Improving North Carolina's Economic Development Delivery System

A Report to the North Carolina General Assembly

In response to Senate Bill 1115, S.L. 2002-126

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and

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Foreword and Acknowledgments

Whatever we are able to judge about the structure and function of our state's economic development apparatus, we take away from this study a better understanding and deep appreciation of the enormous commitment to economic development the various stakeholders have. Our problems do not include a lack of good intentions or passion to make this state a better place to live and work. We want to thank the 200-plus hard-working, dedicated economic development professionals in the Department of Commerce, the regional commissions, local economic development offices, not-for-profit organizations, and allied businesses who took time from their busy schedules to educate us, guide us, and importune us about all they do and about what makes their jobs both possible and frustrating. The consequence of all the input we received is the most comprehensive compilation of data and analysis about the economic development enterprise in North Carolina, certainly this decade.

We informed the various stakeholders from the outset that our purpose and intent was to be constructive and productive. As members ourselves of the professional economic development community we too had a stake in the outcome of the study: a shared concern about the state's ability to maintain leadership in industrial recruitment, expansion, and retention. We could not promise to reach conclusions that everyone would like, or even agree with. But we did vow to be as open about our process and objective in our interpretation of facts as any contractor could be. We had two foundations for that promise: as university-based researchers our long-term reputation and continued credibility rest on the rigor, thoroughness, and objectivity of our work, and in any case, we were not being paid by the clients in this instance, so there was no temptation even to worry about telling them what they wanted to hear. Using a phrase coined by the late eminent public policy scholar, Aaron Wildavsky, we have sought to "speak truth to power."

The Office of Economic Development was established with a clear public service mission, indeed, to be in a position to conduct this type of study for the legislature and people of North Carolina. But typically, we require payment for our services, simply because we have real costs to conduct quality research, including travel and supplies, and the time of research associates and assistants. As dedicated as my staff is, they still have to put food on their tables. So as much as we would have wanted to proceed on this project without compensation, it would not have been possible. Fortunately, Dr. John Kasarda, the director of the Frank Hawkins Kenan Institute of Private Enterprise, saw the value of this work and agreed to underwrite some of our costs. We are grateful to the Kenan Institute for their support, not only on this project, but on all the work we do in the Office of Economic Development.

The research staff we assembled for this project was simply outstanding, as individuals and as members of the team. As always, Leslie Stewart, OED's associate director, managed all the parts of a very complex research design with grace, intelligence, humor, and effectiveness. Catherine Renault, a senior research associate at OED, was able to apply her considerable experience in evaluation and her business background in very productive ways. Similarly, Doug Longman brought his considerable knowledge of business and marketing to the project, and as important, worked long hours for a fraction of what his market wage was as a former business executive. I could not have imagined a better research associate than Chloe Brooke, Kenan-Flagler MBA student. I worried what would happen to the extensive notes she was taking in all our meetings. In projects like this, it is always difficult to capture all the inputs that come in. But better than anyone I have ever worked with, Chloe managed to organize the interview material and make sense of it in a way that was enormously useful and which strengthened the report immeasurably. I am sure she could not have imagined that this research assistantship would have required her to drive all over the state, at all kinds of strange times, and to operate in the fluid, dynamic environment that characterizes OED. I acknowledge, as well, the good work of OED's social science research assistant, and general go-to person, Brande Roberts. On this project, as on others in the Office, Brande pitched in on a wide range of tasks that required attention by someone who was able to be by a phone and in the office. Finally, I thank Karen Becker for her excellent production work, as always, at the last minute.

It is customary to thank the client of a commissioned study such as this one. In this case, we have several different clients. Our most immediate client is the North Carolina General Assembly who asked for the study, and its agent, the fiscal research staff. Adam Levinson, Kelly Huffstetler, and Jennifer Hoffman of fiscal research were candid and helpful when we needed candor and help, and we thank them for that. We judge the success of our work generally, and particularly in this case, by its actual use as a guide to public policy. We are not in the business of producing yet another report that will sit on a shelf and possibly be cited by the next group who studies the problem. We look forward to working with the legislature in probing the depths of the report and implementing its recommendations. We also view the economic development stakeholders as clients, and hope, as well, that the report will be useful to them, particularly the Department of Commerce and the regional commissions.

We have tried our best to check our facts and draw the correct inferences from them. We take full responsibility for any errors of facts or interpretation that remain in the report. We welcome any comments on what we have produced and, where required, will correct any mistakes that are brought to our attention.

Michael I. Luger, Ph.D.

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SECTION 1
Introduction

On September 30, 2002, the North Carolina General Assembly specified in Session Law 2002-126 (S1115) that

> "The Kenan-Flagler Business School ('Business School') of the University of North Carolina at Chapel Hill shall study the effectiveness of the economic development activities of the North Carolina Department of Commerce ('Commerce') and the Regional Economic Development Commissions ('Commissions')."

The legislation specifically asked that the following be done:

(1) Identify how Commerce and the commissions can improve communication, implement a more coordinated and efficient recruitment and retention effort throughout the State, and avoid duplication of effort,

(2) Establish specific performance measures and outcomes relevant to the mission, goals, and objectives of Commerce and the commissions,

(3) Develop a "scorecard" that can be used to measure the extent to which Commerce and the commissions have achieved their goals, objectives, and outcomes, and

(4) Recommend a performance-based funding mechanism that will inform the General Assembly's decisions regarding appropriations to Commerce and the commissions.

In addition: "The Business School also may include in its study and recommendations any other information it deems relevant to the study and its intent."

As the center within the Business School's Kenan Institute for Private Enterprise that focuses on North Carolina economic development issues, the Office of Economic Development (OED) assumed responsibility for that study. This report presents our findings. During the past four months we have reviewed hundreds of pages of documents, conducted structured interviews of dozens of individuals in the Department of Commerce (Commerce) in Raleigh, in Department of Commerce field offices, and in each of the seven partnerships regions. We have talked to former secretaries of the Department of Commerce, members of the N.C. Economic Development Board, representatives from the executive branch, numerous local practitioners, and selected economic development opinion leaders. We also conducted a survey of site development consultants and businesses who considered North Carolina as a project location. Appendix A elaborates on our research methodology.

Our team has brought to this task many years of experience as economic development researchers and practitioners, including extensive prior interaction with both the Department of Commerce and the regional economic development partnerships. The qualifications of team members are presented in Appendix B. Our team also has brought to the task as much objectivity as you will find among contractors. We have no political agenda. The only good thing about not being paid by the legislature to do this study is that we do not have to worry about saying the right things in order to be compensated. To use a term by Aaron Wildavsky,[1] we aim here to "speak truth to power."

When we began to work in November we did not fully appreciate how important the study was. The issues we address have been discussed in Raleigh for at least ten years and have been the subject of several major reports, including to the legislature. In 1991, for example, KPMG conducted a state government audit[2] that included economic development as one focus. Even at that time the finding was that North Carolina had a panoply of economic development organizations that were not well-coordinated. In 1999, Market Street Services of Atlanta, GA, prepared a report for the North Carolina Partnership for Economic Development that suggested a need to unify the marketing efforts of Commerce and the commissions. And last year the consulting firm KPMG presented a report to the Economic Development Board that recommended strengthening the state-regional relationship as well. We have incorporated elements of these prior reports into this study, where appropriate. Their findings and recommendations are summarized in Appendix C.

The very fact that similar issues keep getting raised suggests that something may be broken in our current economic development system. We address that in the first and sixth sections of the report (on context and measurement). In short, the evidence about North Carolina's performance in industrial recruitment and expansion is mixed. Certainly, we have experienced a significant slowdown during the recession,[3] but so have most other states. On the one hand, many interviewees believe that North Carolina has lost steam, has lost its competitive edge in the economic development game. The data are mixed. North Carolina continues to be ranked among the best places to

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1. Aaron Wildavsky. *Speaking Truth to Power: The Art and Craft of Policy Analysis.* Boston: Little Brown, 1979.

2. This led to and is summarized in *Our State, Our Future: Summary of Findings and Recommendations of the North Carolina Government Performance Audit Committee (GPAC)*, December 1992.

3. Total new investment in North Carolina was over $2 billion in 1998 and 2000 but only $1.2 billion in 2002, according to Commerce numbers.

do business by such journals as *Site Selection* magazine,[4] but many practitioners criticize the methodology for this ranking as being driven by interests in the commercial real estate profession rather than by the needs of industry CEOs. Site selection consultants still see North Carolina as having an attractive product but insufficient incentives relative to other states. On a per capita basis, our record of announcements shows us well behind South Carolina and Virginia in 2002 (see Appendix D).

At the recent Emerging Issues Forum in Raleigh (February 2003), outside experts in business and innovation said that North Carolina has slipped from its top-tier reputation as a state that invests in building a strong economy of the future. Former IBM executive Lou Gerstner drew a parallel between the current state of economic development in North Carolina to the balkanized divisions of IBM in the early 1990s, in a competitive rather than collaborative culture, and without a clear customer focus. And, the Progressive Policy Institute (PPI) — a Washington-based think tank that ranks states by a “new economy index” — puts North Carolina 26th in overall competitiveness, 23rd in innovative capacity, and 20th in what it calls “economic dynamism.”[5]

Whatever external interviewees express, and regardless of magazine rankings, there is widespread concern within the state that we can do better. On a scale from one equals exemplary to four equals weak, the mean rating N.C. practitioners gave to the consistency of recruiting marketing messages across the state was a 3.2. That sentiment is heightened by the state’s fiscal circumstances that require all areas of government to examine how they can do more with the same or even fewer resources. (The state audit was done during the last recession.)

After we review the context of the study, we summarize basic principles of any successful economic development operation — including the importance of a unified vision and a well-articulated and focused strategy to achieve that vision; coordination among the many different parts of the economic development system; and a recognition of the synergies between the regions and the state as a whole. Vision, focus, strategy, coordination, and the functional relationship between Raleigh and the regions and counties all require leadership. We then describe in some detail the North Carolina system and how well it conforms to those principles. In the section that follows we discuss measurement issues. How can the state establish accountability while at the same time accommodate differences among regional organizations? The last section presents our recommendations.

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4. North Carolina was #1 for the second year in a row on the business climate ranking, which is based on numbers of new and expanded facilities and interviews with real estate executives. Mark Arend, “North Carolina Retains the No. 1 Business Climate Ranking,” *Site Selection Magazine*, November 2002.

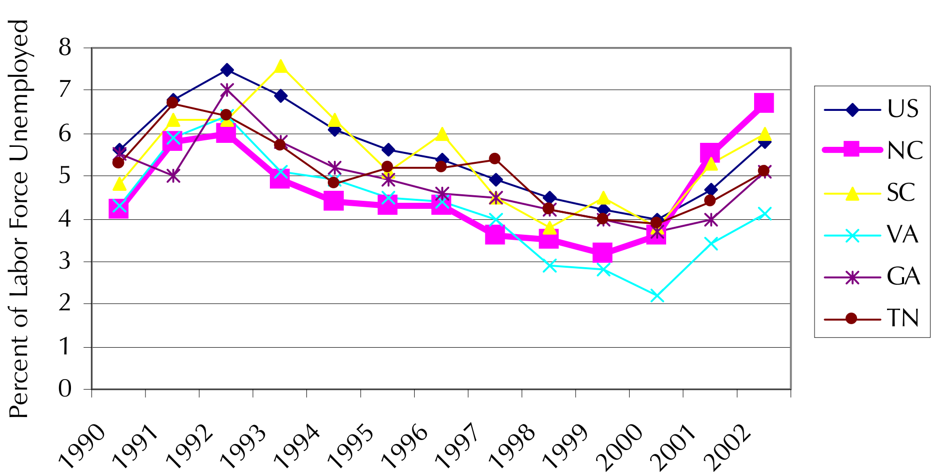
5. Robert D. Atkinson, “The 2002 State New Economy Index: Benchmarking Economic Transformation in the States,” *PPI Policy Report*, June 10, 2002.

