

Section 4 -
Economic Development Issues
Strategic Planning Process

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for
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Issue Statement

The objective of this paper is to examine statewide policy-making and planning for economic development in North Carolina, and to recommend ways to improve policy-making and planning efforts to result in improved economic development performance.

This issue paper is one of four issue papers on economic development. For further information on the subject of economic development, see the issue papers on the Coordination and Organization of Economic Development, the Regional Offices of the Economic and Community Development Divisions of the Department of Commerce, and the Role of Special Purpose Nonprofits in Economic Development.

Background

Defining Economic Development

The term economic development connotes a wide variety of meanings. Some narrowly define economic development as job creation. Others employ a very broad definition encompassing all activities contributing to economic vitality including education, arts and cultural activities, and community assistance programs. One economic development researcher uses the following definition: "Economic development is far more than the process of attracting industry. It is an entire process of developing and maintaining suitable economic, social, and political environments in which balanced growth over a period of years may be realized." (Fulknier 1992).

For the purpose of this study, we define economic development as those activities conducted for the express purpose of increasing and maintaining the economic vitality of North Carolina. These activities include, but are not limited to:

- Industrial/business recruitment
- Business retention
- Facilitating business creation
- Small business assistance
- Job training and workforce preparedness programs
- Investments in infrastructure, both physical (roads, water, sewer, etc.) and technological (fiber optic networks and other information systems links)

North Carolina's Economic Development Status and Achievements

The State of North Carolina has received wide recognition for its economic development successes. For example:

Site Selection magazine ranks North Carolina first among all states in the number of new manufacturing plants attracted to the state in 1991, with 110 new plants. North Carolina also ranked second among all states in the number of new facilities and expansions in 1991, with 276 new facilities and expansions. *Site Selection* also lists the North Carolina Department of Economic and Community Development (Commerce) among its top ten recruitment and development groups for 1991.

Raleigh/Durham was listed among the top ten cities for business by *Fortune* magazine in November of 1992. Factors assessed to determine the rankings include international presence, skills of the labor force, manufacturing competitiveness, and attitude toward business. The city of Charlotte also received high marks in the rankings.

The Corporation for Enterprise Development, in its *1992 Development Report Card for the States*, assigns North Carolina an A in the categories of employment and financial resources. Employment grades are based on employment growth, unemployment rate, and unemployment duration. Financial resources grades are based on deposits, loans and loan ratios, venture capital investments, and other financial factors. Among seven southeastern states with whom North Carolina typically competes, North Carolina received the highest grade in economic performance with a B grade.

However, North Carolina also demonstrates some weaknesses in economic development. For example:

The Corporation for Enterprise Development's *1992 Development Report Card for the States* assigns North Carolina a D in business competitiveness, entrepreneurial energy, and human resources. Business competitiveness grades are based on trade sector strength, business closings, and manufacturing capital investment. Entrepreneurial energy is measured through an evaluation of new companies, new small business job growth, and minority and women business ownership. Human resource grades are based on rates of high school graduation, adult illiteracy, and degree attainment.

Several strategic plans related to economic development in North Carolina have been developed by various agencies. In 1985, The North Carolina Economic Development Board of the Department of Commerce published *North Carolina's Blueprint for Economic Development: A Strategic Business Plan for Quality Growth*. This plan was updated in 1989.

The Governor's Commission on Workforce Preparedness recently developed a draft strategic plan to guide workforce preparedness efforts in the state. The Rural Economic Development Center, a state-funded nonprofit agency, has also published a strategic plan.

Findings

Finding 1: North Carolina has an inadequate plan for statewide economic development.

While North Carolina demonstrates significant achievements in economic development, the State has an inadequate plan for statewide economic development.

The North Carolina General Statutes describe the state's policy regarding economic development as follows (G.S. 143B-428):

It is hereby declared to be the policy of the State of North Carolina to actively encourage the expansion of existing environmentally sound North Carolina Industry; to actively encourage the recruitment of environmentally sound national and international industry into North Carolina through industrial recruitment efforts and through effective advertising, with an emphasis on high-wage-paying industry; to promote the development of North Carolina's labor force to meet the State's growing industrial needs; to promote the development of our State ports; to promote the management of North Carolina's energy resources and the development of a State energy policy; and to assure throughout State Government the coordination of North Carolina's economic development efforts.

