

The New Economic Development Playbook

By Christian S. Johansson

FOCUS ON TALENT, HIGH GROWTH COMPANIES & COMPETITIVE ADVANTAGES

Job creation is the top priority in our nation today. This article lays out a plan to grow jobs by attracting and retaining talented workers; targeting resources on high impact, fast growing companies; and developing an economic development plan around core advantages and assets.

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THE ECONOMIC DEVELOPMENT RESEARCH PARTNERS (EDRP) PROGRAM

DESIGNATED FOR INNOVATIVE LEADERS IN THE ECONOMIC DEVELOPMENT COMMUNITY

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Economic Development Research Partners Program membership opens doors to concepts and schemes that assist economic development professionals in operating at a higher level.

AIMS OF THE EDRP Through the EDRP Program, IEDC is taking its mission to a new level, assisting practitioners to successfully compete in the global economy and increase prosperity for communities at an accelerated pace, empowering ED professionals to better define their vision and voice.

METHODS AND BENEFITS OF THE EDRP PROGRAM The Partners meet 4 times a year, sometimes with experts in the field, to coordinate activities and focus agendas on pertinent and practical issues. This innovative program provides an incredible opportunity to strengthen the communities in which we operate and the profession as a whole.

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the new economic

DEVELOPMENT PLAYBOOK

By Christian S. Johansson

SEARCHING FOR ANSWERS TO AN ECONOMIC DEVELOPMENT RIDDLE

At the beginning of 1939 with the world on the precipice of war, Winston Churchill famously said, “I cannot forecast to you the action of Russia. It is a riddle, wrapped in a mystery, inside an enigma.” What Churchill, nor anyone else at the time could have foreseen were the years of war, suffering, and record economic growth that followed, as well as the role that Russia would inevitably play in changing the course of U.S., and our world’s, history.

Today, more than 70 years later, our world faces a different kind of enigma, but one that is equally challenging to forecast – a global economic struggle that is dramatically redefining our collective prosperities as countries, as companies, and as citizens. While we cannot predict with certainty when or how we will emerge from the economic malaise, I believe there are several axioms we can employ that will help our nation prepare for better days ahead.

- First, talent drives innovation, which then drives economic growth. The single most important economic performance “input” is a smart and talented workforce.
- Second, successful “organic gardening” is the most significant contributor to sustained economic growth. Moreover, small businesses have historically been the key drivers of the vast majority of job creation and investment.
- Third, the speed of globalization is rapidly forcing the need for specialization and a focus on core regional competitive advantages.



The BioMaryland Pavilion at the BIO 2011 International Conference in Washington, D.C.

FOLLOWING A NEW ECONOMIC DEVELOPMENT PLAYBOOK

Recognizing what successfully drives economic growth fundamentally changes the approach that economic developers use to build place-based economies. Observing and quantifying them allows us to shape policies and best practices that position our states’ and our country’s economies for success today and tomorrow.

After three years as Maryland’s chief “jobs” executive, I believe the most important role an economic development agency can play is as convener, coordinator, and collaborator. Having run a number of start-up companies and worked in strategic consulting and regional development prior to government, the strategies put forth in this article originate from proven practices of venture-backed entrepreneurs more so than those traditionally practiced by economic development organiza-

Christian Johansson was appointed Maryland’s secretary for business and economic development in 2009. Before joining the agency, he served for six years as CEO of the Economic Alliance of Greater Baltimore. An entrepreneur and management consultant, he also served on President Obama’s transition team. (Cjohansson@choosemaryland.org)

FOCUS ON TALENT, HIGH GROWTH COMPANIES & COMPETITIVE ADVANTAGES

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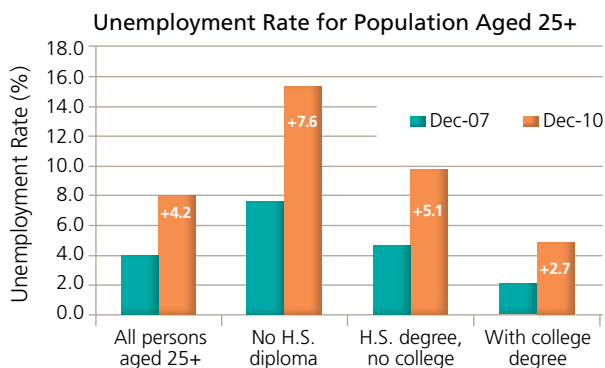
tions or officials. A three-pronged strategy focused on talent, high-growth companies, and core competitive advantages is what I call “The *new* Economic Development Playbook.”

