JUNE 2009 · VOLUME 91 · NUMBER 5

Faltering Economy: Time to Thoughtfully Challenge the Status Quo

A more comprehensive and strategic approach is required in order to address the widening structural deficit. Forecasting ahead three to four years, managers should consider three strategies: prioritization of services, continuous improvement, and revenue enhancement options.
Scott Collins,Brendan Hanlon, and Ed Scholz, City and County of Denver Colorado.
READ ARTICLE

Features

Leadership and Employee Engagement*

Find out what research shows about employee engagement.
Lee Wallace, Aurora, Colorado, and Jim Trinka, Alexandria, Virginia.
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21 Tips for Successful Capital Projects*

How to keep your capital projects from making bad headlines.
Thomas Hutka, Indianapolis, Indiana.
READ ARTICLE

Wittenberg Local Government Management Internship Program: An Organizational Stimulus Plan for Your Local Government*

Student interns can help keep local services moving while learning too.
Rob Baker, Springfield, Ohio.
READ ARTICLE

The First 10 Years After an Unpaid Internship*

A manager has excellent advice to share with young professionals.
Joshua Smith, Howard, Wisconsin.
READ ARTICLE

Under-Budget Promise Delivered, Even with a Bad Winter*

How a county's roads division remains under budget.
James A. Jackson, Wayne County, Michigan.
READ ARTICLE

They Say Cash Is King. Are You Treating It Royally?*

Any local government can improve its cashflow management.
Tom Carroll and Cory VanBuskirk, Loveland, Ohio.
READ ARTICLE

PM plus ONLINE EXTRA

Departments

Ethics

Respecting Roles and Responsibilities

Commentary*

Theory of Bounded Rationality

Profile

James Nantell, Burlingame, California

FYI*

Serving the Difficult Customer

Special Section

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New ways of thinking about today's mobile workforce are needed.
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Globalizing Local Economies: Making It Happen Through Local Action

Although the existence of regional partnerships is considered a key factor to successful regional economies, there is less clarity on exactly what these regional partnerships and the resulting knowledge networks look like, and on what role the participants play in them. One of the most accepted views is that innovation increasingly hinges on university-industry-government partnerships, the so-called triple helix.

Rebecca Steffenson and James Banovetz.

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JUNE 2009 · VOLUME 91 · NUMBER 5

COVER STORY

Faltering Economy: Time to Thoughtfully Challenge the Status Quo

by Scott Collins, Brendan Hanlon, and Ed Scholz

Traditional local budgeting strategies, although relatively easy to implement, are failing to adequately address the fiscal needs of local jurisdictions. The current national economic condition and its long-term ramifications require a dynamic budgeting model that focuses on outcomes instead of inputs.

It seems likely that revenues for local governments will continue to deteriorate in the near term, and a thoughtful review of the services each community delivers will be required to realign resources with community goals. Program prioritization and continuous improvement efforts are difficult tools to implement, but they produce the results local governments need as they respond to these challenging fiscal times.

Local governments, which typically rely heavily on property taxes, or sales taxes, or both, for their operations, are dealing with the reality of an economy that continues to significantly erode these revenue streams. A National League of Cities survey has reported that 84 percent of city finance officers said they are facing fiscal difficulties.[1]

Denver, for example, experienced declines in monthly sales tax revenue from October through December 2008; declines were 5 percent, 5 percent, and 8 percent, respectively, compared to the same months in 2007. Although the declines were not unexpected in light of the disruption of the national economy, it is especially challenging for Denver government officials given that the sales tax represents 50 percent of its general fund revenues.

Even apart from the major difficulties caused by the current recession, the trend during the past 30 years in Denver is alarming. The compounded average annual growth rate in sales tax revenues for the past 30 years is 7.5 percent although the rate drops to 5 percent for the past 20 and to 3 percent for the past 10.

Similar trends have been recorded across America. In Santa Cruz, a small beach and university town in California, sales tax receipts have actually flattened during the past seven-year period. In prior years, however, growth neared 5 percent annually.

Declining revenues on account of cyclical recessions is one thing, and they can temporarily be addressed with such cost-saving measures as hiring and wage freezes, temporary reduction of services, deferment of capital equipment purchases, and so forth. These measures are usually only stop-gap measures, however, and they are effective for a year or two at best.

But as the annual cost of services continues to grow at a much faster clip than available revenues, local governments continue to throw around ideas on how to generate additional resources for the short term, with little thought given to long-term strategies. Moving toward a pay-to-play scenario—charging citizens for the use of parks, for example—has gained popularity during the past decade in some communities.

In most cases, however, these efforts frighten or infuriate citizens, who perceive those ideas as the government taking more of their money while they get only the same level of service they always received. They can't see anything new coming out of it, and they don't understand why their local government needs more money. It also can feel as though the government is suddenly trying to tax and regulate everything it possibly can.

A more comprehensive and strategic approach is required in order to address the widening structural deficit. Forecasting ahead three to four years, managers should consider three strategies: prioritization of services, continuous improvement, and revenue enhancement options.

Martin Bernal, assistant city manager of Santa Cruz, California, believes that no options should be taken off the table—survival will require a mixture of all such measures.

Local public officials can use the following list as a how-to guide to help them form a more comprehensive, strategic approach to budgeting.

Prioritization as a Tool in the Toolbox

The overall objective of prioritization[2] is to help any government achieve fiscal stability in the short term, realize alignment of resources with the priorities of citizens in the near term, and determine a responsible level of taxation in the process. As a tool in the local government administrator's toolbox, prioritization is important in that the process systematically guides decisionmakers, policymakers, and citizens to the actions necessary to achieve this objective.