Upon examination, this statement does not embody a policy for economic development. Rather the statement lists a series of strategies, or approaches, to be taken to economic development without articulating the desired result or outcome of such strategies. The policy does not reflect any assessment of trends, needs, or characteristics of the state that the strategies are designed to respond to. Furthermore, the strategies listed are not comprehensive. There is no mention, for example, of facilitating new business creation or small business assistance, despite the fact that the state appropriates considerable funds to such efforts.

The Department of Commerce (Commerce) is considered to be the primary state agency responsible for carrying out this policy (Department Plans 1991). In fact, the first Commerce objective listed in the Department Plan is to "establish a comprehensive economic development planning process."

Commerce has taken steps to fulfill this objective. Commerce's Economic Development Board, a 25-member advisory board charged with advising the Secretary of Commerce on "the formulation of a program for the economic development of the State of North Carolina" (G.S. 143B-434), in 1985 published *North Carolina's Blueprint for Economic Development: A Strategic Business Plan for Quality Growth* (updated in 1989). The *Blueprint* lays out a

series of strategies and initiatives to be taken by the State, such as target industries to pursue in industrial recruitment efforts, methods for assisting small business development, and proposed changes in legislation and funding levels. However, the *Blueprint* falls short of serving as a useful policy and planning tool in several ways:

- It does not identify the roles and responsibilities of the many and diverse agencies involved in economic development
- It does not provide measurable objectives or performance indicators for assessing progress made in implementing policy
- Like the economic development policy statement in the General Statutes, the *Blueprint* provides approaches to follow; but not the vision, mission, or general goals they are intended to achieve
- It focuses primarily on Commerce, and provides little mention of or direction to the many other state, regional, and local agencies involved in economic development
- It was developed without the participation of the other agencies involved in economic development efforts. The participation in the planning process of those responsible for implementing a strategic plan is critical to successful implementation

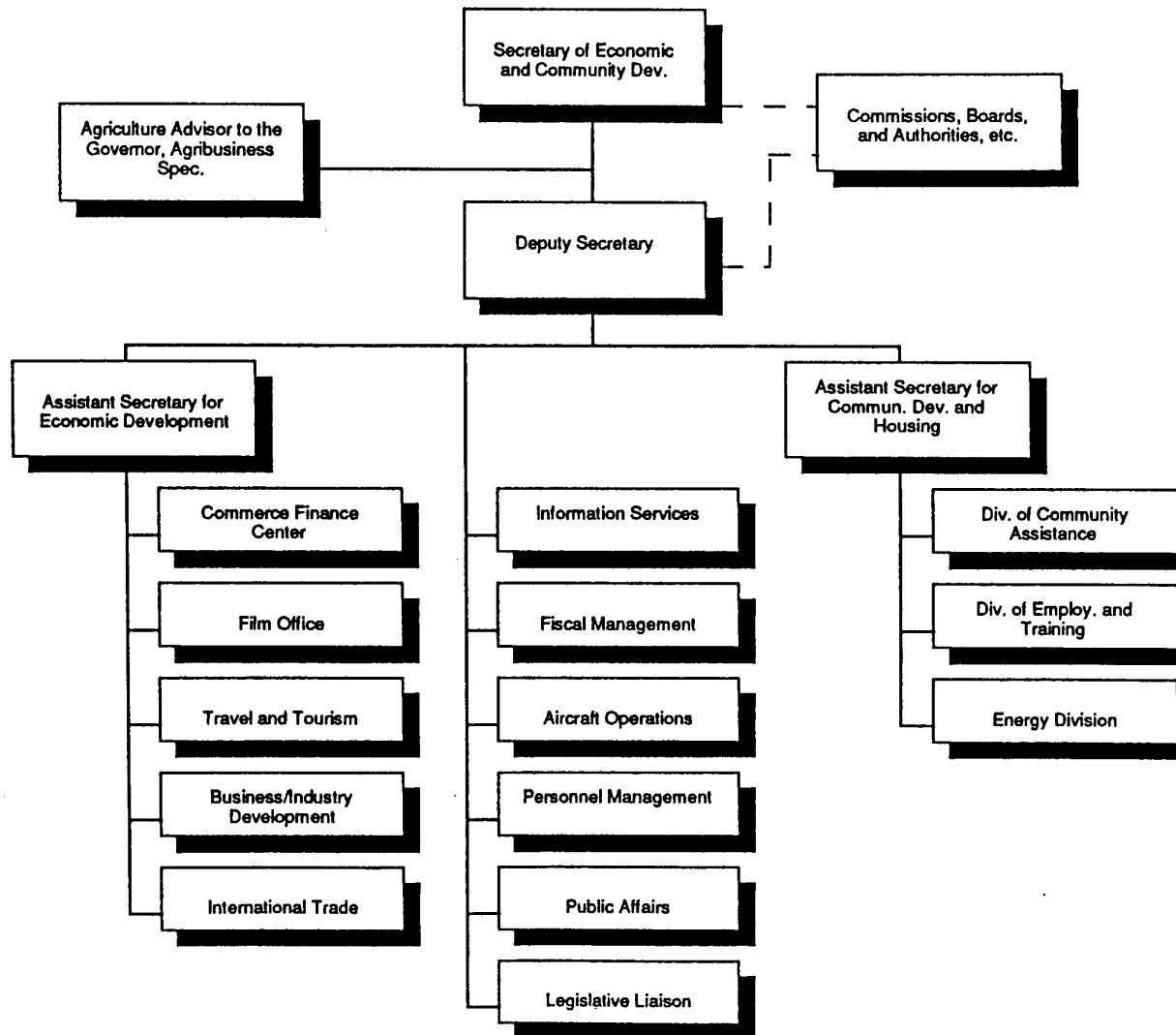
Without these elements, the *Blueprint* is limited in its ability to serve as a guidepost for the many agencies involved in carrying out the State's economic development efforts.