SECTION 2

Context for the Study

For much of the 1980s and 1990s North Carolina led the nation in business announcements. Consequently, North Carolina experienced one of the faster population growth rates among states, averaging 6.8 percent per year from 1980 to 2000 compared to 6.2 percent per year for the nation as a whole. In short, people from out-of-state followed the jobs. Many of those in-migrants were young and as they bore children the natural growth rate increased. However, because the supply of new jobs kept pace with population growth, unemployment rates remained low, especially in the 1990s. The pace of new job growth also muted the effects of plant closings and downsizings, especially in our traditional industries. The scenario turned less rosy in the latter years of the 1990s and worsened still during the past three years' recession (see Figure 1). New announcements slowed, as did the propensity of resident firms to expand. But population growth remained strong, including unprecedented levels of migration from Mexico, and the loss of traditional manufacturing jobs continued. That has resulted in rising unemployment rates, even higher

Figure 1: Unemployment Rates



than our neighbors, and a slowdown in income growth. Because the problem is most pronounced in the rural parts of North Carolina, geographic disparities have widened.

The state's announced jobs and investment for 2002 do show the Charlotte and Research Triangle regions outperforming the rest of the state in the size and volume of their deals (see Appendix D). We should not be apologetic about this success, which helps pay for the downsizing in other areas and also reflects some important economic realities about client needs. These regions' products and their brands are stronger, for what new economy businesses need to be competitive, than what many of North Carolina's smaller communities can currently offer. When the number one factor in business site selection is well-trained and/or well-educated labor,[6] a low college attainment rate alone — which one can discover on a first-pass web search of a community — will take that place off the site selection list without anyone ever making the first inquiry. All the "marketing" or incentives in the world are not going to drive a company needing Ph.D. engineers to a remote area where few residents attend college.

It is not surprising for some critics to consider the business recruitment apparatus in the state as responsible for the slowdown in announcements or the differences in outcomes by region. Associated with that is the belief that there is unnecessary duplication of effort among the various actors, as well as poor accountability and a lack of performance-based rewards. Some go so far as to claim that North Carolina's approach to economic development is outdated, with too much focus on "buffalo hunting" and too little focus on "growing our own." Another view, however, is that the problem stems from both cyclical and structural factors in the macro economy and therefore is being experienced similarly by our neighbors. Our view is that there is truth in each of those claims.

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6. For example, such rankings are reported in Area Development magazine's most recent annual corporate survey, available at http://areadevelopment.com/past/1202/features/corpsurvey1.html.

SECTION 3

The Practice of Economic Development

The goal of economic development, as practiced at the state level in the U.S., is to increase citizens' standard of living and quality of life. For example, the mission statement of the North Carolina Department of Commerce reads:

"To improve the economic well-being and quality of life for all North Carolinians."

That lofty objective is invariably operationalized and measured in the short-run in terms of new business announcements, dollars of new investment spending, number of new jobs created, and value of new tax base generated. In the longer-term, those outcomes lead to higher per capita incomes, a lower incidence of unemployment and poverty, and better quality of life.

Increasingly, states are emphasizing the quality of new jobs and investment, not just the quantity. For example, states are putting more emphasis on jobs that pay a "livable wage," and accordingly, do not actively promote unskilled service jobs, such as in fast-food restaurants. Most economic development professionals focus on developing or attracting investment in manufacturing, business services, health services, and other "value-added" sectors that create an additional flow of dollars into local economies rather than simply re-circulating local dollars.

States organize their pursuit of the economic development goal in many different ways, with an array of actors. In general, however, the practice of economic development can be divided into four sets of activities:

- strategic planning, visioning, and coordination
- industrial recruitment (domestically and internationally)
- business retention and expansion
- entrepreneurial development.

The actors involved in these activities are part of state, regional, and local governments; non-governmental, not-for-profit organizations; colleges and universities; and private, for-profit companies.

The Activities of Economic Development

Each of the four activities listed above has a set of sub-activities that also differ from state-to-state. Those sub-activities include (but are not limited to):

- strategic planning, visioning, and coordination
  - periodic development of statewide economic development strategic plans
  - periodic development of statewide science and technology (S&T) strategy
  - development of on-going processes to evaluate the state's progress toward various plans' goals, and to revise the plans, as appropriate
  - assuring consistency of plans and related initiatives that are developed by different organizations
  - creating a clear state brand to the external world
  - brainstorming sessions to explore new approaches and the applicability of successful strategies and programs used elsewhere
  - reducing the "seams" between government departments in the delivery of services and information related to economic development
- industrial recruitment
  - development of web sites accessible to interested businesses and site selection consultants
  - calls on businesses and site selection consultants
  - developing and advertising financial incentives
  - trade missions to other regions of the country and abroad
  - customized job training
  - placement of favorable articles in the media
  - preparation of "mega-sites" appropriate for large projects
  - provision of certified sites, shell buildings, and industrial and research parks
  - regulatory reform, reducing red tape
  - focused efforts around pre-selected industry "clusters"
  - attention to other quality-of-life amenities, such as quality K–12 education, recreation, culture and sports
- business retention and expansion
  - routine visits by economic development professionals to existing businesses, to assess their situation and pre-empt any problems
  - technical assistance by various organizations, to solve particular problems, either in person or via "service centers"
  - job retraining and re-skilling assistance
  - marketing assistance for existing firms to find new domestic or international markets and develop strong local buyer-supplier linkages
  - provision of financial incentives, especially for modernization and expansion
- entrepreneurial development
  - assistance in the preparation of business plans
  - guidance on intellectual property matters
  - development of support networks of entrepreneurs
  - provision of early-stage and mezzanine financing

- matching of entrepreneurs with venture and angel capital
- development of incubators (accelerators, hatcheries) for new businesses
- development of entrepreneur-friendly tax policy, including elimination of capital gains tax and an R&D tax credit

It is the norm for these sub-activities to be distributed among a wide variety of actors within a state. It is also common for more than one actor to be involved with the same sub-activity. That makes information sharing and coordination critical.

Looking across the fifty United States, for example, we see the first of our activities — strategic planning, visioning, and coordination — addressed by different groups of actors, including:

- economic development cabinets consisting of executive branch appointees
- economic development boards consisting of representatives of the executive and legislative branches, as well as business and higher education
- boards or councils of science and technology, either independent, under the Governor, or within the lead economic development agency
- university-based advisory groups
- business-dominated councils or boards
- consortia of local and/or regional economic developers
- tasks forces, caucuses, and/or committees within the legislature

Any given state will have several actors involved in this activity. Again, however, without clarity of purpose, coordination, and leadership, there is the potential for considerable confusion and a lack of effectiveness.

Similarly, business recruitment, business retention and expansion, and entrepreneurial development are conveyed by a variety of actors across and within states, including state departments with different names (Departments of Commerce, Departments of Economic Development, Department of Industry and Trade, and so on), regional authorities (such as our seven regional partnerships[7]), local economic development commissions and chambers of commerce, and quasi-public or private organizations (for example, Enterprise Florida, or the Michigan Economic Development Corporation).

Principles of Good Economic Development

Regardless of how states' economic development apparatuses are structured, there are some common themes of regionalism, coordination, clarity of vision, and leadership. First, ***regionalism*** is gaining currency globally as an economic development principle. Most states grapple with the trade-off between centralization and regionalization of activities. North Carolina has one of the more formalized approaches to regionalism with its seven economic development partnership areas covering the entire state. The impetus to regionalize in some fashion is that local developers know best the local attributes and resources, and can best market their region to the outside world. As the

7. From this point on, we refer to North Carolina's seven regional economic development commissions as the "partnerships," consistent with everyday parlance about them.

popular saying in North Carolina goes, "it is a long way from Murphy to Manteo." Indeed, some counties in the Advantage West economic development partnership region are closer to five other states' capitals than they are to Raleigh. Similarly, counties in the far northeast have closer ties to Tidewater Virginia than to the rest of North Carolina, and Charlotte appropriately defines its region to include four South Carolina counties.

The diversity among regions in the state, and the perception that local needs could not be fully served from Raleigh alone, gave birth to the regional partnerships as a statewide initiative in 1993. Over the past decade the partnerships have become well entrenched. The predominant sentiment of those we interviewed was that regionalism needs to be maintained and the public-private partnership concept is basically sound.[8]

But that creates a challenge of ***coordination*** between the regions and the lead agency in the capital. In North Carolina's case the challenge is more daunting because the Department of Commerce itself is regionalized, with personnel placed in each of the seven regions, though not always co-located with the regional partnerships' staffs.[9] Most other states do not have a dual system of regionalism for economic development. A further coordination challenge is between the regional partnerships and the individual county economic developers and between the state economic developers and the counties. Coordination is an issue to some degree in every state, not just in North Carolina.

A third principle of good economic development is ***clarity of vision*** and a focused and commonly pursued strategy. To have all parts of the apparatus working together, they must understand where they are supposed to end up. The better understood the state's strategy, the easier it is for regional and local decision makers and developers to act in complementary and constructive ways. The orientation and content of the strategic plan are also important. They have to account for economic realities such as increasing global competition. The vision must also be client-oriented: the clients are the businesses that create jobs and wealth, and they have specific and challenging competitive requirements.

Finally, good ***leadership*** is key. We were told repeatedly by economic developers that industrial prospects value aggressive and competent government leadership that is supportive of business and helpful in streamlining the process, at least as much as they value financial incentives. Leadership is required as well to facilitate cooperation and coordination of the component pieces.

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8. We use the word "predominant" advisedly because there was also a dissenting minority view that we need less regionalism and more centralization. The dissenters' concerns were that we were moving toward seven, rather than a single North Carolina; that the Department of Commerce in Raleigh needs to be bolstered as the lead economic development organization; and that the regional partnerships are not sufficiently accountable to citizens and the legislature.

9. A N.C. Department of Commerce study was recently commissioned by the legislature to study the co-location issue. Its January 2002 report found that the "annual cost savings achieved by consolidation would be minimal and out of proportion to the intangible costs associated with altering the current structure."

SECTION 4

Economic Development in North Carolina

North Carolina has a rich mosaic of organizations involved in economic development. The prevailing perception that this state's approach to economic development is more balkanized and complex than other states' may be as important as the reality that all states struggle with similar issues. In the recent survey of the National Association of State Development Agencies, North Carolina did report more pass-throughs to various non-profits[10] than most other states, which typically concentrate their economic development funding in either the state government or a statewide private corporation. In the big picture, North Carolina mirrors what other states do, but overall, our setup is unique, reflecting our own institutional history, politics, economic realities, and geography. The challenge for North Carolina, as for other states, is to apply the principles of good economic development to its unique context.

Economic Development Actors: Who Does What

While we understand the primary charge for this study is to examine the economic development divisions of the Department of Commerce[11] and the seven partnerships, we feel responsible for framing their roles in economic development within the broader context of actors. **The entities under study for this report make up only about 17 percent of the state's operating expenditures for economic development.**

Tables 1 through 4 list the major institutional actors in each of the four economic development activity areas identified in Section 3. Our listing is intended to be illustrative rather than exhaustive.

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10. These include, for example, the N.C. Rural Economic Development Center, the N.C. Biotechnology Center, and organizations of community development corporations.

11. These are generally seen as: Business and Industry (B&I); Marketing and Customer Services; Commerce Finance Center; International Trade and Development; Policy and Research; and much of MIS. Throughout this report, unless otherwise noted, when we say "Commerce," we are referring to these groups, of which B&I is the largest. The economic development divisions represent about 21 percent of the staff and 27 percent of the entire budget for the Department of Commerce proper (not counting its pass-throughs and various affiliated commissions).

Table 1: Strategic Planning, Visioning, and Coordination

- N.C. Economic Development Board (EDB): Appointed by the Governor (23), the Speaker of the House (7), and the President Pro Tempore (7); recently produced North Carolina's 2002 Economic Development Strategic Plan.
- N.C. Department of Commerce: Lead agency in staffing the work of the EDB and in executing the plan.
- N.C. Board of Science and Technology: Appointed by the Governor (15), by the Speaker of the House (1), and by the President Pro Tempore (1); sets policy on state investments in science and technology.
- North Carolina Partnership for Economic Development: Includes presidents and chairs of the seven regional commissions; serves as a platform for their collaboration. Co-chaired by the Secretary of Commerce.
- Legislative caucuses: Currently being convened by Senator Basnight and Speaker Morgan; discussing possible legislative actions required to support the state's economy.
- Office of the Governor: regular cabinet-level meetings with the Secretaries of Commerce, Revenue, and Transportation to coordinate state policy and responsiveness to business.
- Future Clusters Task Force: Chaired by former Governor Hunt; developing a new vision for competitiveness in the Research Triangle region.
- Community colleges, UNC Board of Governors, Commerce and regional Partnerships: required by SB1115 (S.L. 2002-126) to develop a five-year vision plan for each region.
- North Carolina Economic Developers Association (NCEDA): "the voice of economic development in N.C." representing over 600 practitioners and allies statewide; its board is active in agenda-setting with the legislature on creating a better toolbox for selling the state.