Take, for example, revenue enhancement as a tool to help a local government achieve fiscal health in this difficult economy. How does the government administrator or elected official know if it's the right tool—the right treatment for the symptoms they've observed? And which revenues are the revenues to enhance?

Chris Fabian, business process analyst for Jefferson County, Colorado, who helped implement prioritization in this second-largest county in Colorado, comments on how prioritization as a system leads decisionmakers to revenue enhancement opportunities when they're appropriate:

"In the process of scoring programs based on their influence on results, we recognized that it wasn't enough to value a program based on results alone. As we developed the process, we conceived of a hypothetical program that might not meet any of our results but that was completely supported by direct user fees.

"If that program fell to the bottom of our prioritized list of programs, should that program potentially receive fewer resources in the future? Thinking this through, we incorporated the scoring criteria of 'program sustained by direct user fees' into the scoring process, meaning that whether or not a program gets a high score relative to its influence on results, if that program can demonstrate that the customers completely support it, then we recognize that this takes pressure off of decisionmakers to have to choose to allocate resources to the program, and therefore the program should be elevated in priority.

"The hypothetical thought experiment proved to work, as we did encounter several of these programs that did not score well relative to any of Jefferson County's results, but recognized that their survival depended on appealing to the users of their services to generate higher user fees. It worked!

"One example of this comes from our county fairgrounds operation. At one time in our county's history, we were more rural, and so the fairgrounds were probably a highly valued institution. But now we're a highly urban county in the Denver metro area with a population of close to 540,000, and so the fairgrounds programs do not relate to our current results.

"Most every program offered at the fairgrounds fell to the bottom of the program priority list as a result of the prioritization process. The director of the fairgrounds operation recognized the likelihood that general government revenues will come less and less to these low-priority programs, and so here's what has happened:

"One, the operation has been successful in increasing user fees for such things as facility rentals (they offer a site for banquets and meetings), space rental (they offer an RV parking lot), and special events.

"Two, they conceived of new ways to generate revenue, including selling space for advertising (signage on a major highway next to where the fairgrounds is located), and they are in the process of trying to lease out space on the fairgrounds for an animal shelter that is looking for property.

"The future of the fairgrounds is still uncertain because the programs are of low priority, but the operation has moved from being totally dependent on general government revenues to being considerably more self-sufficient.

"Other examples of this behavior, driven by the incentive to score higher in the program prioritization process, are all across the organization, including our airport operations (increased fees for hangar rental), our social services programs (increased impetus to access grants), our transportation department (revenue from cities for loaned work and cost sharing), etc."

Prioritization as a tool in the toolbox will also lead to:

Establishing and defining results. Engaging elected officials, decisionmakers, administration, and citizens by using the strategy mapping technique, in a collaborative process designed to clearly identify and define results while diverting others from arguing, blocking, or otherwise deterring the process.

Establishing a definable value for programs. Establishing a clear value for every program; accounting for the objectives of the community, of the elected officials' specific platforms and policy objectives, and of citizen interest groups; conforming with mandates; and responding to demands for service among other criteria that would influence value.

Linking results and strategic planning to resource allocation decisions. Prioritization as a process helps us better articulate why the programs we offer exist, what value they offer to citizens, how they benefit the community, what price we pay for them, what objectives they are they achieving, and which citizen demands they are answering.

And prioritization puts into focus how strategic we are about understanding what we do, why we do it, and, in times of strife as well as abundance, how we should invest our resources to achieve the results our communities need.

Continuous Improvement Efforts

The upshot from the horrendous economic condition is that it provides an excellent opportunity to be courageous through prioritizing services, streamlining processes, and instilling a culture of continuous improvement.

Your organization must demonstrate efficiency to your residents. Do an assessment of your organization's overhead costs.

How do your organization's operations compare with industry standards for information technology, fleet, facility management, and management, in terms of both cost and performance? Do you have a standard target percentage for administrative costs as a percentage of total organizational expenditures?

The current crisis demands that cities and counties answer these questions and drive down their overhead costs. While it may be easy to cut cost, it is important to maintain quality services.

You may consider adopting a zero overhead growth (ZOG) philosophy, as developed by James M. Kilts, chief executive officer of the Gillette Company from 2002 to 2006. During his tenure as CEO, ZOG efforts eliminated more than $800 million of unnecessary costs, leading to unprecedented profits for Gillette.

The goal of ZOG is simple and can be related easily to the public sector. The goal is mainly to reduce ongoing overhead costs in order to fund ongoing programs. This is achieved by ridding the organization of unnecessary costs.

In a local government that adopts ZOG, all government agencies are responsible for this effort. According to Kilts, for the philosophy to take hold and be effective, it has to be more than a "one-shot deal, but rather, an everyday full-court press."[3] The ZOG philosophy may seem a bit extreme, but when citizens' demands for services grow yearly, we must take responsibility to limit administrative and programmatic overhead. That way, a greater percentage of resources can be allocated to direct service delivery.

ZOG is a philosophy; it isn't a panacea. Managers need to consider using a mixture of internal service funds, process audits and improvement, automation, reallocation of resources, and benchmark data to ensure the continued success of the government organization.

The tactics listed below are effective in driving down overhead costs:

Create internal service funds for IT, fleet, facility management, and other internal support functions. This is an "enterprise management" approach, whereby agencies become customers that pay for the services they receive from these overhead functions. Budgeting those costs in departments will drive businesslike decisions. If costs become too high, agencies can look to contract out the work.

