value-added, and environmentally sustainable jobs. It focussed on ways of developing higher value-added activities throughout the economy to increase competitiveness and create more, and better, jobs (Ontario, Ministry of Industry, Trade, and Technology, 1992). One of the key changes envisioned in the framework was the increased emphasis on working with sectors. The focus on sectors was not an entirely novel departure either for the Government of Ontario or the federal government. The Ministry of Industry, Trade and Technology had a tradition dating back to the early 1980s of working with individual sectors to strengthen their competitive position and promote their sectoral capabilities. Notable examples of this activity included efforts to strengthen the position of Ontario's film and television industry, the radical restructuring of the wine industry under the Ontario Winery Adjustment Program and the food processing development strategy previously recommended by the Food Industry Advisory Committee. In addition, MITT had developed an internal sectoral capacity through its dealing with individual sectors, such as the automotive industry and the furniture industry. The sectoral development process was designed to build upon existing capabilities within the public sector to the greatest extent possible to enhance the strong working relations that already existed between individual ministries or branches and specific sectors. In instances where these relations did not exist, ministry leads were assigned as prospective sectors identified themselves.

The Sector Partnership Fund (SPF) announced in the budget of April, 1992, was a three year initiative (later extended to six), budgeted at $150 million, and designed to implement the sectoral component of the Industrial Policy Framework. The Sector Partnership Fund was designed to provide assistance to cooperative sector projects based on an approved strategy fashioned by the key players within the sector. Its overall objectives were to improve the competitiveness of sectors and foster their development by promoting the shift to higher value-added activities. For the purposes of the sector development process, a sector was defined as a group of Ontario-based firms that produce similar goods and services, that identified themselves as a sector, had a recognized association or forum for resolving sector–specific issues, had identified a range of sectoral issues of concern to a broad cross-section of members, and had multipartite representation, including business, labour, and other relevant stakeholders in the sector.

Funding under the Sector Partnership Fund was based on the four principles of flexibility, cooperation, leverage, and accessibility. It recognized that each sector faces unique competitive challenges and was designed to be flexible in responding to those circumstances. Individual industrial sectors are characterized by distinctive sectoral properties, shaped by the specific nature of the technology they use and the constraining effects of their products and product markets. A critical principle incorporated into the SPF was that of leverage. In a time of scarce fiscal resources, the government maintained that it could not, and should not, assume full responsibility for funding sector-based initiatives. Sector Partnership Fund support was intended to lever project funding from industry, labour and other levels of government. The process was based, in part, on the assumption that eligible projects constituted a form of quasi-public goods, whose utility to industry partners was strong enough to attract some private investment, but insufficient to be self-financing. It was also seen as a way of subjecting the sectoral initiatives to a form of market test – to determine if the private sector was willing to support them itself. Finally, the principle of accessibility established that all sectors were deemed potentially eligible for funding and that within each sector a substantial proportion of its participants must stand to benefit from SPF-supported initiatives.

To qualify for funding under the Sector Partnership Fund, a sector had to meet a number of rigidly specified criteria. It had to fashion an approved sector strategy developed through a broadly-based multipartite consultation process. While not explicitly corporatist in its approach, the Sector Partnership Fund required that all labour market partners in the sector be involved. Industry associations, labour organizations and other stakeholders were encouraged to consult together in the identification of common challenges facing the sector and the development of sectoral strategies for submission to the government. Funding up to a limit of $500,000 was available from the SPF to support the formation of an approved strategy, although the approval process to access these funds was also quite stringent. The sector strategies were expected to address a common range of issues, including: a comprehensive review of its external environment addressing both the threats and opportunities that it expected to face in the medium and long term; a comprehensive analysis of its internal strengths and weaknesses and how they affected its ability to respond to the external environment; an attempt to forecast several future scenarios for the sector based on its assessment of both the external environment and its internal status; and finally, a strategic plan developed out of the preceding analysis that established objectives for the sector to improve its competitiveness, move to higher value-added activities, and lay out an agreed-upon strategy to achieve those objectives. The plan could then identify specific initiatives to be funded from the SPF that flowed from its strategic plan.

