GAINING A COMPETITIVE EDGE: ECONOMIC DEVELOPMENT STRATEGIES FOR STATE AND LOCAL GOVERNMENTS

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ABSTRACT

For many years, formal economic development efforts have been touted as the means of reviving or revitalizing locales or regions that have undergone recession, loss of key industries, population outmigration or similar traumatic events. Yet these economic development efforts have primarily been reactive--taking place in response to a set of events. The focus of this article is on how states and localities can be more proactive. Looking at a number of actual examples, it will discuss how jurisdictions can adopt a more strategic focus and, as a result, gain a competitive edge.

INTRODUCTION

In a series of reports, the Corporation for Enterprise Development (1988) stated that the fifty states, along with the developed and developing nations of the world, are in a race for the economic future--a race for leadership and dominance in a global economic marketplace. Also, witness the emergence of large regional trading blocs--from NAFTA in the Americans to the Asia-Pacific Economic Cooperation forum (APEC) whose purpose is to coordinate tariff and trade policies as a means of enduring economic vitality for their respective regions. A similar phenomenon can be seen in the United States with regional alliances emerging at the state and local level.

Running in this race may mean developing high technology research parks to facilitate the flow of new ideas and innovation, starting business incubators to provide low rent and management support, promoting export of local products to international markets or providing various incentives to attract expanding firms (McGowan and Ottensmeyer, 1993). In addition, there is concern on the part of all race-runners about the growing mismatch between emerging jobs which will require new skills and the skills of the people now available to fill them. Critical skill shortages may result when twenty-first century jobs intersect an aging U.S. workforce. The uncertainties of the new job market will entail a lifelong commitment to retraining and the prospect of frequent, short bouts of unemployment.

In order to meet such challenges, a number of state and local governments have been making conscious, incremental investments in their ability to support and assist businesses in the challenge of economic development. Successful states and localities have recognized that economic development is a multi-faceted, long-term investment involving a variety of activities to address a multitude of outcomes. Yet, such recognition must be balanced against the political realities that governments, by themselves, cannot be the sole drivers of change. This entails the formation of various coalitions and alliances comprised of businesses, community leaders, and assorted interest groups. The challenge will be the need to develop a common vision and process for managing change.

Strategic management has been viewed as important in linking other areas of commerce and government, for example, industrial R&D (Bozeman, Crow, and Link, 1984). The focus of this article will be on how states and localities can use strategic management and be more proactive in their economic development efforts. Looking at a number of actual examples, the authors will discuss how these jurisdictions can adopt a more strategic focus and, as a result, gain a competitive advantage.

ECONOMIC DEVELOPMENT DEFINED

Economic development has been defined in a variety of ways, often focusing on the particular goals or strategies being used. As the term suggests, economic development concerns the development, change or improvement of the economy of a particular region. Local economies are always in a relative state of change, sometimes improving and sometimes in decline, but economic development activities imply efforts to insure positive change.

Besides improved economic conditions, economic development also suggests activity on the part of government or other parts of the community to foster, promote or stimulate business conditions. The particular mix of strategies used by localities becomes the subject of an ongoing public policy discussion on economic development, *e.g.*, whether to target small business and entrepreneurs or large manufacturing firms, whether to invest in direct loans and grants or focus on infrastructure and education improvements.

In the most basic terms, then, economic development focuses on community efforts to attract and retain businesses. This involves mechanisms that will support the growth, expansion, and general vitality of business in the community. Economic development in a narrow sense of the term may involve financial packages to attract new business to a community. In a broader sense, economic development involves everything from the physical infrastructure of communities to the educational systems which produce employees for business.

One way of defining economic development is in terms of the outcomes sought or expected to result from development activities (McGowan and Ottensmeyer, 1993). A strategic planning approach to economic development involves clarification and agreement on the goals of expected outcomes prior to implementing any specific program. Generally these outcomes would include: 1) job creation and retention; 2) tax revenue growth; 3) improved quality of life; and 5) enhanced innovation/competitiveness.