Table 2: Recruitment of New Industry

- North Carolina Department of Commerce, Raleigh: Business and Industry (B&I); Marketing; International Trade & Development; Tourism, Film and Sports Development.
- North Carolina Department of Commerce field offices: employ developers in each of the seven regions of the state.
- North Carolina Department of Commerce, Commerce Finance Center: administers tax credits, industrial revenue bonds, loans, and other financial assistance to businesses.
- North Carolina Department of Revenue: certifies businesses that have applied for tax incentives; now has dedicated staff person to work with prospects on tax matters.
- Local economic developers; housed in county offices, chambers of commerce, or non-profit economic development corporations.
- Regional economic development commissions or "partnerships" (7): market multi-county regions and provide research to respond to prospects' requests.
- N.C. Community College System (58 colleges plus satellite campuses): New and Expanding Industry Training program, customized to each client.
- Office of the Governor: administers the discretionary One North Carolina Fund to close deals (had $15 million in FY2002, after several years at $1 or 2 million).
- Economic Investment Committee (Secretaries of Commerce and Revenue, Director of the state budget office, public members representing Senate and House): decides on up to 15 Job Development Investment Grants per year.
- Board of Science and Technology: currently housed within the Department of Commerce, assists the Secretary of Commerce in recruiting technology-oriented companies.
- N.C. Department of Transportation: has funds and crews to build or improve roads to help site a company.

Table 3: Retention and Expansion of Existing Industry

- North Carolina Department of Commerce field offices: Business and Industry Division regional staff call routinely on existing industry to help address competitiveness issues; B&I is also pilot-testing a "service center" web site for existing companies in ten western N.C. counties.
- North Carolina Department of Commerce, International Trade and Development Division (Raleigh): helps companies with export promotion and identifying new global markets.
- Local economic developers: some offices include a deputy-level position focused primarily on serving existing industry.
- N.C. Community College System (58 colleges): customized industry training programs including the Focused Industry Training program.
- North Carolina State University's Industrial Extension Service: consists of various free and fee-based programs to enhance the profitability and competitiveness of manufacturing companies statewide; receives some federal support through the Manufacturing Extension Partnership. NCSU also has programs focused on specific industries including polymers and textiles.
- Small Business and Technology Development Centers (SBTDCs): administered by the University of North Carolina system and housed in each of the 16 campuses, these tend to focus on companies that already have a business plan and/or a technology focus.
- North Carolina Biotechnology Center: provides training, networking, technical assistance to pharmaceutical and life sciences companies statewide.
- N.C. Department of Agriculture and Consumer Services: provides assistance to farm-based companies in marketing; provides USDA funds for technical assistance and infrastructure.
- N.C. Department of Transportation: has funds to build or improve roads to help a company expand.
- N.C. Citizens for Business and Industry: a statewide association representing business interests and working closely with local chambers of commerce.

Table 4: Entrepreneurship Development

- Small Business Center Network, at each of 58 community colleges: assists existing and prospective entrepreneurs with free seminars, assistance in writing business plans, marketing, bookkeeping, etc.
- Small Business and Technology Development Centers (SBTDCs): administered by the University of North Carolina system and housed in each of the 16 campuses, tend to focus on companies that already have a business plan and/or are higher-tech.
- Technology transfer offices at universities: provide assistance in patenting and licensing, to increase the commercialization of knowledge from faculty and staff.
- N.C. Biotechnology Center and MCNC: assist with technology transfer in specialized areas of life sciences and information technology, respectively.
- N.C. Technological Development Authority: helps support incubators and other programs to foster entrepreneurship in N.C. communities.
- Board of Science and Technology: currently housed within the Department of Commerce, advocates and coordinates state policy related to science and technology and R&D.
- Council for Entrepreneurial Development, Piedmont Entrepreneurs Network, and Mountain Council for Entrepreneurial Development: in three regions of the state; offer conferences, access to capital, and training seminars to assist currently and potentially high-growth companies.
- N.C. Rural Economic Development Center: advocates and coordinates policy for communities in rural parts of the state; administers micro-enterprise loan and rural entrepreneurship programs.
- Institute for Minority Economic Development: non-governmental not-for-profit organization that provides technical assistance, construction co-op and other programs for minority entrepreneurs.
- Self-Help Credit Union: non-governmental not-for-profit organization that acts as a community development lender; provides capital for micro-enterprises.
- Dogwood Equity: provides venture capital for viable investments in rural N.C.

Table 5 shows the actors involved in what is commonly called "product development," or the incentives, services, and other programs used in each of the four activity areas.

These tables illustrate the complexity of the system, not only by the sheer number of actors involved in each activity, but also, by the fact that those actors reside in different public and quasi-public agencies and organizations and at different levels of government. That complexity makes essential what organization specialists call "horizontal and vertical coordination."

While all states have actors who perform each of the four broad functions above, their chosen emphases differ. Table 6 shows North Carolina and several other states that responded to the expenditure survey of the National Association of State Development Agencies (NASDA). One must be cautious in comparing states in surveys such as NASDA's; nonetheless, it appears that North Carolina's Department of Commerce spends less of its resources on serving existing industry than do other states' lead development agencies. Even including some of the other actors (see Table 3), our own rough calculation is that **North Carolina's spending on existing industry service represents only 13 percent of the total state spending for economic development.**[12] Many

Table 5: Product Development

- N.C. General Assembly and N.C. Dept of Commerce's Finance Center: state tax credits for job creation, worker training, R&D; job development grants.
- Numerous state and non-profit workforce development programs to enhance skilled labor (which is still the #1 factor in location decision for most businesses).
- N.C. Department of Commerce, Division of Community Assistance: technical assistance and federal grants to communities, primarily with a rural focus.
- North Carolina Rural Economic Development Center: leadership development, infrastructure grants, and technical assistance to 85 rural counties
- N.C. Department of Transportation, airport and port authorities: Transportation Improvement Program and other initiatives to upgrade the current road, air and other transportation infrastructure.
- Rural Internet Access Authority — housed in the Rural Center: various programs to improve the accessibility and affordability of telecommunications services in rural areas; partnering with private sector telecom to bring broadband Internet access to entire state by December 2003.
- Federal grant programs — e.g. Economic Development Administration, Community Development Block Grant (HUD), Appalachian Regional Commission, U.S. Department of Agriculture, Manufacturing Extension Partnership.
- Golden LEAF — foundation that manages 50 percent of N.C.'s tobacco settlement: grants to tobacco-dependent communities to transition to other economic bases and for selected larger investments (e.g., recent $42 million commitment to invest in companies that develop or manufacture biotech products in N.C.).
- Regional Partnerships: grants to improve sites and infrastructure in communities.
- Councils of government (COGs): land use planning and infrastructure development.
- ForENC — foundation devoted to the improvement of business climate, leadership development and philanthropic investment in the 41 N.C. counties east of I-95.

12. The functions of various organizations overlap considerably, making this only a first-guess estimate. This includes SBTDC but not other entrepreneurial support organizations.

Table 6: Economic Development Activity Breakdown by State

	Percentage of Total Resources Spent on Economic Development					
	NC	FL	MI	OH	TN	TX
Attracting new investment to the state	18	4	4	10	40	2
Providing support to the state's existing industry	13	3	18	35	25	97
Fostering new business formation within the state	7	3		5	10	
Community development	30		37	30	25	1
Other activities	32	90	41	20		

Source: National Association of State Development Agencies, *2002 State Economic Development Expenditure Survey*. Georgia, South Carolina and Virginia did not provide data in this format.

practitioners and observers believe we are "missing the boat" since much of new economic growth (estimates range from 60 to 85 percent) stems from existing companies.

On the one hand, our complex landscape seems daunting. It cannot be simplified by fiat; democracy has a way of generating multiple actors and stakeholders who act with a mixture of "public-mindedness" and self-interest. But leadership, clarity of purpose, and coordination can turn our complex, fluid system into an asset. That is not to say that changes should not be made to our institutional structure. We address that later in this report. Now we turn to a more detailed consideration of the organizations under study.

Structure and Funding of the North Carolina Department of Commerce

The North Carolina Department of Commerce (Commerce) is a cabinet-level department. The Secretary of Commerce is appointed by and reports to the Governor. The current organization of the department, as well as other background information, is included in Appendix E.

Each of the main regional offices[13] of Commerce has a parallel structure: each has an economic developer, an existing industry specialist, and a regional assistant position.

Within the Business and Industry Division, there is a manager of industrial recruitment and a manager of existing industry services, both based in Raleigh. The regional economic developers, as well as the Raleigh-based project managers, report to the manager of industrial recruitment. The existing industry specialists in the regions report to the existing industry manager. Formerly, the regional office directors supervised their existing industry specialists.

The operations for marketing, policy and research, and MIS were included within the Business and Industry Division until a departmental reorganization in FY99. These divisions now serve the entire Department of Commerce but are still viewed prima-

13. In six of the seven Partnership regions, there is one regional Commerce office. In the Advantage West region, there is the main Commerce regional office in Fletcher and two smaller offices in Bryson City and Lenoir. The Lenoir office has an economic developer and regional assistant but no existing industry specialist. The Bryson City office will soon be restaffed with a developer.

rily as "economic development" divisions. Not surprisingly, the regional office staff generally prefers the prior arrangement.

The current staffing and budget levels are shown in Table 7. Staffing is expressed in full-time equivalents, or FTEs. Information on funding trends is shown in Appendix E.

Table 7: Staffing Levels and Budget for the N.C. Department of Commerce

Division	FTEs	Certified Appropriation FY2003
Marketing & Customer Svcs.	5.00	$1,272,834
Policy & Research	9.00	$369,468
Business & Industry	42.25	$4,066,643
International Trade	10.00	$2,444,144
Commerce Finance	6.00	$979,675
Total, "Economic Development" Divisions	**72.25**	**$9,132,764**
Science and Technology	1.00	$304,676
Tourism, Film & Sports Dev.	33.00	$9,452,025
Welcome Centers	40.00	$1,460,167
Community Assistance	37.50	$3,340,297
Administration	32.00	$1,434,566
MIS	11.00	$1,013,564
Industrial Commission Administration	109.00	$5,879,484
Other DOC	10.00	$1,915,351
Total (All DOC departments)	**345.75**	**$33,932,894**

The total annual budget for Commerce is currently over $52 million, but this includes (1) over $12 million in pass-throughs to state-funded non-profits, including the N.C. Biotechnology Center, the Institute for Minority Economic Development, N.C. Rural Center, and the N.C. Community Development Initiative; and (2) approximately $6 million for the regional partnerships.

Structure and Funding of the Regional Economic Development Commissions ("Partnerships")

A brief history of the partnerships is included in Appendix F. In this section we discuss only their current attributes.

All of the partnerships are non-profit organizations. The Eastern Region was set up as a quasi-governmental entity to allow it to collect a dedicated revenue source, a license tag fee, for the first several years of its operation. Each of the partnerships receives a combination of state and private funding in different proportions, as shown in Table 8.

One striking observation is that the sizes of the partnerships' budgets and staffs vary because of the variance in state funding and the degree to which they leverage non-state monies. The Charlotte Regional Partnership, for example, charges its mem-

Table 8: Total Size and Sources of Partnerships' Budgets

	2001–02 Allocation from the State	2001–02 Total Budget	Percent of Total Budget from State	Staffing Level (FTEs)
Advantage West	$1,379,334	$2,035,953	68	6
Charlotte	$596,682	$2,465,005	24	9
Piedmont Triad	$548,695	$2,229,638	25	6
Research Triangle	$514,571	$897,329	57	5
NC's Southeast	$758,633	$1,329,693	57	4
Eastern	$721,864	$2,082,524	35	7
Northeastern	$1,435,117	$2,183,707	66	4.5

Source: Partnership, FY2001–2002 Annual Reports.

ber counties an annual per capita fee, and charges for membership on its board. In addition, because the $6 million in state funds are distributed unequally based on the economic condition of the partnerships' member counties,[14] the partnerships also differ in their mix of state and other support. The non-state money includes federal grants, foundation grants, and private support, and each partnership pursues these funds to varying degrees depending on its mission. For example, the Research Triangle Regional Partnership raises relatively less private money but involves its board and other private leaders in a variety of volunteer capacities, including strategic visioning for the region.