Service agreements should be used to document service commitments and the cost for any given service. Agency service choices should have clear costs associated with them. Support agencies can become the target of public scrutiny, but their costs can be driven by unknowing agencies that expect Porsche services at Cadillac prices. The greatest utility of internal service funds is that they create transparency in decisions.

Process improvement efforts systematically document, analyze, and reduce redundancies and inefficiencies in processes. The best systems focus employees on customer needs to drive improvements. These efforts are not easy to implement. They require time and management commitment across the organization.

An organization needs to invest in employee training and set an expectation for participation in the effort. A centralized process improvement team will be effective, but long-term success will be based on the organizational culture embracing the system.

Develop a target percentage for overhead costs because a target allows you to gauge progress in your overall efforts at lowering costs; a target also affirms the organization's commitment to doing what matters.

These tactics serve a larger purpose than simply lowering costs. If carried out effectively, they can free up resources to deploy in areas of greater need. Such efforts should be marketed to residents, showing that the government is concerned about its costs of doing business and that it is working to find ways to cut spending without impacting overall effectiveness.

Revenue Enhancement Options

Only after going through prioritization and continual improvement efforts, where you can show you are being strategic and efficient, should you go to residents to ask for revenue enhancement options.

Too often we try to couch requests for increased revenue as something new and justifiable in itself. Most people can see through it. If the government didn't start out charging for trash collection and now it's going to, most likely it's because general, ongoing revenues have been steadily decreasing, not because the government suddenly realized that it costs money to collect trash.

Efforts to raise new revenues for things such as trash pickup are usually effective only when the locality has proven to taxpayers that it's doing a great job with the funds it already has. Performance measure reports that extol crime-fighting efforts, improved street conditions, cost effectiveness, and great customer services go a long way toward justifying revenue increases when times are tough.

Similarly, you will have greater success in developing fees for services that fall to the bottom of a prioritization effort, as explained in the Jefferson County example above.

Tax increases are generally supported only for specific services or capital improvement projects. Demonstrate to residents the effectiveness of government programs, reduced administrative costs, and a generally agreed alignment of resources to top priorities. Such efforts are critical to the successful passage of a tax increase.

For programs that are currently funded through fees—recreation centers, business inspections, and the like—develop a cost-recovery methodology you can support politically. For some communities, full cost recovery may be appropriate.

To sustain these programs, tie fee increases to a clearly understood index, such as inflation, population growth, or both. Don't wait 10 years to increase fees; generally those increases are significant and too difficult to support politically.

Free to Cut and Streamline

The fallout from the current economic downturn has been nothing short of breathtaking. Managers and finance officers across the country are under the gun, facing seemingly insurmountable budget deficits. Fear and loathing, however, should not rule the day.

The upshot from the horrendous economic condition is that it provides an excellent opportunity to be courageous through prioritizing services, streamlining processes, and instilling a culture of continuous improvement. Here's a chance to consider tabling services that don't achieve outcomes or that serve purposes that are no longer relevant.

Feel free to streamline processes and cut unnecessary overhead. Keep these efforts going and publicize them at every opportunity to residents, business groups, and local media. Use these efforts to justify such revenue enhancement options as funding lower-priority services through fees and increasing taxes for capital improvement projects.

This work is never done. These efforts should be conducted continuously into the future. When times are good—and here's wishing the good times come soon—don't grow back to old levels just because you can. Inevitably you will find yourself in the same situation you are in today.

[1]Chris Hoene and Gregory Minchak, "NLC Survey: City Fiscal Conditions Continue to Worsen," February 2009, www.nlc.org/articles/articleItems/NCW2909/fiscalconditionsupdate.aspx.
[2]Chris Fabian, Scott Collins, and Jon Johnson, "Getting Your Priorities Straight," PM Magazine, June 2008.
[3]James M. Kilts, with John F. Manfredi and Robert L. Lorber, Doing What Matters: How to Get Results That Make a Difference—The Revolutionary Old-School Approach (New York: Crown Business, 2007), 63.

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JUNE 2009 · VOLUME 91 · NUMBER 5

DEPARTMENTS

Ethics

Respecting Roles and Responsibilities

Scenario: During the monthly board meeting of a city-supported economic development foundation, the discussion of efforts to promote the region soon turned into a critique of city council's leadership. The city manager, who serves in the city's slot on the board, was the only city representative in attendance that day. A CEO from one of the largest corporations in the city took the lead in expressing disappointment over the mayor's leadership in efforts to garner support from the state and federal government for a critical expansion of the airport.

Additional comments then flowed from other board members about the lack of leadership from councilmembers and even their fitness to hold office. At this point, the city manager said that it was inappropriate for him to be engaged in a discussion or evaluation of the council's or mayor's performance. When the conversation continued, the manager left the meeting. Should the manager have remained in order to hear the comments and perhaps offer his input?

Advice: No, the manager was wise to voice his position and to exit when the board failed to change the topic. Accountability for the local government operation rests with the manager, who should always be forthcoming in publicly addressing complaints, concerns, and results. But when the dialogue shifts to the performance of elected officials, the manager should stay out of the debate.

Participating in a public critique about the elected official's performance would undermine the democratic process used to elect leaders and the manager's ability to serve the community, and it would be counter to the profession's ethical standards. From a practical perspective, it's hard to envision an effective governance model, public or private, under which it would be appropriate or helpful for the appointed executive to comment publicly on the performance or qualifications of governing board members.