Such outcomes are often reflected in the mission statement of state and local governments. Increasingly, communities seem to be focusing on the third outcome of quality of life. Communities do want jobs but they want jobs that will improve the quality of life for the community. For example, at the local level, consider the mission of Longmont, Colorado:

> To enhance the economic well being of Longmont by actively supporting the creation and preservation of quality, primary jobs.

Or consider the mission of the State of Iowa's Department of Economic Development:

> ...to enhance the state's economy by providing ... assistance that will lead to the diversification of the economy and the creation of quality jobs for Iowans.

Similarly, the State of Oregon emphasizes the creation of the best workforce by 2010 and the preservation of quality of life for communities.

Therefore, economic development involves activities to grow or develop economies so as to improve the quality of life as defined by members of those communities.

STRATEGIC PLANNING AND MANAGEMENT

Since economic development involves creation and maintaining the general vitality and atmosphere for business, a strategic and long-term perspective is important in developing successful economic development programs and incentives. Strategic planning has been considered one of the "hot" innovations in public and nonprofit management (Berry and Wechsler, 1995). While "strategic planning" and "strategic management" may be used interchangeably, one can distinguish strategic management as the implementation of strategic plans or the outcomes of strategic planning. Whether planning or implementing, a strategic approach will take a systems perspective by examining essential functions and goals, by analyzing the internal and external forces on an organization, and by assuming a decision-making framework that uses a time horizon of 1-5 years.

The term "strategy" has ancient Greek origins having to do with leading an army. What is conveyed by the term is the "idea of critical goals achieved under battle conditions" (Anderson, 1994:339). In terms of economic development, governments or communities can be thought of as involved in a battle of sorts with other communities and regions for business enterprise.

This seems especially true for today's increasing global competition. One only need surf the World Wide Web briefly to see how many foreign communities are using the new technologies to attract new business. One finds home pages for state and local governments but also impressive descriptions of programs for South Australia, British Columbia, Zhejiang Province in China or the Caribbean. The battlefield is much larger and the new technologies demand a more strategic approach to succeed.

Various definitions of strategic management have been offered by scholars of public sector management:

> Strategic planning is defined as a systematic process for managing the organization and its future direction in relation to its environment and the demands of external stakeholders, including strategy formulation, analysis of agency strengths and weaknesses, identification of agency stakeholders, implementation of strategic actions, and issue management (Berry and Wechsler, 1995:159).

> Strategic managmeent is ... the process for implementing a strategy plan which integrates the organization's goals, policies, and action sequences into a cohesive whole (Halachmi, 1992:557).

> We define strategic management as a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization (or other entity) is, what it does, and how it does it (Bryson, 1988:5).

Regardless of the specific definition one finds most appropriate or useful, there are several elements that any strategic planning approach will contain.

1. **Assessment of the external environment.** Strategic planning will involve an environmental scan that examines the opportunities and threats to the basic mission and goals of the organization (Eadie, 1983; Halachmi, 1992). Given the turbulent conditions of most organizational environments, a strategic approach will systematically assess the conditions that provide new opportunities or pose new threats to the accomplishment of the fundamental goals of the organization. For example, states and local governments are creating one-stop gateways to help navigate the information and resources available (Maxwell, 1994). States are also finding manufacturing attractive because of a 17% increase in the last five years (Enos, 1994). Assessment of such evolving features of the external environment is critical for success.

2. **Assessment of the internal environment.** Strategic planning will also involve an assessment of the organization in terms of its own strengths and weaknesses. This can be thought of as a "resource audit" that analyzes the particular assets and liabilities of the organization as they relate to the strategic choices and actions contemplated (Eadie, 1983).

How broadly one defines the internal environment can be critical to success. For example, the Nebraska Department of Economic Development provides information about a variety of affiliated state programs that demonstrate integration and strategic thinking. Assessment of their internal environment produces strengths that many might ignore from a narrow organizational perspective.

3. **Selection of strategic objectives using a systems perspective.** Given an awareness of the environment of the organization and a sense of the basic function or purpose of the organization, choices

about specific courses of action can be made so that there is a better fit between the organization and the environmental realities.