Once completed, the sector strategies were submitted to the Cabinet Committee on Economic Development for approval. Following this stage, specific initiatives could be submitted to the government by the sector and its sponsoring ministry for funding. The specific initiatives had to address common challenges or needs within the sector that had been identified in the sector strategy; they had to ensure that assistance was accessible to a wide range of participants within the sector; the assistance provided was to be incremental to funding already available to the sector; and finally, the initiatives undertaken were not to substitute for activities that would have been undertaken without SPF participation. Both the approval process itself and the criteria for accessing funding were extremely rigid and bureaucratically cumbersome, reflecting the concern by some members of the government that this not become another means for subsidizing individual firms. However, the rigid nature of the criteria became a point of contention between several of the sectors and government officials.

Five specific types of initiatives were deemed eligible for funding under the SPF: 1) developing sectoral technological capability; 2) sharing sector knowledge and know-how; 3) sector promotion and marketing (including exports); 4) creating specialized infrastructure; and 5) focussed upgrading programs. Developing sector technological capabilities meant promoting the diffusion of advanced technology throughout the sector to better manage their own R&D efforts, improve their production processes, or develop new products and services. Sector promotion and marketing meant helping Ontario-based firms establish new markets or more fully exploit their opportunities in current ones. Sharing sector knowledge included efforts to facilitate the flow of information through related firms within a sector. Creating specialized infrastructure recognized the important contribution that sector specific institutions could make to the competitiveness of individual firms. Instances of this type of infrastructure could include the computerization of supplier networks within a sector, the establishment of sector-specific training, institutes and efforts to strengthen the role of sectoral associations. Finally, the SPF allowed that in unique circumstances, the competitive basis of the sector could be best enhanced at the level of the individual firm through measures such as diagnostic audits of the firms' technical capabilities or programs to assist a wide range of firms to upgrade those capabilities.

THE SECTOR STRATEGIES IN OPERATION

The boldness of the sector strategy process lay, in part, with the range of sectors that the government successfully involved in the process, as well as in the extent to which it devolved responsibility for the content of the strategies onto the sector partners. This grew out of the belief that governments had to break with the hierarchical mode of policy formation and implementation and, in the words of Nelson and Winter, recognize that the outcome of "their effects will be determined, to a considerable degree, by private and not governmental actors." Despite the previous experience of both the Ontario and federal governments in working with sectors, the extent of the challenge involved was considerable. The objective of the approach ran counter to the prevailing Anglo-American business culture in Ontario, which is dominated by the ideal of rugged individualism, self-sufficiency and competitive rivalry. In Coleman's study of business associations, he noted that "business leaders in Canada possess what might be called an individualistic industry culture" (Coleman, 1988, p. 5). This industry culture is reflected in the attitudes and practices of individual firms, whose management remain suspicious and sceptical of collective action and cooperation. The process of inter-firm cooperation in Ontario's manufacturing industries is discouraged by the absence of the strong sectoral coordinating mechanisms among firms provided by industry associations or Chambers of Commerce in some of the more innovative regional economies in Europe.

Furthermore, the majority of industry associations in Canada are organized on a national, rather than a regional or provincial basis (with the exception of Quebec), and sub-provincial organizations are even more rare. This weakness is compounded by the virtual absence of provincial level sections of any of the major, sector-spanning associations that operate at the national level. The business associations that do exist are fragmented for the most part and tend to represent specialized product interests. There are few peak associations that aim to aggregate the views and interests of these more narrow and sectoral associations. Furthermore, the comprehensive business associations that do exist all enroll firms directly as members. "Each is a champion of the autonomy of the individual firm and each treats with suspicion the idea of concertation with state officials on economic policy" (Atkinson and Coleman, 1989, p. 48).

The adoption of the sector strategy approach and the creation of the Sector Partnership Fund by the NDP government were an explicit attempt to alter this aspect of the business culture. In effect, the strategy was an attempt to influence the business culture of the province in the direction of creating *socially* organized, firm-based systems for learning, collaboration, co-operation and regulation, initially through the mechanism of encouraging sector participants to *talk*. As was noted at the outset, this kind of facilitated interaction can play a valuable role in building trust and the kind of long-term relationships that underpin the institutionalized learning economy. By any criteria of measurement, the initial stage of sector consultation and strategy formation must be viewed as a success.