1. MAKE ATTRACTING, DEVELOPING, AND RETAINING TALENTED PEOPLE IN YOUR COMMUNITIES YOUR TOP ECONOMIC DEVELOPMENT PRIORITY

Investing in education is one of the single most effective ways to lower long-term unemployment, retain companies, and attract new ones. Surveys of corporate executives consistently find that a strong workforce and talent are major factors in site selection. From 2007-2010 (see Chart 1), the gap between education levels and unemployment rates has widened even further.

CHART 1
Unemployment Rates by Education Level

Widening Gap Between Education Level and Unemployment Since Recession Began



Source: Bureau of Labor Statistics, Current Population Survey

At the same time, higher education affordability is becoming an issue for many students. Over the past five years, while states’ support for higher education has increased an average of 8 percent, tuitions have gone up nearly 50 percent. This trend looks likely to accelerate as, according to the National Conference of State Legislatures, at least half of the states cut funding for higher education in their 2011 legislative sessions.

In Maryland, we continue to make public education investments a state budget priority. As a result, *Education Week* named our public schools the nation’s best three years in a row. Maryland also tackled the high cost of getting a college degree by freezing tuition at our state colleges and universities four years running. Bearing in mind that not everyone will go to college, states need to have an aggressive plan to focus resources on developing middle skills. With many of today’s jobs requiring more than a high school diploma – but less than a bachelor’s degree – we launched *Skills2Compete* to increase Maryland’s skilled workforce 20 percent by 2012. We are working with employers to align degree programs



Students gather on the campus at Salisbury University.

to market demand and translate those requirements through our Workforce Investment Boards.

In the end, it is not only about developing talent, it is important to recruit and retain talent. To build successful innovation hubs, states must become attractive destinations for global talent. After all, top talent is infinitely more mobile than companies. Like many states with an extensive network of universities, Maryland exports talent as graduating students pursue opportunities in other states rather than retaining the talent that can generate new entrepreneurial ventures and innovations. Aggressive campaigns to integrate student populations into local communities can have a meaningful impact in retaining them post-graduation. For example, Baltimore’s Collegetown Network was founded in 1999 and over the last decade has been successful in increasing the retention rate of students from 19 percent in 2003 to 31.5 percent in 2009.

The flip side of retaining talent is creating relevant marketing campaigns to attract new talent into the state. In a global economy, we need to increasingly market to global talent. *Contact Singapore* and *I Am Young Detroit* are two current campaigns designed to attract global talent to work, invest, and live in Singapore and Detroit respectively. A key component of Detroit’s revitalization involves attracting talent from across the nation. As part of this effort, the Wayne State’s Detroit Fellows Program will recruit and develop up to 25 outstanding mid-level candidates in the nonprofit and economic development spheres to relocate to Detroit for two years of grant-funded professional work. Also contributing to the strategy

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is *I Am Young Detroit*, a blog that profiles the city's young up-and-comers and growing entrepreneurial ecosystem.

At my agency, we launched the *MaryLand of Opportunity* campaign in January 2010 to profile successful, smart, and savvy entrepreneurs based here. Their base may be Maryland – but their markets are world-wide. Today, the award-winning campaign has been viewed by millions and is helping to educate, inspire, and build confidence within Maryland's business community.



The *MaryLand of Opportunity* Campaign featuring Chesapeake Candle founder Mei Xu.