The governing bodies of the partnerships vary as well. Three of the four rural partnerships have appointees from the Governor and the leaders of the House and the Senate. The Eastern Region's board is appointed by the member counties' county commissioners. The urban partnerships, which all pre-dated the establishment of the regional commissions in 1994, have more discretion over their board member selection and generally include more private business leaders. The composition of each partnership board, as well as other information about the partnerships' structure and funding, including budget history, is included in Appendix G.

14. This amount is allocated among the seven partnerships according to the distress levels, or tiers, of their counties. The more Tier 1, or most distressed, counties it serves, the more state funding it gets. This is generally not a contentious issue.

The difference in history and governance also accounts for the varying mission statements that the partnerships use to define their purpose, as shown in Table 9.

The important observation from this table is that the regions define themselves differently as a consequence of different needs and opportunities in the seven groups of counties. For example, Advantage West and the Northeast have active tourism functions; the others do not.

Relationships Among the Partnerships and with Commerce

The relationships among the staffs of the different partnerships are generally collaborative, despite some strong personalities. Except for the three partnerships in eastern N.C., which sometimes compete with each other for projects, and some projects that consider both the Triangle and the Triad, **the partnerships generally compete with other regions outside the state more than with each other.**

Table 9: The Partnerships' Mission Statements

Partnership	Mission Statement
Advantage West	Our primary focus is marketing the North Carolina mountains to corporations seeking to relocate or open a new facility, expand an existing business within our region, and those who might otherwise improve the quality of life for citizens within our region through activities such as filmmaking and tourism.
Charlotte	(1) Marketing the Charlotte region to the world, (2) to facilitate an effective economic development dialogue for the Charlotte region, (3) to support the economic development efforts of the Charlotte Regional Partnership investors, and (4) to build cohesive relationships among the Charlotte region's private and public sectors.
Piedmont Triad	The primary responsibilities of the Piedmont Triad Partnership are external marketing, public and media relations, market and project research, and technology development, including maintenance of an effective website. Additionally, however, the Piedmont Triad Partnership has other responsibilities, including internal marketing, public relations and media relations within the 12-county region, and support of programs that are unique to the Piedmont Triad region.
Research Triangle	The Research Triangle Regional Partnership is a public-private partnership whose mission is to market a 13-county region for the economic benefit of its communities. Our programs include: (1) unifying voice of business, (2) marketing, and (3) product development.
NC's Southeast	Our mission is to aggressively market North Carolina's Southeast as an ideal destination for businesses looking to expand or relocate into any of the 11 counties that make up the Southeast North Carolina. Added to this mission is a long-term goal to diversify the region's economy in order to recruit better jobs for our people and build a stronger tax base for our communities.
Eastern	Our mission is to promote and encourage economic development by fostering or sponsoring development projects to provide land, buildings, and infrastructure requirements for business and industry within the 13-county development zone.
Northeastern	NC's Northeast Partnership implements economic development marketing and business recruitment strategies for its sixteen member counties. The NE Partnership also implements aggressive tourism marketing and promotional activities.

Sources: Partnership annual reports, web sites, and marketing materials.

The partnerships have several institutional mechanisms for collaborating with one another. The North Carolina Partnership for Economic Development (NCPED), which includes the presidents and board chairs of each regional partnership, meets monthly. The Secretary of Commerce co-chairs this group, but the NCPED is positioned primarily to serve the interests of the partnerships. A researchers group, including the research staff of the seven partnerships and the research staff of Commerce, and a parallel group of the marketing staff from each organization, both meet quarterly. The relations around particular functional matters are generally cordial and professional. Other than the board chairs who meet as part of NCPED, the boards of the seven partnerships never have met jointly, which may be a missed opportunity to tap private sector leadership in concerted ways.

The relationships behind the scenes, however, are not indicative of good teamwork and mutual trust, particularly between Commerce and partnership staffs. We heard Commerce project managers describe themselves as "stepchildren" who have to rely on the benevolence of the partnerships to be able to entertain clients or go on marketing trips. They also exhibit some salary envy, since partnership executives are better paid than Commerce project managers. There is little to no sharing of information from Commerce to the partnerships, ostensibly for reasons of client confidentiality that have been breached in the past.[15] Partnerships' staff expressed concern about the ability of some Commerce staff to handle their new industry clients effectively after they are turned over.

Commerce desperately wants the partnerships to work with them rather than around them through their contacts in the legislature. Partnership executives uniformly want a stronger lead agency at the state level, recognizing that strong regions are not the same as a strong state and we need both. However, when effective and timely service from the state is not forthcoming, the partnerships are "getting the job done" anyway. Commerce is operating within a state bureaucracy, while the partnerships are more nimble non-profits with private support. Nobody in leadership is pushing hard for assimilating those two cultures.

A concern expressed in many of our interviews was that the economic development process is not client-focused, and that competition between Commerce and the partnerships distracts everyone from working together toward the most productive outcomes.

Even on the internet, there is a weak sense of coordination of effort. Commerce's departmental web site (www.nccommerce.com) provides links to the individual partnerships, but only within a longer list of N.C. economic development organizations. That does not offer any context about the partnerships or what their role is in the larger picture. The externally focused web site, www.investnc.com, does include a home-page link to a map of the partnerships with a brief preamble about their role.

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15. One request we heard from the partnerships is for thematic information about key needs from existing industry, as well as key areas of satisfaction, that could be used in marketing without divulging companies' identity or confidential information.

Another concern that was expressed in our survey regarded the consistency of the marketing message. The mean response from 104 survey respondents, on a question about the consistency of state's marketing messages for recruitment, was 3.1, where one was "exemplary" and four was "weak." Additional information from this survey of North Carolina practitioners is included in Appendix H.

SECTION 5

North Carolina's Practice of Economic Development vis-à-vis Good Principles

Most of our time during the study period was spent interviewing and surveying economic development professionals and other policy leaders in Raleigh and across the state (see Appendix I for a listing of those interviewed and Appendix J for the protocol used). The purpose of these efforts was to inform a judgment about how well the state was doing in its economic development efforts, relative to the four principles of good practice described above:

- an appropriate balance between regionalism and centralization;
- effective vertical and horizontal coordination;
- a clear vision of desired outcomes that is shared by all stakeholders; and
- strong leadership.

We present our findings in this section. Our observations are centered on the Department of Commerce, particularly the Business and Industry Division (both Raleigh-based and in the regional offices), and the regional partnerships, since that was our charge. We comment on some of the many other actors only as they relate to those players.

It is impossible to capture the full richness of the data we collected in a summary report. We have attempted to present a balanced assessment based on the many frank and thoughtful comments we heard in our focus groups. We include for the curious reader an extensive sample of quotes from these groups in Appendix K.

The Balance Between Centralization and Regionalism

There is not currently a good balance between Raleigh and the regions in economic development. The nearly unanimous desired outcome is for the Department of Commerce to be a strong lead agency in economic development — particularly in activities related to recruitment, retention, and new business development, ensuring a recognizable state "brand," providing specialized expertise and economy-of-scale in some services, passing-through some resources to the regions to perform core functions, and coordinating activity to avoid wasteful duplication and unproductive competition.

Another ideal is for the regional partnerships to be able to represent their own counties and fine-tune their region's marketing message, since they are closer to the ground. The regional partnerships should be given enough freedom to define their mission and scope of activities in a way that makes sense for that region. The variation that emerges creates what Osborne (1996) called a "laboratory of democracy."[16] Good ideas and practices that are used in one region can be adopted elsewhere, if they fit.

The perception in the field — in both the regions, and in many local areas — is that the Department of Commerce has not performed as a strong lead agency. Indeed, the very impetus to create the regional partnerships was to fill a vacuum that economic development leaders located outside of Raleigh began to observe. That vacuum developed for several reasons: the growth of the state and the increasing difficulty of serving the needs of all communities from one location; slow growth in the Department of Commerce budget that constrained its level of effort; and the bureaucratic nature of state government that makes it hard to reward state developers for good work and difficult to sanction them for poor performance.

The belief that Commerce was not aggressively generating and pursuing leads in general, or steering prospects toward locations within an easy drive of Raleigh, led to bad feelings and a desire to "go it alone." That, however, has not sat well with the majority of local economic developers who seem more comfortable working with Commerce — especially its regional developers — than with the partnerships, in the pursuit of new business. An important dissenting view is from some of the local developers in smaller counties, who see the partnerships as important to getting them "on the map."

The prevailing view within the Department of Commerce is that the regions have too much autonomy and act in self-interested ways that work against a "One North Carolina" image. The marketing message of the Charlotte region — which is "Charlotte, USA" — was used by several interviewees as an illustration. Other examples include trade missions and calls on prospects that partnerships initiated without coordinating with Commerce developers. Perhaps the most problematic behaviors, from the Commerce perspective, are the end-runs around the Department of Commerce to friends in the legislature who then intervene in the details of projects. The feeling among most Commerce employees — and local developers — is that the legislature does not appreciate that the focus of economic development must be on the client's very real and specific needs, not on the politics of representative government. **There is a balance point we have yet to find between advocacy for the regions to get their "fair share" of projects and realistic expectations based on what clients need.**

Our conclusion about the tension between regionalism and centralization echoes findings in earlier studies. The 1994 Strategic Plan and the 1999 Market Street report both noted a tendency toward fragmented marketing. The 2002 KPMG study observed "a lack of clarity of certain roles and responsibilities between the state and regional partnerships, coupled with poor interagency communication within the eco-

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16. David Osborne, *Laboratories of Democracy: A New Breed of Governor Creates Models for National Growth,* New York: McGraw Hill, 1996.

nomic development community, has led to a certain degree of 'client confusion.'" And "there is uncertainty as to who is leading North Carolina's economic development efforts." The 2002 Strategic Plan of the Economic Development Board says clearly: "Promote regionalism with clear, central leadership," and talks about the importance of a central brand.

Coordination

We introduced some of the coordination issues in the regionalism discussion, as coordination requires the sorting out of functions necessary to achieve balance between the partnerships and Commerce. Here we define "vertical coordination" as the articulation of responsibilities between Raleigh, the regions, and individual counties. We define "horizontal coordination" as the articulation of roles among organizations at the same level of government, including, for example, Commerce (and among its divisions), N.C. Department of Revenue, Department of Environment and Natural Resources, the community college system, the Economic Development Board, and others at the state level.

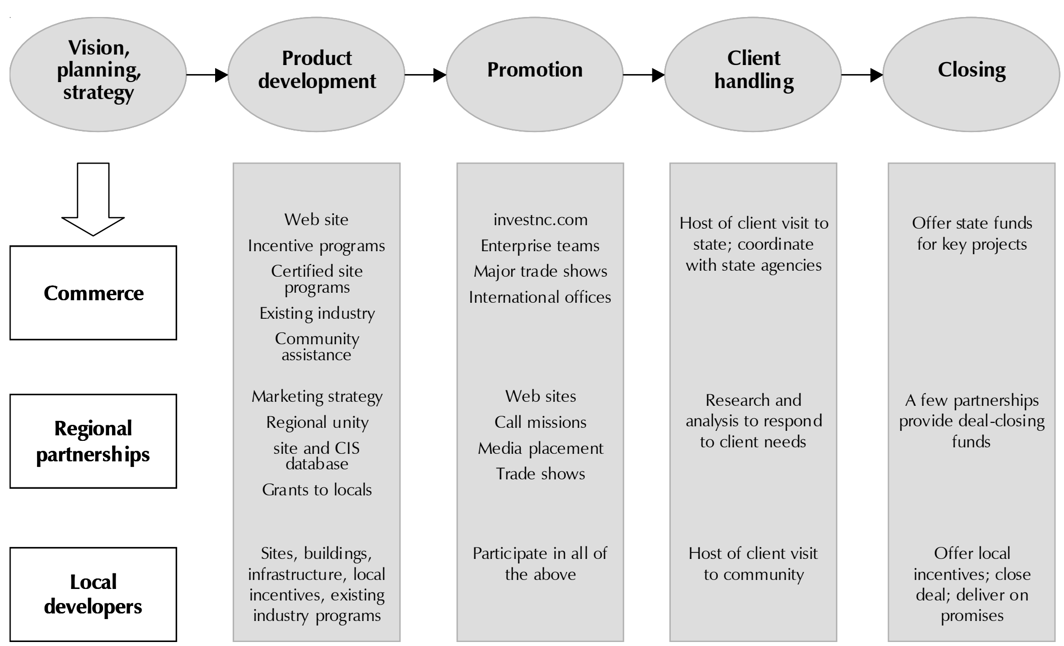
Vision, planning, and strategy drive not only recruitment, but retention, expansion and new business development, as well. We discuss that further in the section below.