Both the number of sectors involved and the extent of participation by key sector players vastly exceeded the initial expectations of the government. Between the summer of 1992 and the election in June, 1995, the lead ministries in the government worked with a wide range of stakeholders to develop sector strategies. Consultative efforts produced approved strategies in fifteen sectors: Food Processing, Green Industries, Telecommunications, Computing, Tourism, Cultural Industries, Aerospace, Auto Parts, Mines and Minerals, Construction, Health Industries, Forestry, Plastics, Residential Furniture, and Chemicals. By the spring of 1995, work plans were approved and strategies under development in a range of additional sectors, including: Biotechnology, Consulting Engineering, Design, Machinery, Tool, Die, and Mold, Retail, and the Electrical and Electronics industry. The last of these strategies was finally released in May, 1996. In each case, the consultative efforts drew in as many as one hundred and fifty individuals in the sector to prepare detailed analyses of sectoral strengths and weaknesses and propose a course of action. In the end, the approach involved twenty-eight different sectors and over two thousand individual participants, representing twenty-two different unions, ninety-three industry associations, and twenty-eight universities and colleges (Ontario, Ministry of Economic Development and Trade, 1995).

The following discussion presents an analysis of how the sector development process worked in a number of key sectors and an assessment whether it realized the ambitious objectives set for it. The assessment is based on a detailed survey of nine of the sectors for which full-fledged strategies were developed: Telecommunications, Computing, Culture, Health Industries, Auto Parts, Aerospace, Plastics, Electrical and Electronic, and Machinery, Tool, Die, and Mold. In each case, a set of detailed interviews were conducted with between ten and twenty participants in the strategy process and the strategies were assessed in terms of the strategic plans formulated and the concrete initiatives arising from the strategy that were approved.[4] Assessing the outcome of the process is complicated somewhat by the fact that the strategies reflected the principles on which they were constructed, namely, that of flexibility. As a result, each strategy was unique, which adds to the richness of the analysis that follows.

The reasons provided by sector participants for participating were quite varied. For many in the business community, doing business with a social democratic government represented a significant departure from what they were accustomed to. In some respects, the traditional mechanisms of gaining access to the government were more restricted, or at least, perceived to be so. The sector strategy process represented a unique opportunity to develop contacts with the government and try to represent industry's point of view, or as some participants expressed it, to sensitize the NDP government to the realities of conducting business in the 1990s. Relatively few of the respondents were familiar with the Industrial Policy Framework, nor did they have significant views about it. For most of them, their involvement with the strategy development process was an outcome of their contacts with individual bureaucrats in ministries with sectoral leads or their involvement with sectoral associations. In some cases, participation in the sector strategies was largely for defensive reasons, to prevent the government from adopting policies they felt might harm the business community.

A limited number of participants had dealt with the government previously on specific programs, such as training initiatives, or targeted sectoral initiatives. For these participants, the strategy process was a valuable opportunity to continue to build on positive developments already underway. The decision to participate on the part of the unions was more straightforward.

Several of the key industrial unions were already involved with sectoral training initiatives and saw the approach of the Industrial Policy Framework as a logical extension of that experience.[5]

Most of the strategies developed followed the format set out by government officials in the initial planning process. Although the direction of the strategies was left in the hands of the private sector participants, much of the analysis and writing was conducted by consultants to the government or by ministry officials. For the most part, this was viewed positively, although on occasion there was resentment of the excessive reliance placed on consultants to manage the process. In two of the sectors studied, Telecommunications and Plastics, the advisory committees were chaired by a prominent industry-based consultant and an academic respectively, both of whom were credited by the participants with making a substantial contribution to the successful outcome of the process.

The strategy development process varied widely from sector to sector and the resulting outcomes were equally diverse. This reflected the industrial structure of the different sectors, the strength and cohesiveness of sectorally-based industry associations, their past history of sectoral activity, and the existence of sector specific conflicts among individual firms within the sector, or, in one instance, regional clusters of firms. Differences were pronounced between highly regulated and more monopolistic sectors such as telecoms, which traditionally had considerable involvement with the federal government, and other sectors composed of smaller, more varied firms, such as the computing sector. In the telecom case, lingering conflicts over the recent federal decision to allow increased competition in the sector exerted a strong influence over the entire process. Some cases, such as plastics, had a long history of working together through their industry association, especially at the federal level and in other provinces. They had actually begun their efforts in Ontario before the SPF was formalized and quickly folded their ongoing activities into the sector development process. Other sectors were not really sectors per se. The health industries sector, for example, was assembled from four different subsectors – medical devices, pharmaceuticals, biotechnology and health services – with no prior history of working together. The cultural industries strategy also involved a diverse array of subsectors – film, television, live drama, sound recording, and publishing assembled under one umbrella. Some respondents maintained that it felt like too broad a range of interests arrayed around the table to formulate a cohesive sectoral perspective.