Although a manager does have a broader obligation to serve the best interests of the community, the manager delivers on that obligation by working through the governing body and by respecting the role and responsibilities of elected officials. The manager's role is to submit policy proposals to elected officials, provide them with facts and advice on matters of policy as a basis for making good decisions and setting community goals, and uphold and implement local government policies adopted by elected officials.

When the council and the manager disagree about specific policies, the manager may work hard to convince the council of the wisdom of his or her recommendation, but the manager ultimately is obligated to follow the council's direction. Only in the extreme instance of unethical or illegal acts or acts of gross misconduct would a manager be permitted to disregard the council's decision.

ICMA members have an obligation under the profession's Code of Ethics to serve all members of the governing body equally; act with integrity to build trust with the public, staff, and governing body; be politically neutral with regard to the election or removal of candidates for public office; and respect the roles and responsibilities of the public and elected officials. To that end, it is unethical for a manager to engage in public or private conversations, even if well intentioned, with residents and leaders in the community regarding the performance of the elected officials.

Effective local governments truly do run on a combination of strong political leadership and good management. When either part of this equation is underperforming, the community can certainly suffer. The best approach to charting a better course is to assess what is wrong and develop a strategy for making improvements or changes as needed.

To the extent that the concern is with the performance of the governing body, the discussion is most appropriately led by community leaders, residents, and elected officials. Responsibility for deciding whether elected officials are making wise decisions and are competent to serve in their role rests solely with the voters and community at large. There simply is no role for the manager to play in that assessment or to use the position of manager to influence the outcome of the discussion.

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JUNE 2009 · VOLUME 91 · NUMBER 5

DEPARTMENTS

Profile

Leading Burlingame with a Smile

James M. Nantell is city manager of Burlingame, California.

Many people might reveal they have an identical twin during conversation. Not Burlingame, California, City Manager Jim Nantell. Nantell decided to cover his identical twin brother Bill's head in gauze prior to giving a speech during his tenure as president of the local Rotary Club. During the speech, Nantell had asked a friend to stand up and offer Nantell a clone to help with all his work—then unraveled Bill.

Nantell, 60, remembered the instance with a great smile—one seen often around Burlingame. Nantell is normally smiling, dimples showing, and generally talking with his hands while working quite often as a mediator for the Peninsula city where he has worked since 2000.

"He's like the Energizer Bunny," said Mayor Ann Keighran. "He's just non-stop and gives dedication a whole new meaning."

Nantell fought the idea of holding his current position until about nine years ago. Before then, it was never about leading a city, that isn't what Nantell wanted. At least he didn't think it was what he wanted. Funny enough, leading and planning cities were things Nantell always enjoyed.

Nantell was raised as one of six children in Wisconsin. As a boy, Nantell enjoyed building cities with his brother on a Ping-Pong table. Everything centered around the train, he said. Buildings were made out of paper. Matchbox cars took up the parking spots.

"My brother and I would walk around it. People would say, 'Those boys think they own this park.' And we did, because we lived across the street," he said.

Each neighborhood had its own park. Nantell lived across the street from one. The pride for their neighborhood park led Nantell and his brother, while in third grade, to organize a baseball league with younger children challenging teams from the various neighborhoods.

The brother team acted as umpires. Nantell truly was a child who grew up through community-based athletic programs. As such, he grew through leadership roles within it until he was in college, working during the summer as a playground leader or overseeing the skating rink.

Before college came love. Nantell met his future wife Christine as a freshman in high school. Cupid's arrow did not strike, however, until junior year in history class. It was her quick sarcasm that catapulted their relationship to love, he said. The pair was married in 1970—their junior year in college. Today, the couple lives in San Mateo and has four children—Erin, Ashley, Michael, and Madeline. Erin and her husband Jason have a 5-year-old little boy and a little girl on the way.

When it came time to get a degree, Nantell decided to study psychology. "In that era, we all wanted to change the world," Nantell said noting his brother decided to major in business, a decision at the time Nantell questioned.

After graduating from the University of Wisconsin, Madison, in 1971, Nantell began to look at graduate programs. At his wife's suggestion, Nantell decided to study parks and recreation administration at San Francisco State University.

The pair moved to San Bruno. Nantell commuted to the city for classes and worked as an office supply delivery guy in his down time. For Nantell, the experience was his first in a big city outside of his Midwestern roots. The move, which was supposed to last one year, turned into a permanent home. After earning his master's degree, Nantell began working in San Mateo at the Lakeshore Recreation Center. He slowly moved up the ranks and still remembers the children whose lives he aided.

From 1981 to 1985, Nantell worked as the superintendent of recreation and human services. He was then promoted to assistant city manager—which essentially included the same responsibilities along with the library. When the city manager position became available, Nantell was honest—not interested.

Instead, he took the deputy city manager role in April 1990. While in that role, Nantell was given a unique opportunity to serve for more than a year as an interim fire chief beginning in 1995.

Labor negotiations with firefighters and the city did not go well, leaving the solution of an agreed-upon replacement, Nantell, to lead the troops. In his role, and to Nantell's delight, firefighters wanted him to suit up and visit fires.

The first occurred at 3 a.m. Nantell dressed nicely under his fire gear—a decision he questioned recently. Seeing the fires firsthand allowed Nantell to better understand concerns.

In the late 1990s and early 2000, Nantell realized, at the urging of former San Mateo City Manager Arne Croce, that he may be ready to lead a city. When Burlingame became available, he jumped at the chance. Ironically, Nantell and his wife had called Burlingame home until six months prior to being named city manager.