There are divisions of responsibility among the actors and some degree of coordination, but the roles need to be further articulated and understood, and communication and support need to be strengthened.

Vertical Coordination

Figure 2 shows the functions associated with business recruitment, and the general assignment of activities among the three levels of economic development actors: Com-

Figure 2: The Vertical Division of Responsibility in Economic Development (Recruiting)



merce, the regional partnerships, and local economic developers. We used a variation of this graphic in our focus groups to generate discussion of how this model applies in different regions. By doing that, we learned that the division of responsibility is not the same everywhere. In other words, this graphic at best approximates common practice.

Product development refers to the creation of a brand; the provision of education, training, infrastructure, business services, tax climate, and amenities; and the development of sites and buildings. Promotion is the identification of possible clients and provision of product information to them about North Carolina and its regions. Client handling is the direct contact with an identified client or his/her site selection consultant during the period when project proposals are invited and /or the prospect visits the state. And closing refers to the final negotiation with prospects about the financial incentives, training, infrastructure, land, etc. that have been put on the table.

In terms of product development, Commerce is generally expected to facilitate and administer incentive programs made available by the state legislature, set standards for certified sites, and provide other funding for programs consistent with an economic development strategy. Web site is listed as a product because it is used as a gateway/portal to the outside world, to help "brand" the state with an identifiable image. The regional partnerships are expected to develop a marketing strategy consistent with an overall state brand, develop regional cohesiveness, maintain a site database (including certified sites), and provide some additional grants to local governments. The local developers are expected to provide the sites, buildings, and infrastructure that are needed by clients. Some of the larger municipalities also provide cash grants. Local developers advocate on behalf of clients for any needed zoning and/or subdivision regulatory changes.

In terms of promotion, Commerce provides a site database on its web site that prospects can access, employs enterprise teams with special expertise in certain types of businesses (for example, biotech, information technology, furniture), represents the state and coordinates regional participation in large trade shows, and maintains international offices. The partnerships have their own web sites, often send out their own call missions and publicity, and attend trade shows on their own. Some local developers don't initiate their own promotional activities but just participate in what the state and regions generate; the exceptions are the local developers serving the state's biggest municipalities, who have the resources to promote their own city or metro area.

Perhaps the biggest area of overlap and conflict is client handling. A memorandum of understanding circulated between Commerce and partnerships in the mid-1990s specified that the partnerships would not become involved in client handling[17] — that it would be the responsibility of the state and regional Commerce personnel, in conjunction with local developers. Any leads generated by, or coming into the partnerships were to be handed off to the regional Commerce representative. Figure 2 is consistent with that understanding — showing Commerce as the host of client visits, along with the local developers. The role ascribed for the regions in client handling is to provide research and analysis in response to prospects' needs.

17. In practice this is not always followed.

Finally, the figure shows how deal-closing responsibilities are shared. The Commerce Finance Center (within Commerce) administers the William S. Lee Quality Jobs and Expansion Act incentives, the industrial development bond program, and an energy loan program, all directly for businesses, and the community development action grant and industrial development fund programs, to help municipalities accommodate businesses. Legislation ratified in 2002 added a new job development investment grant program to the state's repertoire, and strengthened the state's commitment to discretionary deal closing money (the One North Carolina Fund). Some of the partnerships add deal-closing funds of their own to the mix. And as noted in the discussion of products, some local governments provide cash to help close deals.

Our interviews left us with a sense that a division of responsibility is generally followed, and cooperation is more the norm than the exception. But there was also evidence of confusion and overlap in responsibilities, and unnecessary competition, and even distrust, among the actors.

Starting with the very first bubble in Figure 2 (p. 23) — planning, strategizing, and visioning — there has been a lack of coordinated effort among the actors listed in Table 1 (p. 12). Most of the problem is among groups at the state level (horizontal coordination; see below), but the effects of that are felt vertically. The absence of a strong lead entity that generates a vision and produces a plan that are widely shared and embraced militates against coordinated action. The regions and local economic developers have expressed a strong preference for strong state planning to give them guidance in their own strategic development.

We found the greatest amount of coordination and clarity around product development activities (the second bubble in Figure 2). The one exception is in "branding." Commerce wants to ensure that a consistent, externally recognizable image of North Carolina is projected to the outside world. Commerce interviewees complained to us that some of the partnerships are marketing their own image independent of the state's, and that there is no common or even complementary look and feel to their web sites: "For the client, it seems almost like going to another state." The partnerships respond, in turn, that their responsibility is to generate interest in their set of counties, and they cannot rely on Raleigh to direct business their way. Charlotte has developed its own strong ties with Germany, for example, and wants to keep the name Charlotte on the minds of businesses in that part of the world. Charlotte and the Research Triangle Regional Partnership, however, are the only two regions in the state that have brands that are generally recognized outside North Carolina. For that reason, the other partnerships seem more comfortable under the state's branding umbrella.

That raises the question about the best "gateway" into economic development: through the Commerce web site that talks about the state in general and the diversity of its regions, with pointers to each partnership, or through the partnerships. That was a point of much discussion in our meetings in Raleigh and around the state. Commerce sees its role as creating the portal and the graphic images that prospects will associate with North Carolina. Their portal already has general information about the regions, links to the Commerce Finance Center, to www.ncsitesearch.com, statistics, and other pertinent information. When surfers click on the individual regions, they are sent to web sites that differ in content and appearance. Commerce would like to have those web sites be more similar, as part of a "product family."[18] The partnerships respond that, in the past, Commerce did not do a good job in their own web design, and they should not be bound by the constraints of a "technology laggard."

There are mixed stories regarding vertical coordination around promotion (the third bubble in Figure 2). One positive example is BIO2003, a large trade show in Washington, D.C., for the global biotech industry. Commerce and the N.C. Biotech Center took the lead to reserve space for the state, and invited the regional partnerships to have a presence there as well and participate in the events. We were told of other trade shows, however, where that type of coordination did not happen, and of trade missions where the state and regions went separately, duplicating expense and effort.

Another area of reasonably successful cooperation is in the site database: www.ncsitesearch.com. The regional partnerships and/or regional Commerce offices feed information about available sites and buildings to Raleigh on a regular basis. The information is entered into a central database accessible externally.

There are examples of coordination in promotion activities between the regions and the local developers, in large part, because the local developers usually could not afford to participate in trade shows, call missions, or similar activities, without the financial support provided to them by the partnerships.

The greatest area of competition rather than cooperation is in client handling. That is partly a consequence of the reporting requirements that are used (we address measurement more fully in Section 6 of this report). In brief, the regional Commerce representatives, Raleigh-based developers, partnership personnel, and local economic developers all currently have their performance measured, in part, by the number of leads they generate and clients they land. Successful business recruitment requires effective vertical and horizontal cooperation; yet, the metrics that are used induce self-interested and competitive behavior. That leads to disagreements about who did what and should receive credit.

Non-cooperation also is a consequence of the local finance system in North Carolina. A dispassionate assessment might suggest that the next county is a better fit for a target company, and indeed, matching the company to that county might therefore increase the chances of the company coming to North Carolina versus another state or country. But, the county commissioners of the second (or third, or . . .) best location understand that their county will only get property and sales taxes from that company if it locates in their county. That removes the incentive to share prospects with other counties or cooperate in a recruitment effort elsewhere in the state or region.[19]

18. A corporate analogy would be the Coca-Cola brand, which has one flagship but also Diet Coke, Cherry Coke, Caffeine-free Coke, etc. which have separate but connected marketing strategies.

19. In a February 2003 report for the Research Triangle Regional Partnership, *The Feasibility of Mini-Hub Development in the Research Triangle Regional Partnership Region*, the Office of Economic Development proposes the use of revenue sharing for economic development in Region K (a subset of the RTRP), to get around that problem.

Despite that understandable motive, we were apprised of many examples of cooperation between neighboring partnerships (and to a lesser degree, between counties) with regard to prospects.

As we previously noted, there is an "understanding" that the partnerships will not engage in client handling, but rather, pass prospects onto the regional Commerce rep and/or local economic developers. Some partnerships have had difficulty removing themselves from client handling altogether. Consider the case when a prospect contacts the partnership directly. In some cases, the partnership will immediately pass the contact onto Commerce. But in others, the partnership will solicit bids from the constituent counties and serve as an intermediary between the prospect and the respondent counties, with Commerce in tow. The local economic developers generally find that approach problematic, putting "too many cooks in the kitchen" and making the eventual client site visit cumbersome.

We did not observe any particular vertical coordination problems around deal closing. Not all partnerships have a pot of deal closing money. Those that do, have an easier time being accepted at the recruiting table.

Horizontal Cooperation

Here, we talk about the extent (or lack) of cooperation among economic development actors at the *same* level of government. That can be observed in the visioning, planning, and strategizing activity. The Economic Development Board has produced strategic plans. But, there is a sense that the 1994 plan fell short on two grounds: it was too narrow in scope, not fully reflecting the plans and opportunities to harness many of the other actors (e.g., in our Tables 1-5); and it was not fully embraced and advanced by the Governor and legislative leadership.

Today, a newly constituted Economic Development Board (EDB) is committed to take leadership in this area. The EDB is staffed by the Department of Commerce, and thus is positioned to take into account that agency's planning. And its membership includes the other major stakeholders not included in 1994. The challenge will be to subsume the strategic thinking of such groups as the North Carolina Partnership for Economic Development (NCPED) and the legislature itself. We note in this context that a series of roundtables and forums on economic development, convened by Senator Basnight and co-Speakers Black and Morgan, are being held as we write this report.

Horizontal coordination also requires the planning efforts and strategic thinking of the seven partnerships to be consistent. That is facilitated, in part, by the operation of the NCPED. That organization is important as a venue for the exchange of ideas and information among the partnerships.[20] The presidents and board chairs of the seven partnerships meet at the NCPED meetings, and marketing and research staffs caucus regularly. But the full boards never mix together, which we feel is a missed

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20. This body was once viewed also as a vehicle for vertical coordination with the Department of Commerce. We were told that this aspect has been less effective in recent years, due, in part, to the absence of an assistant secretary for economic development at Commerce, a position that has been vacant for more than two years. Commerce views the NCPED as positioned in practice to serve the interests of the partnerships and the Commerce role is information sharing only.

opportunity. These dozens of business leaders with good connections and a strong commitment to economic development could be an effective voice for the developers at all levels.

Horizontal coordination at the state level requires different agencies in Raleigh to advocate for and implement programs that are mutually reinforcing. Scholars refer to that as "policy consistency" — the likelihood that different programs will have synergistic as opposed to offsetting effects. For example, sometimes the Department of the Environment and Natural Resources holds up a decision related to locating a company because of a permitting issue. Similarly, the intent of the Lee Act would be undercut by administrative practices at the Department of Revenue that make it difficult to qualify for the incentives. We were provided several examples of that: companies applied to Commerce for Lee Act incentives, and were led to believe they would qualify, only to be turned down by the Department of Revenue. The reason for the failure to certify may well have been valid, but a one-stop shopping approach would have prevented the inconsistency. These types of horizontal coordination issues led KPMG in 2002 to recommend liaisons with the Department of Commerce from the Departments of Environment and Natural Resources and Revenue. These are now in place; for example, the Department of Revenue has a staff person dedicated to working with business prospects to project their tax positions in North Carolina.

Horizontal coordination is not a significant problem in the area of promotion. Most of the activity falls within the domain of the Business and Industry Division of Commerce ("B&I"). We heard some concern about the internal communications among the divisions of Commerce (for example, B&I, travel and tourism, and international business), but we do not judge that to be a significant issue.