Most of the sector strategies that were completed, identified a similar set of challenges confronting the sector – increased international competition and access to foreign markets were most frequently identified as the central issues. For many, the conclusion of the Canada-US Free Trade Agreement and the onset of the recession in the early 1990s accelerated the process of continental rationalization previously underway. This was particularly marked in sectors dominated by foreign ownership, such as the auto parts sector and the electrical and electronic manufacturing sector (Canadian Independent Automotive Components Committee 1994; Electrical and Electronic Sector Advisory Council 1995). Many of the smaller, lower value-added plants in these sectors produce similar products to those of sister plants in the US. The post-CUFTA and NAFTA trade environment placed a growing proportion of the Canadian plants in jeopardy, as the US parents tried to reduce costs by closing the less efficient plants. The challenge for the Canadian operations was to reduce their costs of production and increase the value-added of their output by raising skill levels and improving production processes and the organization of work within their operations. Even for those sectors in a stronger competitive position, such as the plastics industries, the issue of gaining export market share in the US and reducing the trade deficit was viewed as a major challenge (Ministerial Advisory Committee on Plastics for the Province of Ontario 1994).

In other instances, such as the computing sector, the problems identified were quite different. The computing sector in Ontario is dynamic and was one of the few that continued to grow through the period of recession and industrial restructuring in the early 1990s. The sector is dominated overwhelmingly by relatively small firms run by entrepreneurial owner-managers. They face a number of challenges characteristic of this type of firm: barriers to access to capital (especially with regard to the question of valuing intellectual property assets as collateral), lack of adequate managerial skills, and a virtually unlimited need for more highly qualified employees, particularly graduates of the universities and colleges (Advisory Committee on the Computing Sector 1993). The computing sector shared a concern with most of the other sectors about the barriers that limited its access to export markets and its need to improve the export market development capabilities of its member firms through the creation of export consortia or better management training. The machinery and tool, die, and mold sectors were also characterized by the presence of a large number of small and medium-sized enterprises. The firms in these sectors faced similar problems in terms of their capacity to adopt new technology, undertake training and develop new markets for their customers. The disincentive to invest in training due to the problem of poaching and the mobility of employees was also cited as a problem. The machinery sector, in particular, was characterized by a high degree of import penetration indicative of its structural weaknesses. The rising cost of investment in new technologies and the need for continuous skill upgrading were seen as major challenges for the sector (Machinery, Tool, Die, and Mold Sector Advisory Committee 1996).

A closely related issue for many sectors involved the need for export market development. The key challenge for firms in these sectors was the expansion of trade opportunities abroad, especially in the larger continental market south of the border in the aftermath of the free trade agreement with the US. For instance, a key issue for firms in the electrical and electronics sector was the growing rationalization of foreign (especially US) owned firm and the lack of global product mandates from their US parent firms (Electrical and Electronic Sector Advisory Council 1995). Similarly, the plastics sector identified increased market penetration from the US and the trade deficit in resins as the key issue to be addressed. Given the relative size of the US market, moving to higher value added products was seen as the most effective remedy for the trade deficit (Ministerial Advisory Committee on Plastics for the Province of Ontario, 1994). The health industries sector also identified the need to build export markets and acquire greater experience in the global marketplace as key challenges. These problems were compounded by the relatively small size of many of the firms in these sectors (especially the domestic firms), their absence of a strong connection to the research base in the province, the limited mandate for multinationals to conduct R&D in Ontario and the need for better market intelligence (Health Industries Advisory Committee 1994).