The summer prior to taking the Burlingame position, Nantell attended the Harvard JFK School of Local Government. In November 2000, Nantell began in his current role.

"Jim is a workaholic, an effective communicator and a people lover—a great combination for a city manager. He spends every waking minute trying to figure out ways to make Burlingame serve its citizens better. We are very lucky to have him," Councilwoman Terry Nagel said.

Keighran added, Nantell's respect for others adds a lot to his success. "I think everyone respects him," she said. "You could disagree with him but there is still a likability factor."

For Nantell, working in Burlingame meant a switch to a city which did not need to constantly make budget cuts. That quickly changed after September 11. Just last week, the city approved $2.3 million in budget cuts and revenue enhancements.

Thankfully, Nantell has experience in such instances. He is thankful to be working with a group of leaders who allow him to do things like put money away for invisible needs like water and drainage.

For a while now, Nantell has said he would work at least another three to five years. His statement remains in place. But if it were true this time, he has a number of goals for the future, including finding a way to fund storm drains, increasing hotel tax to create more income for the city, and to at least have a plan for a new community center in place.

One of the biggest mysteries around Nantell's office often comes with a cheesy twist, Wisconsin cheese of course. Although Nantell has been around the Bay Area long enough to recognize the 49ers as his hometown team, a stranger continues to anonymously drop off treats for Nantell with a Green Bay Packer twist—fake cheese coasters shaped for the state of Wisconsin, a football themed Kleenex box and, of course, a cheese head hat are among the gifts.

Nantell takes the gifts with a smile, but continues to wonder about the identity of the secretive gift-giver.

—Heather Murtagh
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JUNE 2009 · VOLUME 91 · NUMBER 5

PM *PLUS*

Globalizing Local Economies: Making It Happen Through Local Action

by Rebecca Steffenson and James Banovetz

This article, adapted from the second in a series of Policy Profiles, discusses how local governments can position themselves to prosper from globalization and presents results from a 2008 study entitled "Assessing Global Competitiveness: A Look at Chicago," which was completed under the auspices of Northern Illinois University's Center for Governmental Studies, DeKalb, Illinois.

In today's world, globalization is a fact of life. It has already had a major impact on the American economy. Some impacts, such as new markets and the influx of new technologies and products, have produced more jobs and profits. Other impacts, including the loss of manufacturing jobs overseas, have created hardships.

There can be no question that individual communities have been severely hurt by globalization. But globalization has provided the American economy, as a whole, with a number of significant economic advantages, including a 12 percent return on every dollar sent abroad in relocated business operations.[1]

While it is clear that the American economy as a whole benefits from globalization, it is also clear that individual regions of the U.S. may be differently affected, and sometimes adversely affected, by the forces of globalization. The Chicago metropolitan region, for example, currently has more than 50 percent of its growth driven by the global economy, yet it is not competing as effectively as it should be in that economy.[2]

Why Isn't the Chicago Metropolitan Region Competing Effectively?

Although the Chicago metro region has made a relatively successful transition to the global economy, it still faces a number of competitive challenges. One major challenge stems from the fact that neither the Chicago metro region nor the state of Illinois ranks among the nation's most successful areas as a center for innovation.

Indeed, as a competitive innovation economy, Illinois has been ranked no higher than 24th among the nation's 50 states as measured by comparative levels of high-tech and science/engineering jobs, venture capital, patents per worker, and industry investment in research and development.[3] Chicago falls well behind such national innovation leaders as Silicon Valley, Boston, Seattle, and Denver, and it is even outranked by such other Midwestern cities as Minneapolis, Pittsburg, St. Louis, Detroit, and Grand Rapids, Michigan.[4] Chicago does not even register as a "spike" on the world map of the most successful technology centers.[5]

Although the state of Illinois and the Chicago metro region have all of the necessary components to be a leading center for innovation, including the presence of several world-class universities, neither has achieved that status. Tooling up to improve its innovation competitiveness will require an effort, not only on the part of state and regional authorities but also by local governments—counties, cities, and villages—throughout the state and region. Local economic development efforts will be more successful if local officials make a concerted effort to understand the global economy and how their individual communities can best position themselves to compete successfully in it.

What Makes Local Places Competitive in the Global Economy?

The global economy has become a knowledge economy. In other words, the global economy has become a place where the ability to be innovative—to be able to create new ideas, thoughts, processes, and products—is translated into economic value and wealth.

In today's world, the greatest economic advantage belongs to knowledge based firms that proactively enter into collaborative relationships with other firms having similar interests, and where ideas and resources can be shared. The most competitive places in the global economy are regions that can attract and retain clusters of knowledge intensive business activities. Examples of such activities are listed in Table 1.

While it is true that there are indications that the Chicago metro region has become globally connected and integrated—it has a high volume of trade, substantial direct foreign investment, and an impressive level of immigration into and out of the region—these factors, by themselves, do not indicate economic competitiveness in the ever quickening global economic race. A whole host of new indicators of global competitiveness have been developed over the past decade to measure the capacity of regions to compete in the global knowledge economy.

Table 2 describes what today's competitive regions and communities look like. Appendix A lists the indicators used today to measure a region's global competitiveness.

Such measures indicate that economic competitiveness in the new global economy depends more on the quality rather than the quantity of economic opportunities. There are even indications that income growth rather than job growth is the primary motivation driving economic competitiveness.[6] Economic development success today is measured, less by the number of new jobs created, and more by the creation and retention of value-added, high-wage jobs and overall income growth.

Table 1. Knowledge Occupations in the Global Economy.