2. FOCUS RESOURCES ON HIGH-IMPACT, IN-STATE COMPANIES FOR GREATEST JOB GROWTH & BUSINESS CREATION POTENTIAL

With recent studies shedding new light on prior assumptions about the source of job gains, we learn that a state's economic performance is driven by how successful it is in building world-class businesses inside its borders, not in importing businesses from elsewhere. Particularly in mature economies, almost all job growth is organic, due to the expansion of existing firms and the birth of new firms. A 2010 study by the Public Policy Institute of California, "Business Relocation and Homegrown Jobs, 1992-2006" found that job relocations at the state level accounted for 1.9 percent of job gains.

Moreover, a small number of firms in every jurisdiction are outsized contributors to economic growth and job creation (see Chart 2). Studies vary in their findings about the size and the age of these businesses. Nevertheless there is clear evidence that successful startups are an important source of jobs. For example, research by the Kauffman Foundation shows that young businesses generate a disproportionate share of new jobs. The U.S. Small Business Administration and others show that it is high-impact "gazelles" that account for the largest share of job growth. Google and Facebook are well-known as outsized



The *I Am Young Detroit* campaign, which profiles Young Detroiters who are making their mark on the city of Detroit through their accomplishments and service to the community.

contributors to job growth, while in Maryland, industry leaders like Under Armour and Sourcefire are playing a similar role, adding jobs at a rate of 30 percent a year.

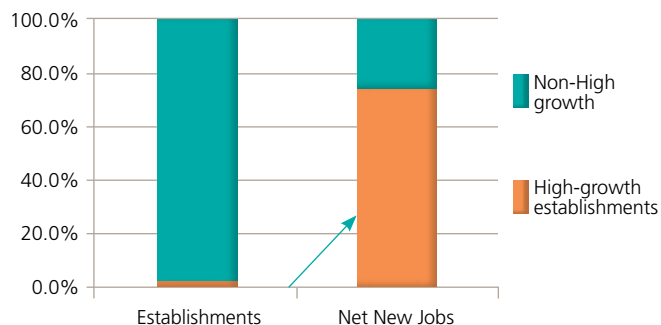
Making the Case with Targeted Data & Information

Economic development professionals need targeted strategies to help propel these high-growth firms further, faster. The challenge is that high growth firms are less likely to proactively seek assistance and in many cases have had little interaction with state or local government. States need to develop protocols to identify these rapidly growing firms, proactively develop relationships with their leadership, and provide targeted resources to help them manage expedited growth. States also need better data to target high growth firms.

The Kauffman and Edward Lowe foundations have conducted important research in this arena to help build support for tools that track outsized contributors. We need the continued involvement and thought leadership

CHART 2 Outsized Contributors to the Economy

Less Than 1% of Establishments Responsible for 74% of Net New Jobs



Source: Outlier LLC for Team Pennsylvania Foundation

of these organizations together with state-based labor departments to identify the most promising companies.

Pennsylvania is one state examining the potential of targeting high growth companies. A recent study by Dr. Gary Kunkle for the Team Pennsylvania Foundation shows that less than one percent of a state's companies have the potential to generate more than 70 percent of new jobs annually. Through this research, Dr. Kunkle identified the state's fastest growing companies from 2004 to 2009. The Pittsburgh Impact Initiative has implemented an economic development strategy using this data which identified 150 high growth companies in a 10-county region. The Pittsburgh Initiative will help those companies with market research, permitting assistance, and other services.

Building an Entrepreneurial Infrastructure

Another key tenet to building a better organic growth engine is developing the entrepreneurial infrastructure to generate a more vibrant pipeline of new companies. In 2010, the Kauffman Foundation released *The Importance of Startups in Job Creation and Destruction*, which concluded that virtually all net job creation in the United States between 1977 and 2005 was driven by startups. The key to a successful entrepreneurial infrastructure is not only the creation of startups, but the nurturing of them as well. Only one in 20 entrepreneurial firms is high growth in terms of adding jobs, but firms that survive the first few years spur jobs and often create innovative goods, services, and processes, according to a 2008 U.S. Small Business Administration study.