Some sectors identified unique problems that they faced. For the auto parts sector, a key issue was their excessive reliance on selling to the Big Three US assemblers. Two significant developments in the auto industry were squeezing the parts manufacturers and putting added pressure on their competitive position. The first grew out of the trend on the part of the Big Three to shift more responsibility for product design and development onto their suppliers. The smaller size of Canadian firms in the sector relative to their American counterparts made it more difficult to develop and acquire needed production technology and to undertake the scale of product development demanded by the Big Three. One respondent pointed to the growing tendency of the auto assemblers to cut off any supplier who failed to meet the more demanding criteria and concentrate their supply base in a smaller number of firms. The second development was the growing presence of Japanese assemblers in North America and their tendency to buy from Japanese suppliers which also constrained the potential market for Canadian parts manufacturers (Canadian Independent Automotive Components Committee 1994).

A key observation that emerges from the interviews is the radically different bases on which the various strategies were devised and implemented and the wide range of values and assumptions brought to the process by the respective participants. This is consistent with the point raised by Hollingsworth and Streeck – the pattern of relations among firms within a sector is influenced by the specific properties of that sector, and this pattern determines the social conditions under which firms must adapt to changes in technology and the broader economy. In a few instances, respondents referred to the exercise as an opportunity to get the sector to focus more on identifying its collective needs or to formulate more of a consensus vision about where the sector should be going. In a number of cases, sector participants identified a much broader awareness and understanding of the extent of technological changes underway and their potential impact on the sector as one of the main outcomes.

Despite the wide range of outcomes that emerged from the various strategies, most participants viewed the process itself as a success. In virtually all the cases studied, respondents felt that the sectoral analysis that was produced provided a sound analysis of the current strengths and weaknesses of the sector, as well as the opportunities and threats confronting it. This is not to say that the process was entirely without problems. In some sectors, traditional hostility between business and labour generated friction at the outset. In some instances, government facilitators were able to overcome the obstacles, while in one or two cases, key business or labour leaders broke the logjam. However, in at least one of the sectors studied, a number of the business participants were convinced that the strategy had been hijacked by the labour participants and some of them simply dropped out of the process after a certain point. The respondents questioned the representativeness of the resulting strategy. In another instance, internal conflicts between regional clusters of firms and different industry associations proved impossible to overcome, eventually prompting the chair of the advisory committee to resign in frustration.

In some sectors, some participants dismissed the entire process as merely a modified version of the venerable Canadian pastime of indulging in commissions and inquiries. In some sectors, more accustomed to dealing with government as a regulator of their activities, key participants viewed the process as just another government initiative – and an unnecessary one at that – rather than as an exercise in associative governance. However, even in the telecoms sector, where this view was most prevalent, several participants suggested that the strategy process had an impact. According to them, the creation of a 'vision' for the sector, on which the fractious participants could agree, was a major accomplishment. One participant maintained that another notable accomplishment was convincing the representative of a key firm in the sector to view itself not just as a telecom company, but as an infrastructure provider for the new economy.

In several sectors, the process clearly represented a novel and unique departure. In these cases, one of the most valuable outcomes was the strategy development process itself, in terms of establishing new relationships among potential suppliers and users and the effective identification of common sectoral interests. Some respondents indicated that their participation in the process helped increase their network of contacts within the sector and their awareness of other key players. For other respondents interviewed, one of the most beneficial outcomes was the increased visibility it generated for their sector – both internally in terms of the member firms, and in the eyes of the government bureaucrats. In the health sector, the strategy process represented an original attempt to look at the sector's role as an agent of economic development, rather than merely as a provider of services to government; one participant viewed the increased networking, especially between private sector suppliers and public sector purchasers, as a key outcome. In other sectors, such as computing, respondents indicated that the strategy process afforded them the opportunity to address a range of issues that they rarely discussed in their associations. One key participant in this strategy indicated that his involvement in the process provided him with a different view of how government worked and altered his view of how a sector could interact with government. The commitment of government support for approved sector strategies afforded the sectors the opportunity to launch initiatives that had been under discussion for years. Several respondents regarded the Connect–IT initiative that grew out of the computing sector strategy as a highly valuable development for the sector.