A brief analysis of the Commerce organization structure reveals a lack of emphasis on planning among the department's priorities. As illustrated in Exhibit 1, Commerce has no formal planning function within its organization structure.

Finding 2: North Carolina's key economic development players do not believe North Carolina has an adequate plan for statewide economic development.

The limitations of the efforts described above in providing an integrated and comprehensive plan for North Carolina's economic development efforts are dramatically illustrated by the results of a questionnaire administered to the 29 participants in focus groups held on October 28 and 29 in Raleigh to garner input from members of the business community, Commerce, and other state agencies and state-funded nonprofits involved in economic development. Focus group participants

Department of Commerce Development Organization Chart



were selected for their knowledge and experience in state economic development efforts. Their responses to the questions related to economic development policy-making and planning are illustrated in Exhibits 2 through 5.

These exhibits clearly illustrate that those involved in and affected by the State's economic development efforts:

- Do not believe that North Carolina has an integrated strategic plan for economic development (See Exhibit 2)
- Do not believe that any existing strategic plan for economic development is well understood by all constituents (See Exhibit 3)
- Do not believe that any existing strategic plan for economic development accurately addresses North Carolina's economic development needs (See Exhibit 4)
- Believe that Commerce should be the lead agency in developing a statewide strategic plan (See Exhibit 5)

Finding 3: Some economic development organizations in North Carolina have developed plans, but these plans do not represent an integrated approach.