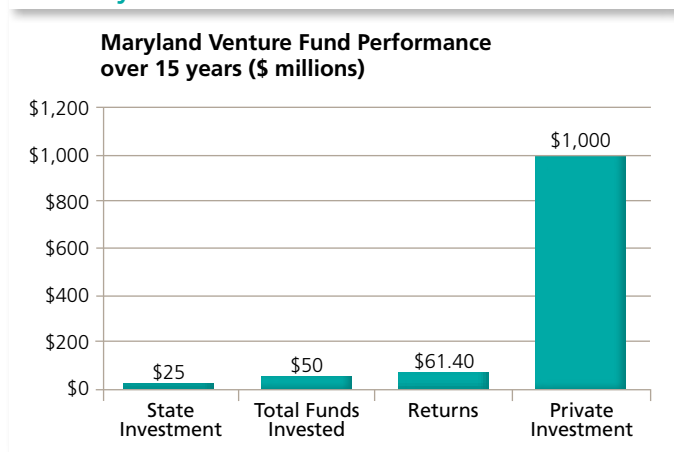
In Maryland, we face a unique challenge as well as an opportunity in that we are the top state for federal sponsored research, rank 2nd in the Milken Institute's State Technology and Science Index, and 3rd in Kauffman's State New Economy Index, but lag behind to 42nd in business starts. This delta between funding and business start-ups is driving us to strategically invest in the 'entrepreneurial infrastructure' to narrow the gap between R&D and commercialization.

To close the gap, Maryland is implementing a program called *InvestMaryland*, which will infuse a minimum of \$70 million through venture capital investments into promising early stage companies. The program emerged from the tremendous success of our state-backed venture fund. Launched in 1994, the Maryland Venture Fund invested \$25 million and returned \$61 million, which

resulted in the creation of 2,000 jobs and more than a billion in private funding invested into the companies we helped to seed (see Chart 3).

The goal of *InvestMaryland* is to not only create jobs and attract billions in follow on capital, but also to support organic growth and commercialize some of the innovative research being conducted at our universities and private companies and move it into the marketplace. The program is structured as a public-private partnership with two-thirds of the funds raised to be invested by private venture capital firms and one-third by the Maryland Venture Fund.

CHART 3
Maryland Venture Fund Investments



Source: Maryland Department of Business and Economic Development

SUPPORTING HIGH PERFORMING GAZELLES

Under Armour Founded in 1996 by University of Maryland football player Kevin Plank, the company created a line of moisture-wicking athletic apparel. Launched in Plank's mother's basement, the company now employs 4,000 employees world-wide and 1,000 at its Baltimore headquarters – and generated revenues over \$1 billion in 2010. Since 2003, Maryland has provided \$18 million in tax credits and training funds to help the company expand and upgrade the skills of employees.



A bridge that spans over Under Armour's south Baltimore campus.

Sourcefire, located in Columbia, was founded in 2001 by Martin Roesch, author of open source Snort®, the world's most downloaded intrusion detection and prevention technology with over 3.7 million downloads to date. Sourcefire grew from a venture-backed startup and went public in 2007. Maryland was an early investor in Sourcefire through our state-backed Maryland Venture Fund. The company is consistently recognized as a world leader in network security, protecting thousands of commercial customers. The company's real-time adaptive solutions and open source technologies are deployed in every military branch, more than 50 percent of the Fortune 500 companies, and in the largest civilian government agencies. Sourcefire's federal business almost tripled from \$6.2 million in 2007 to \$15.8 million in 2008.

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3. DEVELOP BUSINESS PLANS AROUND COMPETITIVE ADVANTAGES & ASSETS

Global markets are changing the very fabric of how business is done. Along with the opportunity to attract billions of customers for American companies, we are at the same time faced with the parallel threat of an increase in global competition. With high speed broadband dramatically improving infrastructure to manufacture and deliver goods to market, and rising skills, China and other developing nations are fundamentally changing the concept of a modern day supply chain. This new interconnectivity of markets and the speed of globalization require a renewed effort on core competitive advantages. Cities, regions, states, and countries need to prioritize investments that build on strengths and, equally important, have a plan to market those competencies nationally and internationally.

