

POLICY BRIEF

Improving North Carolina's Economic Development Delivery System

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North Carolina's generally robust economy slowed down considerably in the latter years of the 1990s and worsened during the past three years' recession. New announcements have fallen off, as have resident firms' expansions. But population growth has remained strong, including unprecedented levels of migration from Mexico. The loss of traditional manufacturing jobs, slower rates of new job formation, and continued in-migration of workers together have resulted in rising unemployment, even higher than our neighbors, and lower real wages for many workers. The consequences have been felt most acutely in the already poor, rural parts of the state.

Some critics have attributed the slowdown in announcements to the way North Carolina approaches business recruitment. Associated with that is the belief that there is unnecessary duplication of effort among the various economic development actors, poor accountability, and lack of performance-based rewards. Some even claim that North Carolina's approach to economic development is outdated, with too much focus on "buffalo hunting" and too little focus on "growing our own."

To understand these issues more fully, the North Carolina General Assembly asked the Kenan-Flagler Business School (in S.L. 2002-126) to assess the effectiveness of the state's economic development delivery system. The work was conducted by the Office of Economic Development (OED) at the Kenan Institute for Private Enterprise.

The resulting report focuses on how the N.C. Department of Commerce (NCDOC) and the seven regional economic development partnerships can improve coordination and communication in their activities, and on how appropriate measures can be developed and implemented to track and improve the effectiveness of economic development activities in the state.

The study

OED conducted the study over a five-month period in which the team reviewed related previous reports on the topic, collected and analyzed other statistical and background data, and interviewed hundreds of stakeholders and actors around North Carolina. We visited each of the seven partnership regions, as well as the NCDOC staff based both in Raleigh and the regions. The team conducted face-to-face interviews and focus groups, and administered surveys. The team was able to document a range of problems besetting economic development in the state, and propose various ways to address those problems. The authors did not fault any particular actor for the problems; rather than spreading blame, OED spread responsibility for improving the delivery of economic development.

The major problems

Economic development is a “feel good” activity. Prospects shopping for a business location ultimately have to feel good about a place, in order to choose it. That is one way to think of “business climate.” 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. This is “morale.”

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. The malaise reflects problems related to structure, communication, and leadership. The structure issues arise because of the decentralized system of economic development in North Carolina, which includes a cabinet department (Commerce) with personnel in Raleigh and in field locations, an economic development board, seven different regional partnerships, and other actors, such as the North Carolina Rural Center, the Small Business Technology Development Center, and the university and community college systems. Those actors have separate but overlapping roles.

That decentralized system is unavoidable. We cannot dictate a strict top-down model of economic development. Rather, we must ensure that there is good communication and coordination among the players, a clear understanding of different groups’ primary roles, and strong leadership to ensure that the various actors pull together toward the same end. Strong leadership sends 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, but that may occur with a lag, and in any case, can change quickly.

Three keys: coordination, communication, and leadership

Coordination among the regional economic development partnerships and the North Carolina Department of Commerce would be greatly improved by:

- Jointly developing a statewide marketing plan
- Better delineating roles, both for partnerships and NCDOC, as well as the many other state-funded economic development actors
- Strengthening the strategic planning process, under the Economic Development Board, to give the strategic plan it develops more relevance and traction to the many economic development professionals who need to commit to the plan’s implementation
- Measuring according to well-delineated and differentiated roles
- Filling the position of assistant secretary for economic development at NCDOC

Communications will be improved in part by better coordination, as discussed above. However, the ultimate key to better within-state communications – which includes the sharing of various types of relevant but often confidential information about

clients -- is to build teamwork and improve trust. That cannot happen overnight. As one economic developer exclaimed, "We are all on the same side!"

There is already a shared sense among state, regional and local economic development professionals of the importance of creating a more competitive economy and business climate in North Carolina. The common desire for improvement is a good foundation. Economic development is a relationship business, and there are many sound, collaborative and trusting relationships already in place. But trust hinges in part on a belief in the competence and good judgment of one's partners. Good performance at all levels must be rewarded in both quantitative ways (for instance, tied to organizational funding or individual pay) and qualitative ways, including pats on the back from high-level public and private leaders. An assistant secretary or chief of staff on economic development can be a high-level strategist and champion for the economic development professionals at all levels – state, regional, and local.