The horizontal coordination issue related to client handling is between Raleigh Commerce and its field offices. The model that is used requires close contact between the two, but we found a wide range of experiences. In some cases there was confusion about whether the Raleigh-based or field person was responsible for a client due to a poor hand off. Many interviewees, from the partnerships, Commerce, and local economic development offices, believed that that issue could be resolved by organizing the Raleigh-based developers solely around enterprise teams — specialists in technology areas, rather than generalists. Then the field rep (who is a generalist) would have more of a reason to team with a Raleigh-based developer. Another complementary suggestion was for Raleigh to handle the mega-projects and let the regional staff handle most of the smaller projects.

Finally, we did not find a significant horizontal coordination problem related to closing. Some interviewees were concerned about the coordination between the Governor's office and Commerce in the use of the One North Carolina Fund. And, it remains to be seen how the job development investment grant program will reinforce other efforts, since decisions about those incentives are made by a committee that includes several cabinet secretaries.

A Clear Vision and Widely Accepted Strategic Plan

We noted above the importance of a strong, clearly articulated vision for economic development that speaks to the problems of all people in the state. When there is such a vision, there is a greater likelihood that all parts of the complex mosaic that is economic development will pull together.

The importance of a clearly stated vision and widely accepted plan has been stressed by the previous reports about economic development in North Carolina. The 1991 KPMG report, for example, concluded that "North Carolina has an inadequate plan for statewide economic development."

The importance also was stressed in our interviews. One local economic developer expressed a common view when he said: "We need a strategy in place where everyone's role is clear." And a member of one of the partnership's boards of directors said: "There needs to be more of a consensus of what we are and what we do. The partnership has tried to do this but they can't get Commerce to engage in this. Commerce should be the economic development flagship but it is hard to bring consensus together." We understand that there is now an initiative underway at Commerce to spearhead a statewide vision and marketing plan.

Strong Leadership

It takes strong leadership to forge a consensus around a vision and to secure buy-in from a wide range of stakeholders. It takes strong and effective leadership to reinforce the division of responsibilities among the various players. And it takes strong leadership to create a positive culture for success. **A common sentiment among all groups we interviewed is that North Carolina does not have the strength of leadership it needs.**

One prominent interviewee, with extensive experience in the private and public sectors, went so far as to say that **good, strong leadership could make almost *any* structure work well. And the lack of it can make the best-conceived structure function poorly**.

After four months of intensive study, we are of a similar opinion. The structure of the system is not terribly problematic. Certainly, we can make some adjustments and marginal improvements in the structure, and in the last section of the report we make some recommendations along those lines. But more important is the need for strong leadership in economic development, particularly from the Governor's office, the Economic Development Board, and the Department of Commerce. The 2002 KPMG study stated: "the Governor should play a key role in determining and communicating the economic development plan for North Carolina."

Economic development is a "feel good" activity. Prospects shopping for a business location ultimately have to feel good about a place and its "business climate" in order to choose it. And those working in the trenches, trying to attract new business and help existing companies stay competitive, have to feel good about their products in order to sell them effectively.

We have been struck that the economic development community does not feel terribly good right now, and not just because the recession has slowed down economic activity. It is also because a lack of strong leadership has sent signals to the professional community about the relative importance of their work. The lack of strong leadership so far seems to have affected morale more than it has the external perception of North Carolina,[21] but that may occur with a lag, and in any case, can change quickly.

Leadership is a matter of style, symbolic action, and emphasis. One former cabinet secretary told his staff that they would either cooperate with and support the efforts of others, or they would need to find a new job. A cabinet secretary who wanted to bridge the gap between Raleigh and the partnerships assigned a full-time person to represent him with the partnerships and convened monthly meetings with the partnership executives to build trust. In another state, a governor sent a signal about his commitment to economic development by making that secretary his first appointment. And he and other governors are visible and active with the largest prospects. Indeed, we were told more than once that businesses value that type of symbolic action that signals an accessible and responsive public sector and a good business climate at least as much, if not more, than they do financial incentives.

Leadership is also competence, specifically at the level of professional practice. One complaint we heard outside of Raleigh is that the development staff at Commerce is not uniformly as strong as it should be, and that there is neither the budget nor culture to support the necessary professional development. We were given examples of botched recruiting efforts, developers who did not know the details of the industry that was being recruited, and developers not being able to interact effectively with top corporate decision-makers.

We have not conducted a personnel audit to ascertain the veracity of those claims. Our purpose emphatically is not to disparage individual members of Commerce staff. For the most part, they are dedicated professionals who work for wages that are lower than they would get in the private sector, including at the partnerships. Budget reductions during the past several years have required existing state workers to do more work without pay raises. Some Commerce developers already had enormous caseloads — especially the existing industry specialists assigned to the regions where one person can be responsible for serving thousands of businesses.

Whether Commerce developers are more or less competent than their counterparts in the private sector and in other states, they work within a system that has difficulty rewarding excellence and sanctioning poor performance. Three years ago, the state personnel office implemented a "career banding" system in Commerce as a way to increase the salary scale of developers. Two bands were created, each with several grades, which created a wider range of pay points than the former three-level system. But in this budget environment, there is no money in the system, and personnel are no longer evaluated annually, but only "as needed." Moreover, once a worker gets to a particular pay grade s/he is not likely to be moved down, regardless of performance.

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21. That statement is based on our survey of business clients and site selection consultants, which is summarized in Appendix L.

The rigidity of state personnel systems is one reason some states have moved to privatize their equivalents of our Business and Industry Division. (Appendix M outlines a few examples.) A private contractor employs the developers who are then not subject to the state's personnel rules.

We do not believe that privatization of economic development functions is a panacea. Some of the states that went that route saw little or no difference in outcomes. Good leadership and creative thinking could surmount the reward/sanctioning problem discussed above. Moreover, the current setup, with the partnerships involved in recruiting, already is an expression of privatization.

SECTION 6
Measuring for Best Results

To a large degree, the four charges given to us by the General Assembly (see page 1 of this report) all relate to the systems of reporting and measurement currently in use. It is not uncommon for measurement requirements to drive behavior; we judge that to be the case among the economic development actors in North Carolina. The current measurement approach is counterproductive to effective communications and coordination between Commerce and the partnerships. On a hopeful note, we believe that fixing this system would foster better collaboration and provide a better understanding of each organization's contributions to economic development in the state.

Currently there is no direct accountability between the partnerships and Commerce, in either direction. The Department of Commerce reports directly to the Governor, and provides quarterly and annual updates to the legislature. Those reports are shared with the partnerships once completed. Commerce also responds to specific information requests from the legislature, the Economic Development Board, and others on a fairly constant basis. The partnerships submit annual reports to the legislature every January, at which point they are made available to Commerce. Neither has any formal opportunity to comment on the content or implications of the others' reports. However, they each read the others' reports and express suspicion and even dismay about how activity is being counted.

In this section, we discuss measurement issues for Commerce and the partnerships, in turn. Then we discuss specific role delineations that should help them each measure results more realistically and therefore collaborate more effectively.

Measurement Issues for Commerce

In general, there are three common practices for benchmarking the performance of any organization:

- comparisons with other places (usually one's relevant competitors)
- comparisons with past performance
- comparisons with stated goals

These standard types of benchmarking sometimes fall short in the specific context of economic development, because they do not help us to understand the reasons behind the data. Attributing causes to outcomes is a tricky proposition, so the natural inclination is to give ourselves the benefit of the doubt about how important we were to that (positive) outcome. As the old saying goes in industrial recruitment, "shoot anything that flies, and claim anything that falls."

In 1990 (in time for the last recession), researchers at the Urban Institute published one of the few guidebooks ever written about performance monitoring for state economic development agencies.[22] Because of some of the challenges of attributing credit in economic development, those authors' emphasis is less on activity levels, efficiency or productivity levels, and more on service outcomes, service quality, and client and partner input. They offer twelve specific guidelines for performance measurement in economic development.

Our brief review of Commerce's current reporting requirements and practices suggests that the agency is currently measuring its performance in ways consistent with six of the Urban Institute guidelines, and that its measurement systems could be more useful by considering the other six guidelines as well. We briefly consider each of these guidelines below.

- ***Provide comparisons of performance for previous years, trends, target levels, and categories of clients.*** Commerce's quarterly and annual reports to the Governor and legislature focus on total outcomes for the state such as numbers of projects announced, numbers of jobs and level of investment projected by the businesses from those announced projects.[23] Usually data for at least the prior year are included, and breakdowns by new vs. existing industry and by region are also standard. We are not aware of attempts to set targets for each region and tier based on past trends and realistic expectations, but Commerce could easily add these to a standard analysis.

- ***Provide timely and frequent information.*** Commerce's marketing tracking system is used to make detailed "project activity reports" to the Economic Development Board, the NCPED, and others who request them. The system allows quick-turnaround reporting on a frequent basis.

- ***Break out by client characteristics.*** The tracking system also captures information about industry sector, for projects overall and for projects won; this is especially useful for the enterprise teams. Information about company size, as well as its ceiling height and other needs, is also captured.

22. Hatry, H.P., M. Fall, T.O. Singer, and E.B. Liner. "Monitoring the outcomes of economic development programs." Washington, D.C.: The Urban Institute Press, 1990.

23. Jobs *actually* created and investments *actually* made (as opposed to announced and projected), would be even more useful information but harder to document.

- ***Include both intermediate and end outcomes.*** Commerce's reports from the tracking system can break down not just end outcomes such as announcements, investment, and jobs, but also intermediate outcomes such as projects considering a location here, requests about building square footage and ceiling height, sites or buildings recommended to the client, project visits with and without clients, and the like. This system, which is very flexible, has worked considerably better to meet Commerce staff's needs than the prior system. Another endorsement of its quality is that New York State recently purchased the product from Commerce's IT contractor for its use in that state.

- ***Include indicators that attempt to show the extent of the agency's contributions.*** The data that Commerce reports are only the projects that had some involvement from Commerce, but the level of that involvement ranges from just being asked about programs of the Commerce Finance Center to lead handling of the project by a Commerce developer. The source of the lead is tracked and reported, as an attempt to describe the level of involvement of Commerce. However, there is considerable skepticism in the field about the leads for which Commerce claims credit.

- ***Include explanatory factors as well as performance data.*** In his reports to the public the Secretary of Commerce references the fiscal and macroeconomic contexts, which are both important for establishing realistic expectations. As shown in Table 10, **Commerce and its partners continue to create substantial jobs and investment even as the operating funds for the economic development divisions of Commerce have diminished by 16 percent since fiscal year 2000**, and during a time of economic downturn when generating investment is both harder to do and more critical to state finances.

Table 10: N.C. New and Expanding Industry Data, 1998–2002

	1998	1999	2000	2001	2002
Outcomes					
Assigned Projects	498	446	457	479	482
Announced Projects	138	99	110	142	120
$ Investments	$2,142,904,000	$1,261,246,000	$2,198,126,000	$1,600,341,503 (a)	$1,210,655,016
# Jobs	11,354	8,765	10,280	15,581	12,341
Inputs					
Operating budget: for Commerce ED divisions (b)	$12,896,098	$13,952,399	$9,965,873 (c)	$8,635,122	$10,366,990
Calculated Measures					
$ invested in NC per $ spent	$166	$90	$221	$185	$117
$ spent for every 1 job	$1,136	$1,592	$969	$554	$840

Notes: (a) Excludes merchant power plants ($1.6B, 150 jobs), (b) For FY1998 through FY2002, reflecting a six-month lag between expenditures and outcomes, (c) Excludes DFI Group ($1.134B, 1,200 jobs) and Cargo Lifter ($130M, 300 jobs).
Source: North Carolina Department of Commerce Marketing & Customer Service Division.

The other six guidelines for economic development measurement, which we did not find in common use at Commerce, were the following:

- ***Focus on service quality outcomes***
- ***Focus on the outcomes accruing to clients***
- ***Use multiple performance indicators to assess service quality and outcomes***
- ***Use non-traditional data sources, such as client surveys and unemployment data***
- ***Focus on helping program managers improve their operations***
- ***Be designed to be cost-efficient***

The challenge of attributing credits in a relationship-driven business is why measuring service quality is so important for evaluating effectiveness in economic development. Commerce should incorporate systematic ways to collect customer satisfaction data from both client firms and its practitioner partners to see how perceptions change over time, and for what reasons. Appendix N is a summary of the current perceptions of service quality that we heard in our interviews with clients and practitioners, for both Commerce and the partnerships. Such data help explain what other people think are the contributions of various actors, as well as the problems, their causes, and how to fix them, which cannot be gleaned from quantitative data alone. Asking for customer feedback from site selection consultants and partners should be repeated on at least an annual basis in a cost-efficient way like a web-based survey.[24] A few simple questions could also be asked of clients as a simple web-based survey immediately after the project announces in North Carolina or elsewhere. Commerce should also develop mechanisms for course corrections or sunset provisions when the data show a program to be ineffective or a poor investment of staff resources.