For the most part, the number of sectors where the strategy development process changed the organizational or business culture of the sector in any significant way appears to have been limited. Few of the respondents interviewed believed that the strategy process on its own fundamentally changed the organizational culture of their sector or contributed to a significant increase in the level of cooperation and trust among firms within the sector. In many sectors, the councils and other administrative bodies created did not outlast the defeat of the NDP government and the cancellation of the SPF in 1995. However, there were also significant exceptions to this rule – in the case of aerospace, the formation of an Ontario Aerospace Council as a direct result of the strategy development process was widely viewed as an innovative and much needed departure for the sector. While views varied within the cultural sector, for some, the creation of a Cultural Industry Council of Ontario was an important accomplishment. In the case of plastics, already one of the most cohesive and best organized sectors, many participants viewed the process as a success that fed directly into the ongoing process of consolidating the diverse elements of the sector into a more unified sectoral association. A number of respondents in specific sectors, health and plastics in particular, expressed their frustration with the failure of the Conservative government to follow through with the implementation of the strategies. One felt that the new government was proving to be very shortsighted in this regard. For the majority, however, the election of a Conservative government in 1995 signalled a return to the traditional way of interacting with the provincial government. Indeed several respondents indicated that in the aftermath of the election, they reverted to lobbying a very sympathetic government around the more conventional macro issues of tax changes, labour relations and environmental regulation.

The high number of sectors that participated in the strategy development process would suggest that demands on the Sector Partnership Fund should have been high. Indeed there was no lack of recommendations for concrete initiatives in virtually of all the plans. These initiatives tended to be grouped into four categories: access to capital, technology and R&D, education and training, and export trade development. Despite this fact, the Sector Partnership Fund underspent its allocation in every year that it existed and at the time of its termination in July, 1995, little more than half of the $150 million allocation had been committed. Of the concrete initiatives that received approval, the two largest went to sectors that had actually developed their strategies under the previous Liberal government. A number of factors accounted for this outcome. One that created considerable barriers was the expectation of substantial industry funding for the initiatives. The imposition of a 'quasi-market test' on SPF initiatives imposed a hurdle that many private sector participants had difficulty surmounting. One reason for this was that the firms who stood to benefit the most from the sector initiatives were the smaller and medium-sized ones with the least resources to fund them, whereas the larger firms in the sector often saw less of a need to contribute direct funding to the sector-specific initiatives. A related problem encountered was the bureaucratic approvals process required to access funding from the Sector Partnership Fund. In their concern to avoid creating another government pork barrel, central agency officials created a process that proved both intimidating and frustrating for sector participants and their lead ministry sponsors. The internal process broke down over an inability to surmount the traditional conflict between 'spenders' and 'guardians' inside the government. Many sectoral participants concluded in the end that whereas the strategy process successfully reflected the principles of associative governance, the approvals process failed miserably in this regard.

Despite these difficulties, a number of important initiatives emerged from the process: the establishment of permanent advisory committees such as the Ontario Aerospace Council and the Cultural Industry Council of Ontario and the Council for an Ontario Information Infrastructure (including members from both the telecom and computing sectors); providing the government with better access to sector leaders for consultation; developing a more efficient way of managing relations between sectors and the government as one sector leader noted above; and using the SPF as a lever to bring sectoral partners together to assess the competitive position of their sectors and formulate cooperative strategies to respond to the challenges they faced. In this respect, the sector strategy process bore a striking resemblance to the program of drafting Regional Technology Plans (later Regional Innovation Strategies) launched by the European Union in 1994 (Landabaso, Oughton and Morgan, 1999; Morgan and Nauwelaers, 1999).

In general, the initiatives put forward for approval were grouped into four categories: access to capital, technology transfer and R&D, education and training, and export market development. Several significant initiatives were approved and received funding from the Sector Partnership Fund. A number fell into the second category oriented towards the creation of sector-based technology centres. Examples included: the Guelph Food Technology Centre, designed to increase effective technology and information transfer, as well as to provide accessible pilot plant facilities for the food industry; an Ontario Centre for Environmental Technology Advancement to provide technical support services, financial advice and business counseling to help young firms commercialize environmental technologies; Connect-IT, a computing Sector Resource Facility to assist the many small and medium-sized firms in Ontario's industry in developing sector-specific competency in management, standards, marketing expertise, and export readiness. In the computing sector funding was also provided to support the Electronic Commerce Institute to promote the adoption and use of electronic data interchange in Canadian industry. Other areas that received some funding included export market development through Interhealth Canada, a private, not-for-profit corporation designed to pursue and gain international contracts for Canadian firms in key markets around the world; and the plan to establish representatives for the auto parts sector in Japan and Europe to help increase sales to Japanese and European assemblers in their North American and foreign operations. Several sectors suffered from the fact that their strategies were completed and recommendations formulated just as the new Conservative government terminated funding for the Sector Partnership Fund in July, 1995.