Developing measures that are useful

Appropriate measurement is important to assure accountability. But measurement should be a useful exercise – helping those measured improve their performance and those requiring the measurement to understand better the value of the enterprises being measured. Currently, measurement contributes to in-fighting over who gets the credit for certain outcomes, is regarded as a burden to those required to report, and is not widely used by policy-makers.

Better measurement is needed by and for both Commerce and the partnerships.

Measuring NCDOC

NCDOC is now measured on the volume of jobs and investment generated in the state. It is not currently measured on progress toward stated goals in a marketing plan, because there isn't one. It is not measured on teamwork with its many partners, but that is important since they all help achieve the jobs and investment reported. It is not measured on individual or unit performance, because as a state agency NCDOC is governed by the State Personnel Act, and thus lacks effective mechanisms for sanctioning poor performance or rewarding excellence of individuals or business units.

We recommend the following:

- NCDOC should develop a marketing plan, with the help of the Economic Development Board, its own staff, the seven regional partnerships, and other key partners. The current marketing budget needs to be increased substantially. NCDOC must be held accountable for progress against plan goals.
- Client and partner satisfaction measures should be incorporated routinely – at least annually -- into the NCDOC evaluation.
- Benchmarking against other states with which North Carolina competes – not just South Carolina and Virginia, but the knowledge economy leaders including California, Massachusetts, Colorado and Maryland – should be standard practice.

- A system of merit-based pay and individual performance contracts should be instituted for the economic development staff at NCDOC.

Measuring the partnerships

The partnerships are currently accountable to their boards, most of which include strong, if not demanding, private sector leadership. Each has a program of work that is tailored to the needs of its region.

The partnerships also must report annually to the North Carolina General Assembly. Unfortunately, the measures required by the legislature do not capture the real value of what the partnerships do. It focuses on direct job creation rather than on competitive product development and regional branding, and it does not capture the diversity among the partnerships, which is inevitable given the diversity among the regions in which they are located. The legislature does not ask for evidence about partnerships' teamwork or customer satisfaction.

Based on the above, we recommend the following:

- The partnerships should be held accountable for their defined roles and contributions in implementing the statewide strategic plan for economic development and (when developed) the marketing plan, including good teamwork with NCDOC staff.
- The partnerships should delineate their roles in ways that do not create competition with what local developers, NCDOC staff or other economic development professionals are doing in their regions.
- The Eastern region's board should be reconstituted to include CEO-level private leadership.
- Client and partner satisfaction measures should be incorporated into the partnerships' annual reports.

Other observations with implications for policy

The General Assembly invited us to make other observations we deemed relevant to the study and its intent. We include several below:

- The partnerships and the economic development divisions of NCDOC, while central in many legislators' minds, represent less than 20 percent of the state's total spending on economic development. Many of the coordination issues that are the focus of this report are relevant as well to the many other actors in economic development. The last comprehensive look at the state's expenditures on economic development – and one of the few undertaken by any state -- was done in 1997 (by the Economic Development Board); this type of analysis would be very valuable on a biennial or other periodic basis.
- Industry recruitment, which is the main focus of the organizations under study for this report, probably accounts for no more than one-third of the

total jobs and investment in the state over the last few years. As we are re-tooling for the knowledge economy, North Carolina needs to recognize the importance of innovation, entrepreneurship and existing industry to economic growth and allocate its economic development energies and dollars accordingly.

- The Economic Development Board should be recognized as the lead policymaking organization for economic development. It should set challenging but realistic action plans for each year that specify lead organizations and timelines, and it should convene an annual economic development summit to report to the legislature and the public on economic development outcomes for the state and its regions.

A continuing role for the General Assembly

It will be important for the General Assembly to 1) work with the Economic Development Board to establish and monitor economic development performance measures that are specific to the defined roles of the various actors; 2) to provide stable funding that is realistic for the outcomes it demands; and 3) to develop tax and regulatory policies that foster a strong and innovative business climate. Then it should leave the day-to-day work to the impressive array of committed and experienced economic development professionals statewide. This is not a time to be punitive, or to undermine the client-focused trust that has built over time, or one risks killing the goose that lays the golden eggs.