Investing in Maryland's Core Advantages: Cyber, Space & Life Science

In Maryland, we have laid out a plan around our core advantages – focusing on being world leaders in life sciences, cybersecurity, and space/aerospace. In each area, we assessed our assets and developed detailed plans to move forward. Key to each one of these strategies is creating a pipeline of talented workers, promoting commercialization and innovation, and making the necessary investment in infrastructure.

Home to flagship federal institutions such as the National Institutes of Health, the Food and Drug Administration, and National Institutes of Standards and Technology, along with premier research institution and top NIH recipient Johns Hopkins, it is no surprise that between

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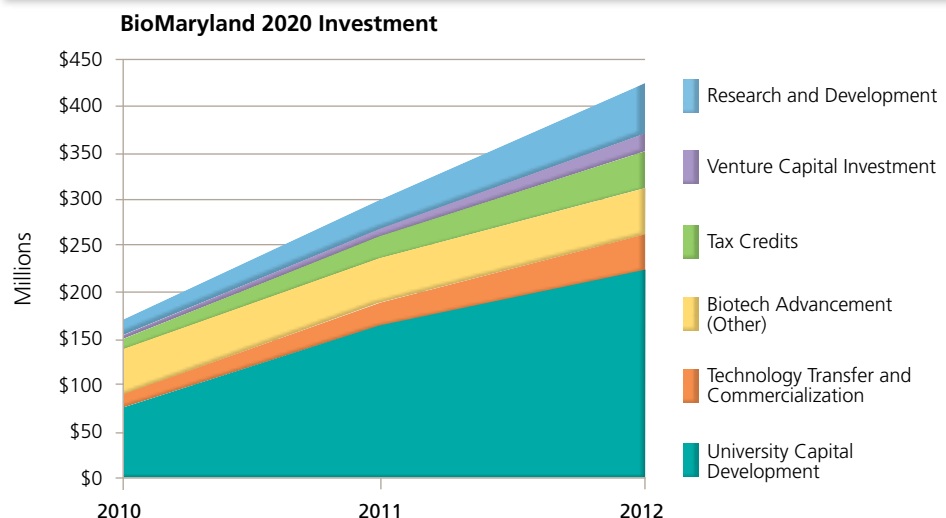


Maryland Governor Martin O'Malley at Lockheed Martin's Next Generation Center.

2002 and 2010, one third of all net new jobs in Maryland were created in the life sciences. Coupled with 500+ biotech firms, representing the 5th largest concentration of life sciences establishments in the US, there was a compelling case to have the state significantly invest in this industry.

In 2009, Governor O'Malley proposed a record \$1.3 billion, 10-year investment, to propel the life science sector even further, faster. As of July 2011, we have invested well over \$300 million in areas such as strategic research like stem cells, provided grants and tax incentives to commercialize and develop biotech companies, and committed dollars to key infrastructure such as bioparks and incubation space next to our flagship universities. Our end objective is to position Maryland to be a leading global region for the discovery and commercialization of life sciences products and services (see Chart 4).

CHART 4
Investments in Maryland's Life Sciences Industry 2010-2012



Source: Maryland Biotechnology Center

WINNING THE RACE FOR TALENT & CAPITAL

Much of the last century was defined by ideological struggle whether between fascism or the cold war that Churchill comments seemed to foreshadow in 1939. The 21st century appears to be much more defined by global markets fueled by **unconstrained movements of capital and talent**. This new world is full of challenges and uncertainty. Although it is impossible to predict tomorrow's economic success story, we identify key trends and as a result make impactful policy decisions.

As economic development professionals, we need to realize that policy steps ahead require us to think beyond the realms of our own agencies and build a broader coalition of state and local government to move our economies forward. Our profession is already evolving from simply being driven by attraction and retention of business to a more ex-

pansive view. More than ever before, this will require us to serve as conveners, facilitators, and cheerleaders of diverse interests that all play critical roles in propelling our economies forward.

The *new* Economic Development Playbook key tenets-whether it is attracting global talent, building support for entrepreneurship, or making priority investments in a state's most competitive industries - hold amazing promise for states willing to embrace change. In the end, the lion's share of benefits will be bestowed on those communities that are willing to lead and win the race for talent and capital. 🌐

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