Then, Commerce should make sure its economic developers have ready access to ongoing organizational performance data — including service quality data from clients and partners— that could help them target their efforts and be more efficient. Commerce does currently generate a report on where lost projects went and why, which can inform future efforts. However, as an example of a lack of horizontal coordination and cost efficiency within the department, we heard that the data from existing industry visits are not reported in a way that they can be used by others in the department to inform national or international recruitment — or even implications for training or entrepreneurship programs. Coordinating these data could be one function of the enterprise teams.

Related to this, Commerce should evaluate, at least annually, the performance of staff persons and their individual and group contributions to the agency's outcomes. Staff should be given constructive suggestions for improvement, based on part on service quality data, and (ideally) be rewarded or sanctioned accordingly. Unfortunately, the State Personnel Act is a hindrance to merit-based compensation, and the banding program an imperfect and currently unfunded remedy. Other creative alternatives, such as the bonus program used in South Carolina, should be explored.

24. The guidebook by Hatry et al includes some suggested instruments for such a survey.

On a final note, since Commerce provides staff support to the Economic Development Board, it has been charged with implementing the 2002 Strategic Plan. This document contains numerous goals and strategies against which Commerce could measure annual progress. Since there are many other actors implied by tasks in the plan, a fairer and more realistic approach would be for Commerce to agree explicitly to take lead responsibility for certain tasks for which its capacity is appropriate, and convene and cajole other organizations to make similar commitments for other tasks. A process for garnering such implementation commitments in a collaborative way is included in our recommendations.

Measurement Issues Related to the Partnerships

In some respects, the same list of effective types of measures from the Urban Institute guide could be applied to the partnerships. However, the partnerships' situation is different from Commerce in two important respects: 1) the regional commissions are public-private partnerships, not state agencies; and 2) they have an existing set of reporting requirements from the legislature that is problematic for both their own accountability to the public and their coordination with local and state actors.

According to a recent report by the U.S. Economic Development Administration,[25] there are several characteristics of "successful" partnerships:

1. Receptive and supportive public sector to a partnership approach
2. Clear objective(s), with well-defined, limited and measurable objectives
3. Clearly delineated roles, responsibilities and shared risks
4. Active and meaningful participation of all partners
5. Satisfactory accountability and openness with the public.

These standards should be used to develop a better performance report from the partnerships. Some of their reports do address the issues above, but state and local observers view #3 in particular as problematic. We address an approach to better role delineation later in this section. There is also considerable discussion about #2, since what the partnerships are required to report now is not sufficiently limited or measurable. In some sense their reporting requirements are driving them to try to do everything.

The current template for the regional commissions' annual reports (S.L. 1999-0168), which are due in January, asks them to report:

- Program activities, objectives and accomplishments of year just completed.
- Itemized expenditures and fund sources for past year.
- Next year's planned activities, objectives, and accomplishment.
- Budgeted itemized expenditures and fund sources.
- Annual audited financial statements.
- Number and description of marketing outreach events, trade shows, recruitment missions and related activities.
- Number of inquiries, leads and prospects generated.

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25. Mullin, Stephen P. (2002) *Public-Private Partnerships and State and Local Economic Development: Leveraging Private Investment*. Washington, DC: U.S. Economic Development Administration.

- Amount of investment and number of jobs created both directly and indirectly by their activities.
- Number and listing of available sites and buildings.
- Listing of major accomplishments.

This list includes input measures (such as marketing events), intermediate outcome measures (such as leads generated), and end outcomes (such as jobs and investment generated). The input measures like marketing events, while easy to count, do not communicate anything about the effectiveness of the activity. The output numbers of sites and buildings are ambiguous, as they could reflect either plenty of good product to sell or product that is not selling. How long sites have been on the market, or changes in local tax base when they are sold, would be more interesting. Inquiries, leads and prospects are reasonable intermediate outcomes to expect from marketing efforts such as trade missions, advertising campaigns, web sites and other marketing tools, though attributing leads to the partnership's efforts alone is likely to underestimate the roles of others. Most troubling, the end outcome measures like jobs and investment are not appropriate for the partnerships given their missions.

It is our belief that the current system of reporting for the partnerships is not only an inadequate way to understand their contributions; it is destructive to their relationships with both Commerce and the local developers. All of these actors are counting jobs and investment. The partnerships, if they are passing off clients to Commerce and the local developers, have no direct responsibility for the ultimate decision of the business to create jobs and investment. Particularly the encouragement for the partnerships to take credit even for their indirect involvement implies and fosters competition, not collaboration.

There is already competition for credit for jobs and investment between the local developers and Commerce, but they at least each have a central role in the final stages of projects. We heard many local developers advocate for having the first opportunity to claim credit (if they were involved), because only they are held accountable (usually by county commissioners) for those outcomes, in the ultimate sense that they can lose their jobs if they fail to deliver.[26] Commerce developers are somewhat protected by the State Personnel Act, so they can fail to show project activity and still have a job, though their management will certainly push for higher numbers. The regional partnerships are the least accountable of the three sets of actors.

While the current reporting format is problematic, it should not be replaced with another reporting format that assumes or specifies the same scope for all the partnerships. Their activities are different, their structures and governance are different, and their regional economies are different (see Appendix G for details on each of these aspects). For example, eleven of the Northeast region's counties are Tier 1 (most distressed) compared with no Tier 1 counties in the Charlotte and Piedmont Triad regions. The Eastern and Northeast regions have no Tier 5 counties, which tend to be

26. One particularly incisive quote was: "We all would have been fired years ago on the returns the partnership gets: $1 million for 20 deals?"

the economic engines within a region. Advantage West has 23 counties in its economic region, compared with the Southeast's 11. The outcomes for each region *will* be different, no matter what the partnerships or other actors do. Commerce's data on total jobs and investment for the state show marked differences by region (see Appendix D), for some real market-related reasons.

The partnerships should be measured against their plans of work, which vary by the focus their boards want for their regions. For example, N.C.'s Southeast region has the most focused scope of work — on the recruitment of manufacturing jobs. It has a very clearly specified and executed program of promotion, information packaging, and deal closing money (to pay for environmental assessments or water line extensions, for example). Although some would say it is hard to attribute jobs and investment to partnership actions, this partnership collects written letters from clients stating the specific contribution that N.C.'s Southeast made.

By contrast, the Northeast and AdvantageWest defend their involvement in tourism, which was the only part of the economy that held steady or grew last year in some of their communities, where manufacturing layoffs have been a regular headline item. While tourism outcomes are less favorable on the creation of high-wage jobs, as people only seem to say during recessions, "a low-wage job is better than no job." These regions also lack the large convention and visitors bureaus of the urban areas, so tourism is a niche for the partnership.

While we don't believe the plans of work should be the same in every region, a structured template for accountability can be applied to the partnerships, and it derives from several places. In parallel with the accountability the state requires from other non-profits,[27] as well as some of what they are reporting now, the partnerships should report:

- program activities, objectives and accomplishments (prior year as well as planned for coming year); and
- itemized expenditures, funding sources and annual audited financial statements.

These reporting requirements apply currently to the North Carolina Rural Center, the North Carolina Association of Community Development Corporations, the N.C. Institute for Minority Economic Development, and the N.C. Biotechnology Center, all of which receive more state funding than any one partnership.

However, because the partnerships are part of a system of actors that clearly needs better vertical coordination, we suggest the following additional elements to their reports:

- demonstration of how the partnership's regional economic development and marketing strategy fits with the state's;[28]

27. See S.L. 2002-126, Sections 13.10, 13.11.

28. Until there is a new statewide marketing strategy, a first step could be to make commitments for particular strategies within the 2002 Strategic Plan.

- endorsements from state and local partners about appropriate roles for the partnership that are not duplicative; and
- to the extent that they are involved in promotion activities such as trade shows, visits to prospects and consultants, advertising and media placement, partnerships should be held accountable for generating qualified leads for the regional Commerce staff and local developers.

There is a strong feeling in the field that the partnerships spend a lot of money on "the fun stuff" and don't have many qualified leads to show for their activity. The preceding points may serve to alter the scope of work for some partnerships, who may decide to limit their roles to product and strategy development, research, and other roles that are less contentious with the other stakeholders. These roles may also change over time, to cover different niches.

This is consistent with their history. In the early days of the partnerships they started with promotion, only to discover the difficulty — and embarrassment — of "selling from an empty wagon." So they found plenty of need and a niche in basic product development,[29] helping communities with everything from water and sewer money, to computers in the local offices, to certified sites, to leadership capacity building. Now many of them — and their state and local colleagues — have more to market, and we should all be proud, rather than envious, of their contributions. Now these regions can step up to a rung where product development means better high-speed telecommunications, better university linkages, or a more cohesive regional vision.

A true culture of collaboration, which the legislature can help reinforce by measuring both Commerce and the partnerships according to their delineated roles, would free up considerable energy for all of them to devote to addressing the many very real problems this state needs to acknowledge to transition effectively to a prosperous new economy.

Measuring Each According to Agreed-upon Roles

Economic development is a relationship business; and not just with the clients. We need to elevate the professionalism and teamwork of the relationships of actors who all, as one informant put it, "wake up every day thinking about how to create jobs and investment in North Carolina." As another said, "we are all on the same side!"

The following role delineations we believe will help address the concerns of many informed observers troubled by the lack of coordination and trust between the partnerships and Commerce. Informants of each type — local developers, Raleigh-based and regional office staff of Commerce, partnership staff, partnership board members, and allies — gave us their frank assessments of effectiveness in various roles. These

29. Product development is one dimension the federal EDA uses in establishing goals and performance measures. For example, its performance plan and report for 1999 included: "Create jobs and private enterprise in economically distressed communities"; and "Build local capacity to achieve and sustain economic growth." The GAO found measurable progress on each of these goals. See General Accounting Office (GAO), *Observations on the Department of Commerce's FY1999 Annual Program Performance Report and FY2001 Annual Performance Plan*, 2000.

are some of the roles that would eliminate key areas of contention. These are written about in the same order as the bubble diagram we presented in Figure 2:

- Commerce should develop, articulate, and sustain a strong branding campaign for the state as a whole that reflects a clear direction, strategies, industries, and specific plans for the promotion of North Carolina.

- The partnerships should focus *primarily* on product development for the new economy and regional strategy/branding for their regions, consistent with the statewide plan, as well as responding to prospects' requests for information before they visit.

- Commerce, primarily in the regional offices, should be the lead agency on existing industry services (retention and expansion — recall Table 3). They should lead a consortium of community colleges, workforce boards, SBTDC offices, IES, NCCBI, local developers, and others to help break down the barriers for existing industry to grow and compete.

- Commerce should be the lead agency on all major promotional trips and trade shows, with partnership participation not automatic, but consistent with regional competitive advantages.[30]

- The partnerships should engage, as their budgets permit, in other activities in their regions that do not duplicate the work of regional Commerce staff, local developers, or other actors — in some regions this includes tourism or film, for example; in some it may include major promotion activities, but those should not be duplicative.

- A senior project manager in Commerce in Raleigh should be the primary point of contact for large projects (one definition is over 500 jobs) and those targeted by a limited and focused number of enterprise teams.

- Commerce regional offices should be the lead state point of contact for small and medium-sized new projects.

30. The Department of Commerce should specify the competitive advantages and niche markets of each region, let the partnerships argue for other points, and finalize the list. These will be written, for the internal and external world to see. These explicit recognitions up front will help the decisions about marketing efforts and who should be part of the team. A partnership needs to recognize when it does not belong at the table, and most do.

- Commerce should be a facilitator within state government to get timely and reasoned response from the Departments of Revenue, Transportation, Environment and Natural Resources and the Governor's office on issues important to the business decision. This is a critical role nobody else can play.

- The local developer should (and does) put together the local deal, with as many partners as it takes, from whatever level, on both existing industry and recruitment projects of any size that are a fit for the community.