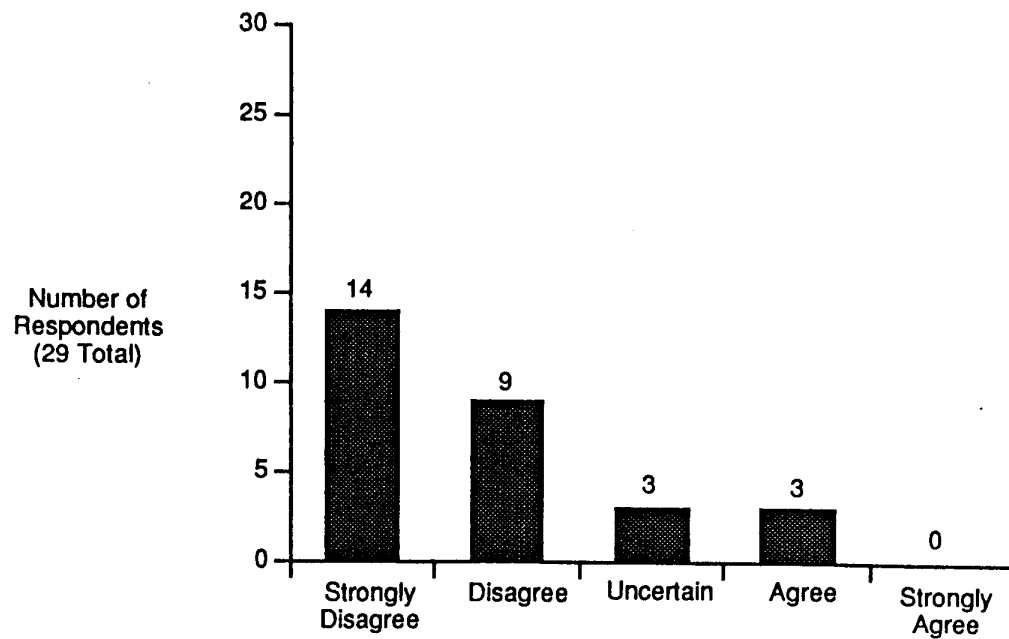
While there is a strong perception among key players in economic development that North Carolina lacks an integrated statewide plan for economic development, our research revealed several individual planning efforts among organizations involved in economic development. For example, the Rural Economic Development Center, a state-funded nonprofit agency, has published a strategic plan. The Governor's Commission on Workforce Preparedness has also developed a draft strategic plan to guide workforce preparedness efforts in the state. As a first step, the Commission developed a comprehensive inventory of the 48 workforce preparedness programs active statewide. While these planning efforts address certain aspects of economic development, they are not intended to and do not provide an integrated approach to statewide economic development.

In summary, North Carolina's economic development performance is the result of incremental strategies implemented over time in an ad hoc fashion. The absence of an integrated, comprehensive, and well articulated statewide plan for economic development creates several inefficiencies, including:

- Many agencies involved in economic development have little direction for the types of programs and priorities they should focus on
- General Assembly has limited guidelines for where most effectively to focus appropriations

Results of Economic Development Focus Group Questionnaire

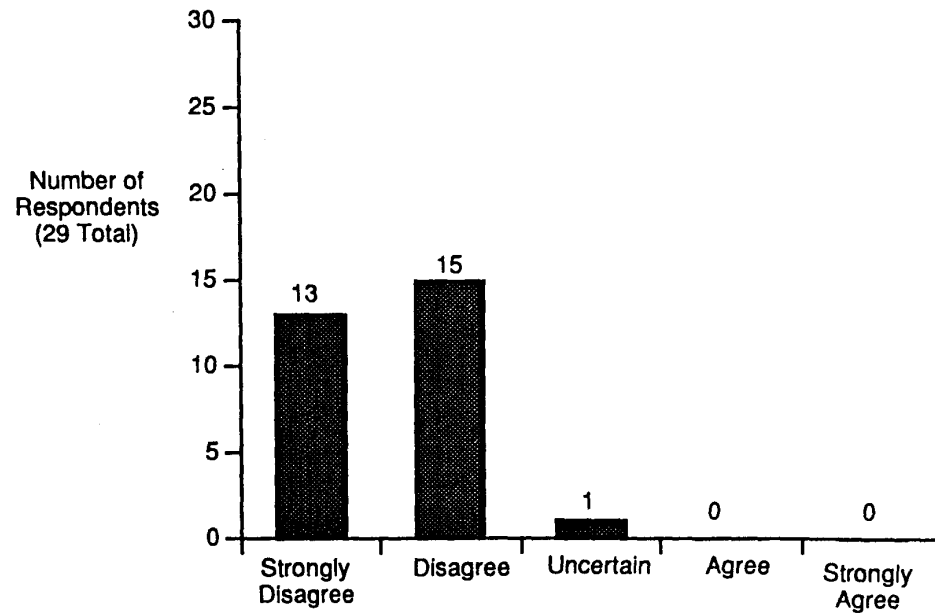
Focus group response to statement:
"North Carolina has an integrated strategic
plan for economic development."



Source: KPMG Peat Marwick questionnaire 10/28-10/29/92.