Another analysis (Anderson, 1995) identifies the following five features of a strategic orientation (government or business): 1) Concerned with mission-critical activities; 2) Long range in time orientation; 3) Looks outward from the organizational boundaries to stakeholders or customers; 4) Seeks maximum return on investment rather than minimum economic cost; and 5) Places a high value on technological, human, and information resources.

Similar components are included in an assessment of applying strategic decision-making to local government (Streib, 1992). He includes as components of strategic decision-making: 1) mission statement; 2) environmental scan; 3) organizational scan; 4) objectives and implementation; and 5) reviews and monitoring implementation.

The authors have briefly outlined critical elements of strategic planning and management although differences between government and business are important to recognize. For example, the ability to change mission is more problematic in the public sector since managers are often not in a position to make changes in fundamental goals (Stevens and McGowan, 1985). On the other hand, among the benefits of strategic planning, one of the most important can be the building of cooperative relationships between policy-makers (typically elected officials) and those who implement the policies (public managers), in effect, facilitating the politics-administration interface (Gabris, 1992). The next issue involves how effectively to link strategic management and economic development.

LINKING MANAGEMENT WITH DEVELOPMENT

Having examined how both economic development as well as strategic management are defined in the context of governmental organizations, it is important to link the two as a means of determining the key linchpins and their implications for policy and practice. Prior to this discussion, it is useful to consider some of the functions that are critical to any successful strategic effort. Streib (1992), in examining strategic decision-making in local government, suggests four key functions: leadership, the availability of supportive individuals, the ability to establish effective control over the management process, and external support. While his focus of analysis is on local jurisdictions, similar observations can be made at the state level.

Briefly stated, the first function, leadership, entails the need for a "process champion," that is, an individual in a key managerial or political position who is willing to take ownership of the process. In the area of economic development, this poses an interesting dilemma since there are multiple vested interests and stakeholders. From the governmental perspective, there is usually an office of economic development or local affairs (depending on the particular side). At the local level, this usually would be an economic or business development officer. Associated with these officers and individuals would be the elected officials, be they mayor and city council or the governor and state legislature.

Another key stakeholder would be the business community itself and this can range from firms that already reside in the particular locale or regions as well as those that seek to locate or relocate. Finally, there is the community itself and its infrastructure, including educational services, transportation, utilities, and the like. The central issue revolves around who or what becomes, in essence, the "lead dog."

The Cooperation for Enterprise Development, in issuing its annual **Development Report Card for the States**, uses four categories in ranking the effectiveness of states' economic development efforts: performance, business vitality, capacity, and policy. Embedded in the last category, policy, is the ability of the state to provide local economic development assistance through community planning and regional development planning. Those states that tend to score higher in this area have a coordinated as opposed to a fragmented approach. What this entails is having a focused area in which the goal is to work for the good of the whole as opposed to trying to score political points. Effective leaders are those who are able to articulate the broad vision and goal and can also broker a solution.

The second function, the availability of supportive individuals, follows from the first. This involves the ability to provide integration between leadership and human resources; stated another way, it is the ability of elected officials, who have primary responsibility for policy implementation, to have all parties involved consider long-range concerns in favor of short-term solutions. Streib (1992:347) goes on to note:

> Close cooperation between elected officials and administrators could help avoid this difficulty, also the lack of cooperation could create a high level of confusion that eventually leads to chaos--the greater the level of

disagreement, the greater the resources expended in bargaining.

To illustrate the tension between various stakeholders, Colorado, several years ago, was in a heated battle with other states for the relocation of a major airline maintenance facility. In fact, it had made it to the short-list of candidates. Yet, the Governor's office and the state legislature were engaged in a bitter battle on the concessions that should be granted, with each side pointing the finger at the other.

In addition, businesses that currently resided in the state were upset over the level and degree of concessions that the state was willing to provide. To add further fuel to this fire, this battle was being played out daily in both major Denver newspapers. The result was that the airline decided not to locate in the state--one of the reasons being the level of acrimony taking place.

A counter-example or positive example to the above is the Research Triangle Park in North Carolina linking the major universities of Duke, N.C. State, and the University of North Carolina. Backed with state funding as well as the support from the business community, it has been a major catalyst for economic development in the region and has sent a measure of positive cooperation rather than strife.