There are many different knowledge occupations. Here are examples of the kinds of occupations that make up the category:

- Executive Management
- Finance
- Computers, Electronics
- Information Management
- Architecture and Engineering
- Research and Development
- Marketing
- Human Resource Management
- Executive Search
- Office and Administrative Support
- Law

Table 2. What Competitive Places Look Like.

- Are rich in ideas and talent.
- Attract educated people.
- Have physical and cultural amenities to attract knowledge workers.
- Have flexible organizations and individuals with the ability to learn and adapt.
- Are anchored by bold partnerships among business, government, and the nonprofit sector.

Source: State of the New Economy

Why Are Knowledge and Innovation More Important in the Global Economy?

In today's dynamic and ever-changing world, business competition is increasingly based on knowledge. Knowledge and skill are the source for new ideas both for the products to be made and for the processes that make them. Firms that can best as-semble knowledge teams are in the best position to be competitive.

In the past, individual firms drew on their own internal research and development departments for the new ideas that kept them competitive. But two trends have made that concept increasingly obsolete.

First, the kinds and variety of knowledge that are needed have become too costly to maintain within individual firms.[7] Second, innovations in technology have brought down the costs of long-distance collaboration, making it possible and even cost effective to turn to specialized consulting companies for research and development assistance.

On larger research and development (R & D) projects, the work can be outsourced to a number of such firms, working in collaboration with each other, to produce the ideas needed to increase productivity and profitability.[8]

As a result, most competitive firms today are restructuring their research and development efforts, from in-house work to outsourced effort, to take advantage of cost, capability, and contextual knowledge—the so-called "3C's" of a global collaboration strategy.[9] Not only are they are taking advantage of low-cost, highly skilled labor forces in a global marketplace, but they are also saving money by investing less in training and developing internal talent.

What Role Is There for Communities in the Global Economy?

Globalization, including global shifts toward knowledge intensive industries, does not necessarily undercut the importance of local communities and of regional economic development. If applicable knowledge is available locally, globally based firms are likely to recognize and access it, and locally based firms will attempt to use it before they look elsewhere.[10] Furthermore, many business problems require what has come to be known as "contextual knowledge" (knowledge that a particular firm has by virtue of its location). The need for such knowledge strongly reinforces the idea that geographic location—or place—still matters.

The importance of firms having particular expertise because of their geographical location is recognized by many students of globalization patterns.[11] It is always easier and more profitable to build active networks of collaborating firms that are located geographically close to each other than it is to develop such networks among firms that are widely dispersed around the globe. The prevailing logic is that firms benefit from participation in local industry clusters by gaining easier access to ideas, talent, and capital.

What Does This Mean for Regions and Local Governments?

It means that, in today's business world, even the largest firms need working relationships with many smaller firms. It also means that the traditional factors determining "best location"—access to raw materials and shipping facilities—is less important than it has been. Indeed, access to raw materials and shipping facilities is irrelevant to newly emerging firms that specialize in the knowledge economy by working in collaboration with other businesses around the world to produce ideas regarding product and process innovations.

In addition to the availability of access to contextual knowledge noted above, what is important in determining office locations today is (1) access to state of the art electronic communication technology and, to a lesser extent, passenger air transportation facilities; and (2) community-based lifestyle amenities (see Appendix A).

Furthermore, it means that today there is no such thing as a bad geographic location for business development: business development can occur wherever there is an environment that meets workforce needs for jobs, connectivity to the rest of the world, and lifestyle amenities (see Table 3).

It means, in short, that any region or locality can compete in the global economy.

Table 3. The Real Meaning of Globalization.

In the 21st century, the issue is not "What will globalization do to me?" Rather, it is "how can I get work and investment to flow to me?" Nations, regions, and people who figure out the answer to this question will prosper. Source: National Council on Competitiveness

Table 4. Pieces of the Puzzle.

The global economic development challenge is one of linking:

- Economic Development
- Workforce Development
- Community Development

How Can Regions and Communities Maximize the Benefits of Globalization?

Maximizing the benefits of globalization requires, first and foremost, a thorough understanding of the needs and demands of global economic development forces, and, second, a proactive approach to building on the existing local economy's resources in ways that will make those resources more attractive to global forces. It means linking the pieces of the puzzle set forth in Table 4.

Any strategy to benefit from globalization must start with an understanding of how local industries relate to the global economy and how well the region or locality is positioned to attract new firms and more talent. A number of tools, such as business surveys and industry cluster analyses, can be tailored to help local economic develop-ment authorities understand how to target their development efforts more effectively.

Learning from those who are already doing helps local authorities understand what roles they can most profitably play in addressing existing issues, marketing local selling points, and developing new strategies for "going global."

Local officials, too, need to understand the benefits of organizing locally to connect globally. This means taking full advantage of local, regional, national, and international networks, and often linking local and regional policy arenas that once operated independently. By understanding the scope and scale of existing networks in the vicinity, local governments can attract businesses that, by connecting with local resources, can both improve the local economy and help their region acquire the resources it needs to compete globally.

Economic development authorities around the world are trying to tap into new strategies to maximize the economic potential of local places in the global economy. They are attempting to modify their policies related to immigration, education, tax and regulation, R & D investment, and transportation with the needs of global competitiveness in mind.

Local officials must also learn how to tailor their community, economic, and workforce development strategies so that they will attract global talent and foreign investment. New education and training programs can help local residents cope with the structural shifts brought by global competition. Coordinated human services programs can address the needs of new at-risk populations. And, community development can be adjusted to serve diversifying populations and ensure the social integration of new immigrants.