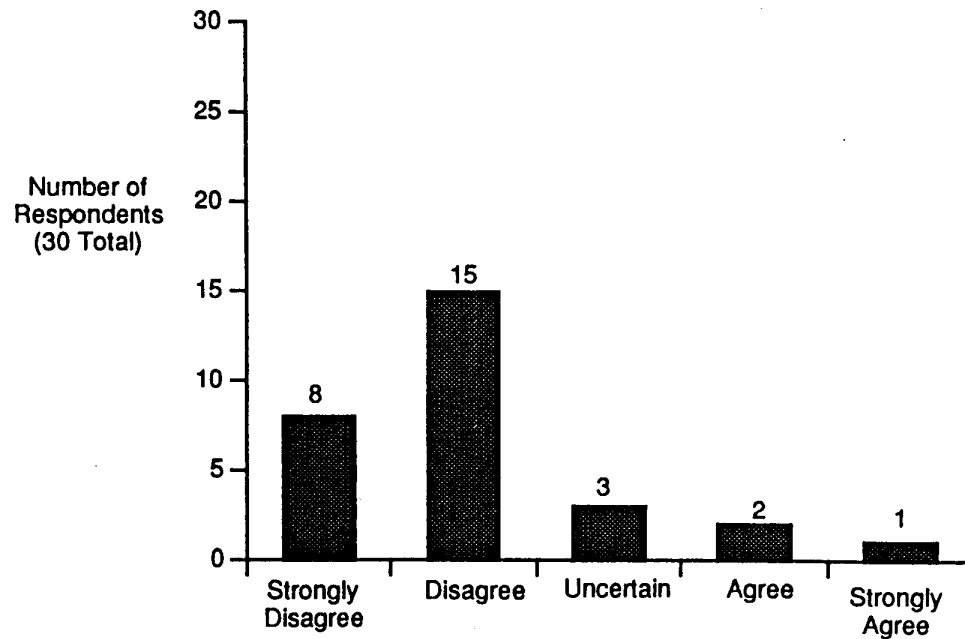
Results of Economic Development Focus Group Questionnaire

Focus group response to statement:
"The state's strategic plan for economic development
is well understood by all constituents."



Results of Economic Development Focus Group Questionnaire

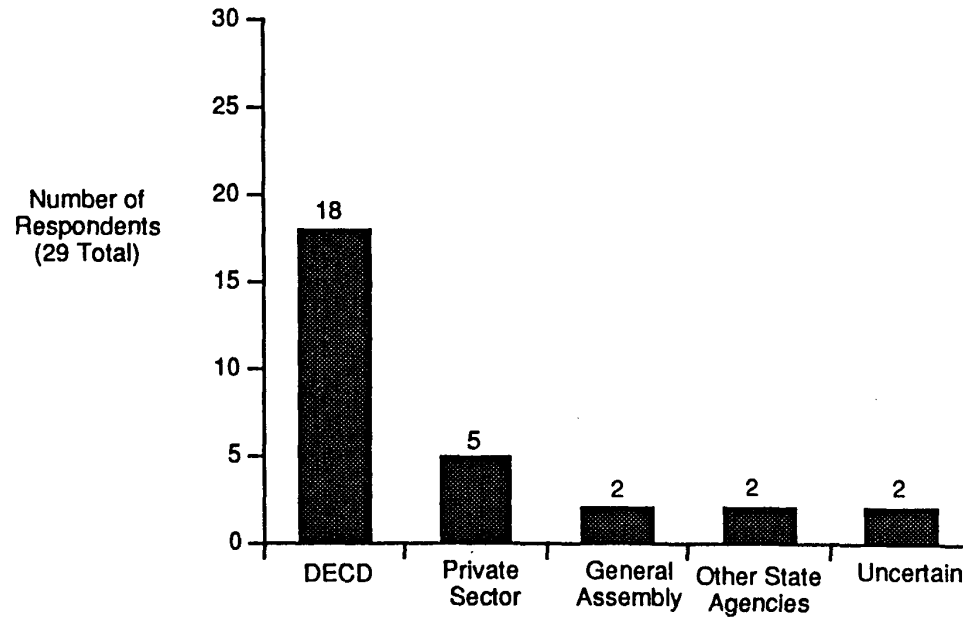
Focus group response to statement:
"The state of North Carolina's strategic plan for
economic development accurately addresses North
Carolina's economic development needs."