The third function that facilitates effective strategic decision-making is the ability to establish effective controls over the management process. What Streib (1992) means here is that there needs to be an organizational mechanism that facilitates rather than impedes the flow of strategic information. It is important to emphasize that there must be **formal** mechanisms as opposed to ad-hoc efforts to ensure that information is exchanged. One such mechanism that has proven quite successful are nonprofit local industrial development groups (LIDGs) which are formally organized corporate or chartered associations of business leaders, political officials, and professionals working to promote capital investment for manufacturing and other economic activities in American cities and towns.

Humphrey, Erickson, and Ottensmeyer (1989), in an empirical study of LIDGs, found them engaged in several activities. While some LIDGs served in a limited capacity as organizers and administrators of industrial revenue bond programs, others were extremely active in a diverse and complex set of economic development efforts. Some LIDGs owned and operated industrial parks and small business incubators; others assisted firms in taking advantage of state or local tax abatements, publicly subsidized low interest loan programs, and job training. Many advertised their home communities in newspapers, trade magazines, and even Web sites. The overall significance of these organizational mechanisms is that they are formal entities that are able to focus their efforts as well as maintain continuity and consistency.

The final effective function is the need for external political support. While this appears obvious from the preceding discussion, Streib (1992:349) notes that "on a more basic level, it is likely that day-to-day citizen demands consume enough organizational energy to limit the ability of many local governments to consider any type of strategic decision-making." A good example of this need to build a strong political base is the case of Youngstown, Ohio. Youngstown is a manufacturing city in the Mahoning Valley in eastern Ohio. Over the past two decades, a wave of steel plant closings have wiped out three-quarters of its steel jobs and slashed manufacturing employment from 93,000 to below 50,000 (Buss and Vaughn. 1993).

In response. state and local officials deployed a full arsenal of federal employment programs, including public works projects to generate short-term jobs, inducements for durable goods manufacturing firms to move into vacant land, subsidies for capital investment, worker retraining, and downtown revitalization. Despite the best of intentions and almost unlimited federal resources, it enjoyed little success. Although Youngstown's initial response to its economic crisis failed, Buss and Vaughn (1992) note that some of the mistakes are now being corrected. The major changes are due in large part to the dedicated efforts of community leaders, especially those from the private sector. Buss and Vaughn (1992:133) note:

> The greatest change is that the local chamber of commerce, after viewing the lack of progress in the region, reorganized itself to play a major role in economic development. Its programs were greatly expanded by attracting qualified professionals in management, business development, and marketing. The chamber has begun to address regional issues. More importantly, it has established itself as the community "flagship" for economic development.

Returning to the previous example in which the State of Colorado failed in its bid for a major airline maintenance facility, the state has now adopted a more focused effort and has sought actively to involve such organizations as the Greater Denver Chamber of

Commerce and the Colorado Association of Commerce and Industry (CACI) which is comprised of a number of influential business executives (Woodward, 1993).

While these four key functions can be viewed separately, it is the interaction among them that is critical. Indeed, one of the major tenets of any strategic planning process is that successful efforts result from integration. In the economic development arena, this often separates the winners from the losers.

POLICY AND MANAGERIAL IMPLICATIONS

As a means of integrating the various themes previously addressed as well as drawing upon some recent studies, it is useful to consider both the policy as well as the managerial implications of economic development efforts.

From a policy perspective, several lessons emerge. For many states and localities, there is a tendency to view economic development on an ad-hoc basis. That is, there is a tendency to address economic development on a project-by-project basis (*e.g.*, convention centers, baseball franchises, airport development). Often there is little institutionalization of process and policies. Moreover, coalitions frequently emerge for each project and draw in their own set of actors with little overall continuity, leading to fragmentation and political in-fighting.

It is important for states and localities to adopt a more holistic approach and examine, from a policy perspective, what is the optimal use of resources. One way to address this approach is to have a coordinated planning function that addresses such issues as infrastructure, overall incentives, and the like. This does not mean that states and localities should not compete for such "high profile" projects. In fact, one of the ironies of economic development is that public officials are often criticized when they do not compete. Yet competing for these projects should not be to the exclusion of other development efforts.