As noted earlier, we strongly resist the notion of a common scorecard of outcome measures for the seven partnerships, but we see a basis for a common basic template of expected roles as outlined above. The partnership should have the responsibility to demonstrate agreement from the other parties about the partnership's roles within their region. It should not try to do everything.

Each of the actors in the system should be measured on the desired outcomes that they achieve, and over which they have some clear influence. However, to maintain an appropriate perspective and expectations, we would do well to remember, as one local developer put it: **"None of us economic developers create jobs. Only businesses create jobs."**

SECTION 7

Conclusions and Recommendations

In this section we draw together our major insights and stress their implications for policy. We organize our comments around the four principles of good economic development that we have used throughout the report.

Maintaining Regionalism without Losing the State

- First, we believe North Carolina needs BOTH strong regions AND a strong state. This is not an EITHER-OR proposition.
  - It is important to consider the budget for the partnerships to be separate from the allocation to Commerce, and not substitutable.[31] The work of the partnerships cannot substitute for an effective state lead agency.

- We strongly affirm the importance of regional partnerships as part of the economic development system.
  - The state is too large geographically and the needs among the various parts of the state are too diverse and complex, for a single agency based in the capital to be effective.

- We also affirm the importance of flexibility in structure and function among the regional partnerships.
  - The histories of each partnership, the institutional conditions in the different regions, and the opportunities all differ, so a "one size fits all" approach is ineffective.
- Each partnership still needs to have certain common attributes in order to achieve a cohesive economic development system.
  - Their boards should have representation from the public and private sectors, and from higher education. It is this tri-partite relationship that pro-

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31. From FY 1994-1999 the budget for Commerce's ED divisions was flat or increasing at the same time funds were added for the partnerships. Since FY2000, the operating budget for these divisions has dropped by 16 percent (from $10.9 million in FY2000 to $9.1 million in FY2003), while the partnerships' total allocation over the same period dropped by 4 percent.

vides the type of leadership required for the knowledge economy. Only one of the regions, the Eastern region, has a board structure that does not represent a public-private mix. The General Assembly should consider changing that board structure to resemble that of the Northeast and Southeast, for example.

- In return for some core funding from the state, each partnership will participate in Commerce's economic development visioning and planning efforts, cooperate with each other and with other economic development entities.
- Each partnership should prepare annual reports that assess progress for the year (or multi-year retrospective) relative to goals and objectives that were set in the previous year(s). An annual review process, discussed below, would judge whether the goals and objectives are consistent with statewide goals and objectives, and whether the functions and activities to be undertaken by the partnerships do not duplicate what other organizations are doing.

■ The appropriate number of regional partnerships came up in our discussions around the state. In general, a region should include counties that share economic attributes, or are tied together in some logical way. Each region should be large enough to allow economies of scale to be realized in the provision of services, and small enough to be serviced effectively by the partnership staff and to allow for frequent interaction among the member counties. Generally speaking, the current set-up, with seven partnership regions, seems to make sense.

- If the legislature were intent on reducing the number of regions, there could be a way to consolidate in the east, strengthening the regions that remain there. But that would require further study.
- We judged the FY2002 allocation of $6.425 million to the seven partnerships to be an appropriate level of core support given the services they perform and the amount of private leveraging they achieve. However, FY2003's allocation was only $5.83 million. Greater stability in funding, subject to performance requirements, is important to their ability to plan.

■ The public relations between Commerce in Raleigh and the local developers would be improved by filling the Assistant Secretary of Commerce for Economic Development position with an experienced and respected economic developer who acts as a high-level tactician. An executive salary will be important for recruiting the right person, as will a clear set of responsibilities as a chief operating officer of economic development.

- Such an appointment would help with the internal management of Commerce and the day-to-day troubleshooting and high-level project execution assistance needed by regional Commerce staff and local developers. It is

primarily to serve them and their clients better that this is needed, and they claim it will help the state win more projects.
- It will help vertical coordination with the partnerships as well. That person would be required to meet regularly with the partnership presidents and board chairs, at the NCPED meetings and other times, and more generally, nurture interpersonal relations and grow trust and communication.
- It would allow better horizontal coordination within Commerce. Most other cabinet departments have a deputy position akin to a Chief Operating Officer.
- It would allow the Secretary to spend more time working with the Economic Development Board, Board of Science and Technology, legislature, universities, Governor's office, and other key strategic partners.
- Despite the challenges of recruiting talent late in an administration's term, this may very well be the type of assignment that someone would only want for two years. The local economic developers in particular express a sense of urgency not to have to wait for a new Governor before the administration increases its high-level commitment to economic development.

Improving Coordination without Losing Flexibility

- Coordination around marketing requires a statewide marketing plan.
  - The plan would give the partnerships a framework to plug into.
  - The marketing plan should include the call missions and trade shows that Commerce and appropriate regional and local representatives will attend as a team.
  - The focus should include marketing to existing industry as well.

- Commerce needs more resources in its Marketing and Business and Industry Divisions to fulfill its role as the lead economic development agency.
  - Commerce should lead the major promotional events for the state, with the partnerships participating as appropriate to their regions' niche markets.
  - Commerce should develop and maintain a state-of-the-art web site to serve as the portal into the state. It needs to summarize information about the regions and then link to regional web sites that appear to belong to the same "product family."
  - The partnerships should be responsible for maintaining web sites that adhere to basic content and design guidelines. That does not restrict content, but creates a cohesive image, where the user does not feel as though he has left North Carolina in exploring a region.

- We recommend an audit of the entire Department of Commerce budget, to ascertain if the internal allocation of funds is consistent with the goals and objectives of the department and the economic development strategic plan.

- There are considerable resources within the overall Department of Commerce, but only 21 percent of the personnel and 27 percent of the budget is in the economic development divisions.
- The staffing levels for the entire department (346) appear considerably higher than other states, though state-to-state comparisons are very difficult because of differences in accounting and organizational reporting.
- We had considerable difficulty interpreting Commerce's budget information; we understand that Commerce's own managers do as well.

■ In addition to Secretary-to-Secretary communications about matters relating to economic development, among the departments of commerce, revenue, transportation, and environment and natural resources, in particular, there should be sub-cabinet liaisons between the departments to work out inconsistencies. These are already in place in two cases, and are very helpful, by early indications.

■ We affirm the general practice regarding client handling: that the partnerships should hand off prospects to the regional Commerce rep and/or local developers.

- A change in the reporting format would remove the incentive for the partnerships to justify themselves according to job creation metrics that are not appropriate for them.
- Coordination also would be improved if Commerce routinely notified the partnerships of any client visits they were making to their regions, even without specific identification of the company's name. The partnerships would then be able to offer any appropriate assistance to Commerce or the localities being visited.
- It is especially important for Commerce to manage large projects.

■ Coordination in recruiting would be enhanced by expanding the enterprise team concept and converting the Raleigh-based developers into technical/sectoral specialists in the cluster areas identified in the state's marketing plan.

- The enterprise team concept needs to be expanded, to include not only a focus on recruitment, but on retention, entrepreneurship, and workforce training. The teams should include technical/sectoral specialists in Commerce, but also appropriate experts in the community colleges and universities, in other state departments, from the N.C. Biotechnology Center and MCNC, and elsewhere. That has worked to some degree already around biotech.

■ To attract and retain the best specialists, a merit-based pay system needs to be implemented within B&I. Conversely, there needs to be a mechanism to sanction poor performance by moving state developers to lower salary grades.

- The state should explore the implementation of a bonus system similar to that used in South Carolina. The South Carolina legislature approved funding about five years ago for a performance bonus program that has helped the department retain top-quality staff. It applies to both Columbia-based and regional staff, and to both new and existing industry functions.

Establishing a Common Vision, Plan, and Strategy

- As a general matter, the state should publicly recognize industry recruitment as only one small part of an effort to build a more competitive economy. Existing industry service and cultivation of entrepreneurship are critical emphases as well, and they currently do not get systematic strategic attention.

- Using the 2002 strategic plan as a starting point, convene the principals of all state and regional organizations involved in economic development (esp. those that receive any state funding) and forge their consensus on an economic vision for North Carolina. Commerce is currently working to get this started.
  - The UNC Office of Economic Development and the Emerging Issues Institute are possible joint conveners for this effort.
  - These same principals need to provide written endorsements of, or amendments to, the plan and their stated commitments to lead particular tasks in the plan, along with dates by which milestones will be achieved.
  - Until the programs of work for these organizations acknowledge and explicitly integrate the priorities of the state plan, the disconnect in execution is likely to continue, despite the many current good works of the organizations and good ideas in the plan.

- Ask each partnership to specify its plan of work in terms of filling roles that are non-duplicative with state and local actors in their regions. Develop signed memoranda of understanding with regional Commerce and local developers. Each partnership should develop appropriate performance reporting measures other than jobs and investment created.

Recognizing Leadership Responsibilities on Many Fronts

- Recognize the Economic Development Board ("EDB") as the lead organization for policy development and strategic planning.
  - Ensure that the EDB has adequate staff resources (through Commerce) to serve that role.
  - Make sure that the EDB translates general principles into policy proposals for legislative and administrative action, working with legislative leaders to craft language to which all can agree
  - Consider changing the reporting relationship of the Science Advisor from the Secretary of Commerce to the chair of the EDB and its science committee. The chair of the S&T board should chair the EDB's science committee. Similarly, the chair of the workforce commission should chair the EDB's workforce committee.

- Recognize Commerce to be the lead (not the only) agency of a statewide consortium on the implementation side of economic development.
  - Commerce should be recognized as the lead agency in recruitment, using its web site portal, economic development specialists on enterprise teams and mega-projects, and its regional personnel to assist counties.
  - Through its Policy and Research Division, Commerce should develop appropriate sectoral targets that are appropriate for North Carolina and its regions.
  - The co-chairmanship of the NCPED by the Secretary of Commerce is critical to vertical coordination in implementation.
  - Commerce should also convene and coordinate efforts by Commerce, the local developers, SBTDC, industrial extension, and community colleges in business expansion and retention.
  - Commerce, through the Commerce Finance Center, should continue to play the central role in the state's financial incentives.

Our recommendations regarding leadership extend to the Governor, as well. It is important for him to support, both publicly and privately, the positions of the Economic Development Board and the Department of Commerce, as lead agencies on the strategic planning/vision/policy and the implementation sides of economic development, respectively. Even though he delegates responsibility for economic development to those organizations, the Governor needs to be a visible cheerleader for economic development and the ultimate deal closer on key projects. His work behind the scenes on the One North Carolina fund and the Job Development Investment Grant program was critical and appreciated. Now, his open support of the lead agencies and his visible interest in making the state more competitive — in other ways besides commitments to education — would help economic development stakeholders "feel good" about their state's efforts to compete in the increasingly competitive global economy.

As a final note on leadership, in keeping with how we started this report, it is important to "speak truth to power." The North Carolina General Assembly is partially responsible for creating unhealthy competition between Commerce and the partnerships, as everyone who remembers the 1993 creation of the partnerships can attest. The context was adversarial. Except for a few brief intervals (such as during the Team N.C. effort), the context has remained adversarial, though to varying degrees, for the past decade. Moreover, the "one size fits all" reporting expected by the legislature militates against mutual support and cooperation.

The current legislature could help hard feelings to subside by urging the parties to work together to improve the state's competitiveness, and by continuing to make strategic investments in our economic development institutions. Along those lines, Commerce's budget should be sufficient to hire an executive-level assistant secretary for economic development and to mount a coordinated marketing effort that allows high-profile brand promotion. Another constructive stance for the legislature would be to question end-runs that partnerships make around Commerce, which undermine its ability to lead. The proposal considered last session to increase the number of partnership board seats from the legislature would be counterproductive. The General Assembly must hold the partnerships and Commerce accountable for specific outcomes, but it does not need to micromanage the professional economic development community. The legislature's best role is setting policy to make continuing improvements to business climate in the state.

North Carolina is experiencing a massive economic restructuring that some experts liken to the shift from the agricultural to the industrial age. It will take continuing hard work on the part of many to navigate the state's transition to the knowledge economy. It will also take a substantial investment, just as developing the infrastructure and capacity for the manufacturing economy did. North Carolina already has many of the ingredients and ideas it takes to compete in the new economy. Once the team of professional actors comes together around a common direction, and accountability is more firmly in place, the results will make the investments we make today to improve the state's competitiveness look as brilliant as the ones the legislature made at key junctures twenty and fifty years ago.