Source: KPMG Peat Marwick questionnaire 10/28-10/29/92.

Results of Economic Development Focus Group Questionnaire

Focus group response to statement:
"The lead for developing a state strategic plan for
economic development should be taken by:"



- There are no explicit performance indicators against which agencies' performance can be monitored
- There exists the very real possibility that various agencies involved in economic development may be conducting similar programs or serving at cross purposes with one another

Clearly, a more focused approach could yield even greater results.

Recommendations

We recommend that steps be taken to improve North Carolina's statewide economic development planning process. Specifically, our recommendations are as follows:

Recommendation 1: The State of North Carolina should establish an Economic Development Council to replace the current Economic Development Board.

While the current Economic Development Board acts only in an advisory capacity, the newly established Council would have the authority to recommend economic development policy to the Governor and General Assembly on such issues as:

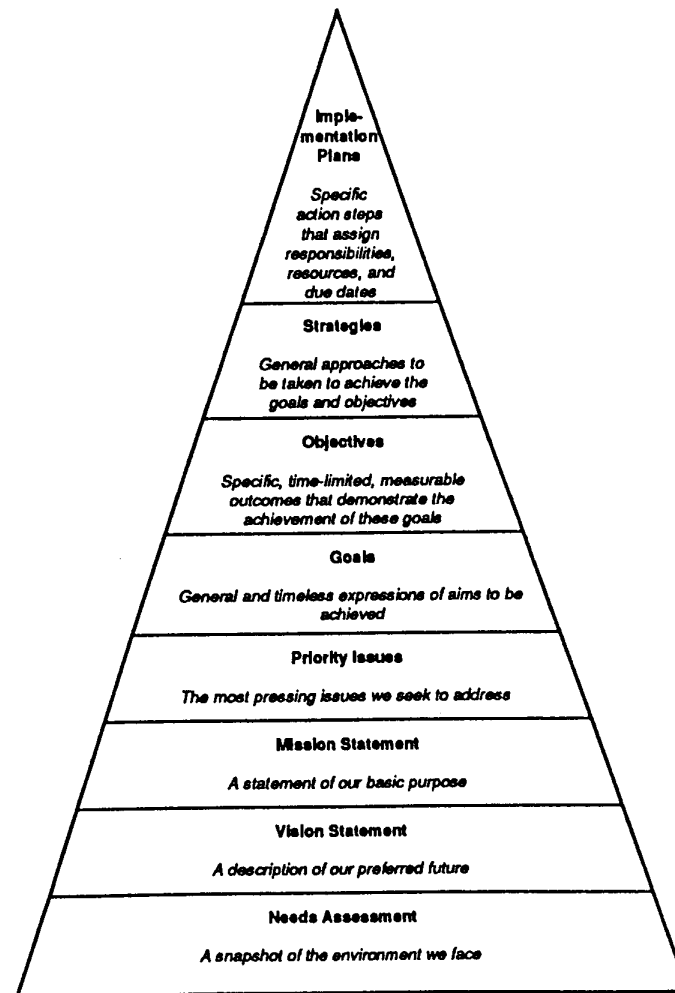
- Use of tax abatements and other incentives to motivate economic development
- The definition of those specific activities and programs that will be considered economic development for the purpose of receiving state appropriations
- The role of higher education in economic development
- The use of state funds to leverage private nonprofit economic development initiatives

The Council would also be responsible for economic development planning with staff support from Commerce.

The Economic Development Council should be comprised of the key economic development players in the State. The Council should be chaired by the governor representation from:

- The principal state agencies involved in economic development, including the Departments of Commerce and Agriculture
- The state higher education system, including the community colleges and the UNC system
- Various regional alliances established around the state by local governments that involve the private sector in economic development, such as the Carolinas Partnership and Partnership East

Strategic Plan Components



- Special purpose nonprofits established by the State to conduct economic development, such as the Rural Economic Development Center, the Biotechnology Center, and MCNC, as well as other nonprofits that receive substantial funding from the State for economic development, such as the North Carolina Institute of Minority Economic Development
- The Worker Training programs, to assure appropriate coordination between the State Development Strategies and Workforce Preparedness initiatives

Recommendation 2: The State of North Carolina's General Assembly should revise the general statutes to require specifically that a statewide plan for economic development be developed and updated on a regular basis.