Another policy lesson relates to the issues of **balance**, particularly in those states and localities where there is diversity. Whether it is the conflict between rural versus metro areas, up-state versus downstate or east-side versus west-side, there is a tendency to view matters as "win-lose" for the specific locale as opposed to "win-win" for the entire region. Economic development should not be viewed as a panacea for all in which efforts can be transplanted anywhere. Each region or locality needs to assess its relative strengths and weaknesses and must determine, from a strategic perspective, what are its **core competencies**. Certain areas may have competencies which translate to hospitality and tourism activities whereas others may have the infrastructure and workforce skills to attract and develop light manufacturing.

This audit and assessment, done early, can allow officials to target their efforts better as opposed to engaging in a "shotgun" approach. This latter approach not only drains energies and resources but also sends mixed messages to the business community.

A third set of policy lessons can be characterized as the **short-term versus the long-term perspective**. As noted in several studies of economic development policy, the areas of workforce development as well as technology and innovation are key. In addition, the current debate over U.S. competitiveness in the global arena focuses, to a large extent, on the issue of developing knowledge-based industries as well as knowledgeable workers equipped to work in this environment. Investments in education are key to sustaining these skill levels and, while these investments need to be made today, the results may not be immediate. As with the question of incentives for businesses coming into the state or locale, education investment should be fair and equitable across the region but not to the extent that it promotes mediocrity.

Turning to the issue of managerial implications, three related themes emerge.**Leadership** is one of the central process issues. As was previously mentioned, there is often the concern expressed that there often appear to be several groups and organizations attempting to take the lead--often in conflict with others. While the spirit of our political system is based on the value that no one group or organization should have total control on the system, this sends mixed signals--often to those outside the state or locale--where it appears that the jurisdiction lacks a coordinated effort. The issue of leadership addresses the mechanism that needs to be in place to ensure that policy occurs in a coordinated effort, entailing having the stakeholders involved early in the process, mediating differences of opinion while developing a common ground of action and assuring accountability for results.

A second theme is **communication**. Closely related to the previous theme of leadership, there needs to be clear communication among the key stakeholder groups, especially among key policy- and decision-makers. The lack of such communication among the key decision-makers until late in the process has often been the fatal obstacle in many economic development efforts. Had the key leaders of the various stakeholder groups been in communication throughout the process, the strategy and tactics should have been agreed upon at the outset.

The third theme is **execution**. Many feel that there needs to be a "bias for action" in the area of economic development. Some jurisdictions have an identity complex in which they fail to act for fear that they will lose. This fear becomes further aggravated for those large scale economic development projects in which states and locales engage in bitter competition, trying to outbid the other players. Regardless of the scale or magnitude of the project, execution means that the incentives for any type of economic development endeavor need already to be in place rather than having to be put together as each program comes along. These incentives should also be equitable and fair so that, whether it is an out-of-state or in-state firm, if it meets the necessary criteria that have been established, it should benefit.

Another theme of execution deals with the issue of state and local economic development entities competing against one another. To alleviate this problem, the state should coordinate with the local entities to the extent that it can without playing one jurisdiction against another. Yet, this process should be broadened across the entire state and particularly among local economic development associations, chambers of commerce as well as state and local jurisdictions.

To borrow a marketing phrase, the process needs to appear to be "seamless," entailing such activities as looking at how to streamline the process rather than developing another competing economic development entity. Regulatory compliance and enforcement efforts need to be coordinated as well to avoid having one agency attempting to attract or retain a firm within the state or locale while another is placing increasing impediments on them.

Finally, this effort needs to be continuous as opposed to being ad-hoc. There is a tendency to ignore these process issues "after the sale is made." The respective groups disband and a new coalition is put together for the next effort. This should not mean that the relevant groups or parties become entrenched; rather, a form of revolving or rotating process should be utilized allowing for continuity as well as participation.

Clearly, the economic development process should be one that is proactive and strategic. While businesses increasingly utilize a formal strategic management process to identify needs and leverage their respective strengths and opportunities, states and localities can gain a similar advantage by employing a strategic approach to economic development.

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