What Else Can Local Governments Do?

Local governments that invest in and successfully market the full range of physical, digital, and human capital assets sought by foreign and domestic businesses have an advantage over those that do not. This means that the governments should move beyond traditional development strategies driven by site selection and focus on their assets, which have the potential to add higher value to the economy.

One suggestion is to use what is called cluster-based strategies. These are strategies promoting economic development by seeking to attract a cluster of similar or related industries that can benefit from proximity to each other. Another suggestion, called tech-based development, emphasizes bolstering innovative (knowledge) industries through targeted business development and technology commercialization projects.

To minimize the possibility that industries once attracted to a community might later leave, communities are urged to base their attraction strategies on "smart incentives." These are incentives that motivate new firms to invest back into the local economy through collaborative support training, innovative infrastructure investments, and targeted cluster developments.

Finally, local development leaders must recognize that globalization has also created a new and more intensive demand for collaboration between agencies, not only globally, but also within the local area. Competitive communities are those that connect and collaborate. Local development leaders have a crucial role to play in encouraging communication between firms, civic communities, and service providers, locally and globally, to insure that obstacles to future competitiveness are removed and opportunities to capitalize on the benefits of globalization are maximized.

How Can Communities Help Build Clusters of Knowledge-Based Firms?

This is a good question because networked regional business clusters are widely believed to be a key component in the development of highly effective regional economies.[12] Current "best practice" beliefs in this area hold that communities can best achieve this goal by partnering with other governments and local universities in an effort to help firms mobilize the necessary resources, including technology, financial investments, and human capital, required to transfer ideas into innovative commercial ventures.

In the most successful high-technology and knowledge-intensive business clusters, collaborative regional partnerships, including local communities, regional agencies, and local universities, are designed to support firms, connect them to the resources they need, and facilitate knowledge transfers from public institutions and universities.

Although the existence of such regional partnerships is considered a key factor to successful regional economies,[13] there is less clarity on exactly what these regional partnerships and the resulting knowledge networks look like, and on what role the participants play in them. One of the most accepted views is that innovation increasingly hinges on university-industry government partnerships, the so-called triple helix.

What Role Do Universities Play in Such Partnerships?

The role of area universities in the triple helix is twofold: (1) to create new knowledge and (2) to diffuse it to the private sector in ways that contribute to economic growth.[14]

An entrepreneurial university is one that takes a proactive stance in putting knowledge to use by helping develop incubators or science parks and human capital development programs.

Scholars have also identified a new type of university that is even more entrenched in regional economic and social development. They argue that the engaged university is one that is not only entrepreneurial in technology development, but that is also adaptive and responsive to the needs of the region and in regional social and civic structures.[15] Such engaged universities play a role in regional develop-ment by establishing programs, building institutions, and facilitating networks that are tailored to the needs of the regions they serve.[16] Table 5 summarizes the range of activities universities pursue both to create and diffuse knowledge.

It is important to note, however, that the strength of a university as a knowledge center does not necessarily correlate with its ability to contribute to regional innovation processes. Universities that are leaders in knowledge generation are not always ef-fective as partners in regional development. The mismatch between knowledge creation and regional impact is demonstrated by Johns Hopkins University which, despite being one of the most heavily funded research centers by the U.S. government, has failed to transform Baltimore into a high-technology center.[17]

The impact of universities on regional development, then, is less a factor of their stature as a research center than it is a function of:

- How a particular university is organized to engage in knowledge transfer activities.[19]
- The structure of the regional partnership.
- The capacity of local industry to absorb knowledge produced by universities,[20] including the local concentration of high-knowledge local employment, the densities of the collaborative knowledge networks, and the frequency of the interaction between firms in the region.

Universities alone cannot transform the region’s innovation capability and knowledge economy, but they can and should play a role in regional economic development. The rising costs of creating new knowledge and the organizational mismatch between industry and university research processes has resulted in gaps in the innovation process that must be filled by public agencies. Fortunately or unfortunately, therefore, government intervention is increasingly necessary.

What Role Do Governments Play in Such Partnerships?

The national and state governments have an important function to perform in closing these gaps by stepping beyond traditional regulatory functions and assuming new roles as public entrepreneurs, venture capitalists, and network brokers. While governments are increasingly expected to drive innovation by compensating for financial failures, poor information, and conflicting industry-academic cultures, their most important role is to influence business environments through policy choices. Governments can intervene in markets to promote high-technology niches by generating resources and providing incentives to generate university-industry government relations.[21]

Thus governments can be viewed as both funders and facilitators of university knowledge creation and diffusion.

Table 5. The Distinction Between Creating and Diffusing Knowledge.

Knowledge Creation:
Investing in new research centers.
Attracting academic "stars" to the faculty.
Developing interdisciplinary curricula, critical thinking, and problem solving.
Using alternative forms of scholarship and service that apply to decisions regarding tenure, promotion in academic rank, and financial rewards for professional staff research centers.
Offering technical assistance to firms.

Knowledge Diffusion/Transfer: Writing academic articles.
Securing new patents.
Selling technology licenses.
Spinning off such models for use elsewhere.
Developing incubators, accelerators, and research parks.
Organizing collaborative industry.
Providing education and training programs.[18]
Huggins, Johnson, and Steffenson (2008)

But What Role Can Local and Regional Governments Play in Such Partnerships?