The Department of Commerce should be required to coordinate the planning process. The strategic planning process should involve the following steps. The process described here follows the framework for strategic planning illustrated in Exhibit 6.

- Involve all key players in statewide economic development in the planning process. This would include the 39 programs and organizations identifying economic development among their global goals for budget purposes. The higher education system should play a key role in the planning process, since it constitutes a large portion of both total State economic development appropriations (35 percent) and State economic development expenditures (32 percent).
- Begin with a needs assessment that provides a baseline analysis of North Carolina's economic development strengths, weaknesses, opportunities, and challenges. The data gathered for this assessment provides a foundation on which to base planning decisions.
- Seeking broad input, develop a vision statement for economic development. The vision statement would describe the preferred future for North Carolina, or what North Carolina would be like if all economic development efforts succeeded. A mission statement could also be used to help communicate the basic purpose of North Carolina's economic development programs.
- Again seeking broad input and building consensus, identify the five to seven issues or problems that North Carolina must address regarding economic development. For each issue, identify specific goals for addressing the issue. For each issue, identify specific strategies, or approaches to achieving the goal.
- To assure that the plan's progress can be monitored, objectives should be set for each goal that allow measurement of progress toward the goal. Objectives should be quantifiable and time-specific in order to serve as performance indicators.

- Finally, establish an implementation plan assigning specific responsibilities for meeting the measurable objectives to the appropriate agency/key player. The implementation plan can thus serve as a means to monitor performance, guide appropriations, and evaluate the outcomes of the state's many economic development players.
- Establish a mechanism within the Department of Commerce for regularly updating the needs assessment, and the plan itself. The data in the assessment can help improve decision-making and policy-making by providing objective, accurate data on which to base decisions.

Because physical infrastructure including roads, water, and sewers is so integral to economic development, this plan should be closely coordinated with any state capital development planning efforts.

Recommendation 3: A small planning unit should be established in the Department of Commerce to support the Department's ongoing role in planning.

The planning unit should be established within the administrative services division of the Department to serve both the divisions of economic development and the divisions of community development. Two professional staff should be sufficient to coordinate the planning process, monitor and update the plan, and collect and analyze the data necessary for planning. Recognizing the strong interrelationship between economic and community development, the planning effort should address both economic and community development issues and involve both these groups within the Department. The two professionals required to staff this unit should be taken from current Department personnel, resulting in no additional cost to the Department.

Implications

The implementation of these recommendations would significantly improve North Carolina's already successful economic development efforts by providing:

- The many agencies involved in economic development with direction for the types of programs and priorities they should focus on
- The General Assembly with guidelines for where most effectively to focus appropriations
- The agencies and the General Assembly with performance indicators against which to monitor agencies' performance, and reappropriate funds accordingly
- Assurance that various agencies involved in economic development are not

conducting similar programs or serving at cross purposes with one another

Implication of these recommendations would also reinforce and support the performance-based budgeting approach recommended by other Government Performance Audit Committee studies by clearly defining those activities eligible for state economic development appropriations.

The costs of implementing these recommendations are small relative to the significant investment the State makes in economic development. According to our independent analysis of state appropriations to economic development, based on data provided by the State Budget Office, the State spends about \$80 million a year on appropriations for economic development (excluding the Agricultural Extension Service of the UNC System, based on FY 1992). These findings are consistent with those of the State Auditor's 1990 Report on Small Business Assistance, which estimated that state appropriations for economic development, including approximately \$60 million for the Agricultural Extension Service, totaled about \$137 million in FY 1989.

The capacity and resources necessary for the establishment and implementation of the planning process outlined in our recommendations already exist within state government. We estimate that implementation of our recommendations would cost the State approximately \$300,000 annually in staff time. This cost can be covered with saving realized by streamlining commerce as recommended in related issue papers. Relative to the \$80 million invested annually in economic development, this is a very low investment of already existing resources that could yield significant returns. By providing greater focus to economic development, the recommendations should significantly enhance state revenues through increases to the tax base.

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