Although the SPF was the main funding source for the sector strategies, a number of recommendations were acted upon through other government initiatives. One of the largest single programs to emerge from the strategy development process – the $100 million Ontario Network Infrastructure Program – was actually financed out of the government's capital budget and fell outside the parameters of the SPF. This program played a vital role in funding community-based networks and providing increased access to the internet across the province and was followed with the broad vision of the telecom sector strategy. Another outcome that emerged from a key recommendation of both the computing and telecom strategies was a revised government process to allow for Common Purpose Procurement in 1995. Many of the strategies made recommendations to improve the quality of training in their sector, but the primary agency responsible for training in the province was also abolished after the election (Wolfe, 1997).

CONCLUSION

The task of evaluating the sector strategy process in Ontario is made more difficult by the extreme change in policy direction that followed the election of the Conservatives in 1995. Virtually all of the momentum and most of the specific initiatives developed under the NDP government were abandoned. Although the strategy development process succeeded in drawing a larger number of participants to the table across a broader range of sectors, in terms of concrete outcomes, it differed little from other similar exercises conducted by the federal and provincial governments in the past, as several of our respondents suggested.

There are relatively few sectors that began to move towards the establishment of a 'negotiated order' in the sense implied by Moore and Booth. Those sectors where this occurred to some extent seem to be ones where the process built upon a solid base at the outset – such as plastics, which already enjoyed a strong degree of effective internal organization and had already signed a Memorandum of Understanding with the government prior to the creation of the Sector Partnership Fund. In the case of the computing sector the strategy process helped build more of a collective identity in what had previously been an excessively fragmented sector. This proved to have some lasting benefit, both through the establishment of an Ontario wing of the national association and the creation of Connect-IT.

The limited nature of the changes effected by the sector strategies may very well be a result of the broader configuration of social and political forces in provincial politics. The shift in policy regime envisaged by the Industrial Policy Framework and the launching of the sector strategies were based upon the new electoral realities after 1990. For the sector approach to have effected a more significant change in the business culture of the province, those realities needed to be confirmed to some degree in the subsequent election. The reversal of political climate in June, 1995 precluded that possibility. Had either of the other two parties won the election, the Sector Partnership Fund would likely have continued and the results of the strategy development process been extended. As Neil Bradford has perceptively argued, the success of experiments in associative governance depend upon the mix of party politics, state capacity and societal interests. In the Ontario case of the early 1990s, partisan factors were responsible for both the initiation and the termination of the experiment; the internal bureaucratic structures of the state responded more successfully to the challenge of devolving responsibility for the strategy development process than they did with the approvals process; and ultimately, the experiment left little lasting impact on the organization of business interests and the business culture in the province. “In liberal polities like Ontario . . . the prospects for robust associative innovation depend on the incentives for business to cooperate, or at least, not to exercise its option to ‘exit’ the partnership” (Bradford, 1998, p. 541). The partisan outcome of the 1995 election effectively removed those incentives.

In some nascent sectors, such as digital media and biotechnology, the Conservative government has preserved or reestablished a modified version of a sectoral approach. Thus, it may still be too early to judge the final legacy of Ontario’s experiment in associative governance. For some sectors, the experience of working together was a novel and satisfying one; the perceived benefits may continue to trickle down to their members for some time to come. For others, the strategy development process reinforced a trend towards internal organization that existed previously and the process of developing internal networking mechanisms may continue. Although few sectors approached the level of a negotiated order, the future of the approach bears close watching.

NOTES

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2. A more detailed account of the political challenges faced by the NDP government of Ontario can be found in (Rachlis and Wolfe 1997). An overview of the key features of Ontario's innovation system are also presented in (Wolfe and Gertler, 1998).

3. For a fuller discussion of the evolution of industrial and technology policy in Ontario during the 1980s and 1990s, cf. (Wolfe, 1999).

4. Each interview covered the same basic issues: the reasons for involvement with the strategy and the issues confronting the sector; the mechanics of the strategy development process and their effectiveness; and the outcomes of the process in terms of both specific recommendations and the initiatives that flowed from them, as well as the impact of the process on broader relations within the sector.

5. For a detailed discussion of the government's training agenda, cf. (Wolfe, 1997).

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