Local and regional governments can provide resources and incentives to generate and encourage university-industry government relations. Most importantly, however, local and regional governments can take leadership roles in creating networking structures through which potential regional partners can foster cooperation, collective learning, and social cohesion.[22] Since university knowledge flows are more likely to occur where faculty and industry have existing relationships, efforts by local and regional agencies to bring faculty and industry together in mutually beneficial contexts can be critical to a globally focused regional development effort.

Local and regional governments can also:

- Provide potential partners with information to facilitate inter and intra regional cooperation.
- Conduct industry analysis to identify market gaps and benchmarking studies to monitor progress.
- Undertake technology audits.
- Create technology stock databases; and help design and promote regional marketing programs.

In short, local and regional governments can work together to offer leadership in the creation of public-private technology networks and partnerships. In Illinois, this includes Joint Venture Silicon, the Illinois Technology Transfer and Commercialization Center Program (I-TEC), the Knowledge Circle of Amsterdam, and the London Technol-ogy Network. "The role of (governments) is to weld these components together and lubricate the process."[23]

What Does This Mean for the Chicago Metropolitan Region?

Although the Chicago region has all of the necessary components required to take off as an innovation economy, it has failed to launch.

In order to stay competitive, the region's economic development authorities will need to focus on the quality rather than the quantity of investment. Workforce development must be tailored to meet the shifting needs of industry and the quickly diversifying population. Since effective regional partnerships and technology networks are essential in the global economy, the Chicago region will have to address the challenge of developing regional cohesion out of its existing, highly fragmented local government structure.

But critical to this effort is also the need to bring the region's universities into the effort to enhance Chicago's competitive posture in the global economy.

[1]See the listing of globalization's economic advantages for the U.S. set forth in Table 4 of the first Profile in this series entitled "Globalizing Local Economies: The Chicago Region's Record to Date," Vol. 8, No. 2, November 2008, at page 3. This publication can be found on the Web at http://www.cgsniu.org/portfolio/policy_profiles/index.html.
[2]See "Globalizing Local Economies," op.cit. pp. 3–6.
[3]See 2007 State New Economy Index published by the Kaufman Foundation. Available at

www.kaufman.org/Details.aspx?id=196.
[4]See World Competitiveness Index (2006, 2005, 2004), Huggins and Associates, United Kingdom.
[5]These spikes, which include Silicon Valley, Boston, Austin, Raleigh, and Seattle in the U.S., represent competitive centers of talent, ideas, and investment. See Silicon Valley Index 2007 published by the Joint Venture Silicon Valley network and available at http://www.jointventure.org/publications/index/2007%200index/The%20of%Silicon%20 Valley.pdf.
[6]See 2007 State New Economy Index cited in endnote # 3
[7]Research in new energy technologies, for instance, is too complex and expensive to be undertaken on a large scale by individual, competitive firms. In recent years, research on more fuel efficient automobiles has also proven to be more expensive than any of the nation's three auto manufacturing firms could afford on their own.
[8]Figure 8 in "Globalizing Local Economies" op. cit., p. 6 describes one such large project, the creation of the new Boeing 787 Dreamliner aircraft that involved more than 50 partnering firms from 130 different geographic locations working together for more than four years.
[9]Alan MacCormack, Theodore Forbath, Peter Brooks, Patrick Kalaher, Innovation through Global Collaboration: A New Source of Competitive Collaboration, Harvard Business School Working Paper 07-079 (2007). Available at www.hbs.edu/research/pdf/07-079.pdf.
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[12]See the citations listed in footnote # 10.
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[17]Feldman, M. P., and Desrochers P, "Research Universities and Local Economic Development: Lessons from the History of the Johns Hopkins University," Industry and Innovation 10:5–24 (2004).
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Appendix A: Indicators of regional competitiveness

Globally competitive knowledge economies are measured by:

– Concentration of employment in knowledge intensive industries, worker productivity, and unemployment rates.
– Workforce talent and per capita education spending.
– Digital connectivity.
– Innovation capacity (R & D spending, technology start-ups and spinoffs, patents, and commercialization rates).
– Entrepreneurial culture, including venture capital for start-ups.
– Quality of life measures such as commuting times, cultural amenities, housing prices, and schools.
– Efficient regulatory and business enabling mechanisms such as Es-Gov practices.
– Exports in higher value added manufacturing and service industries.
– Foreign direct investment in higher paying knowledge industries.

Specific measures of these indicators are listed below:

– Human capital concentration of employment in knowledge intensive industries, worker productivity, unemployment rates.
– Workforce talent levels of educational attainment, per capita education spending, quality and quantity of training programs and levels of industry participation, and collaboration with universities and community colleges.
– Digital connectivity internet access rates, computers in schools, numbers of broadband competitors, number of commercial internet domain names (".com").
– Innovation capacity government R & D investment, academic institutional research programs and numbers of graduate students, tech startups and spin offs, patents and commercialization rates, formal knowledge transfer channels and effective university industry linkages, job placement ands training programs for highly skills science and engineering graduates.
– Entrepreneurial culture venture capital for start-ups, accepted risk taking cultures, and management processes that encourage employee participation.
– Quality of life commuting times, cultural amenities, housing prices, schools.
– Regulatory methods, e-Gov practices, and regional collaboration on everything from marketing to regional planning of infrastructure and land use.
– Connectivity numbers of both intra and inter-regional networks of firms, universities, and public agencies; and by the presence of leadership which can, for example, act as lobbies for national funding and policy directions.
– Export focus volume and value in higher value added manufacturing and service industries.
– Foreign investment especially in higher paying knowledge industries and through Greenfield Investment in new establishments which leads to new employment.

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