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Shifting Value Propositions

By Tim Chase, CEcD, FM

THE NEXT GENERATION OF ECONOMIC DEVELOPMENT

Ever wonder how you will find the time to read and understand all the information being written about the next generation of economic development? This article researched a combination of ideas, concepts, and writings from leading economic development practitioners, reports published by IEDC's Economic Development Research Partners, and the author's nearly 30 years in the business. It looks at the traditional value proposition, summarizes current events to explain what has changed and hypothesizes a value proposition for the next generation of economic development. The outcome is a very concise story that effectively makes the case for why the next generation of economic development is upon us.

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No issue is more important to any profession than the value it delivers to its stakeholders, or those it serves. Because of the intensity and speed of change in the world today, this is an opportune time to explore an updated value proposition for economic development.

This article presents a set of ideas about the next generation of economic development. It looks at the profession's current value proposition, summarizes current events to explain what has changed, and describes a potential new value proposition for the next generation of economic development. This article draws upon ideas and concepts from economic development practitioners, reports published by IEDC's Economic Development Research Partners (EDRP), and the author's nearly 30 years in economic development.

Step one in this undertaking is to identify the categories and topics which appear to be leading the conversation by virtue of the amount of content being created. It appears there are six categories which are getting the most attention. They are: economic development organizations (EDOs), boosting relevance, workforce development, aging infrastructure, the use of incentives, and wealth inequality. This is not to say that other topics don't rank equally high in importance. In the interest of brevity, and to narrow focus, this article explores the three topics which the author believes are in the most urgent need of changing.

No issue is more important to any profession than the value it delivers to its stakeholders, or those it serves. Because of the intensity and speed of change in the world today, this is an opportune time to explore an updated value proposition for economic development.

Organizations and Individuals – Primarily encompassing local economic development organizations or EDOs, all types of organizations are evolving in new directions. Collaborating with businesses and institutions to help them add value requires adding alignment to your partnerships. This shift can only be accomplished when individuals are willing to lead the way by humbling themselves and admitting "We can do a better job."

Boosting Relevance – Relevance is the currency of the next generation of economic development and boosting the profession's relevance requires EDOs to measure both quantitative and qualitative metrics. Adding quality metrics to an EDO will help measure and document significant directional shifts for stakeholders and thereby boost the profession's relevance.

Incentives – No longer inducements to action by companies, incentives are now prerequisite-entitlements which are increasingly coming under heavy fire from multiple directions. Shifting the way we use incentives can make great strides in fixing the wealth inequity.

The entire results of this article are summarized in the Value Propositions for the Next Generation of Economic Development chart. The chart shows the three categories followed by key words describing: traditional value propositions, current events that have led to the need for systemic change, and a set of new values for how the next generation of economic development will unfold. Use this chart as a reference to begin new discussions and generate more scholarly work.

Tim Chase, CEcD, FM, is president & CEO of the Hutto Economic Development Corporation in Hutto, TX, part of the greater Austin, TX MSA. He is the practice leader for Quality Metrics. TimChaseCEcD@gmail.com

He has authored several articles about ways economic developers must add more value and co-chaired the metrics project published by IEDC's Economic Development Research Partners, which is discussed in this article.

Mr. Chase is a former Dean of the University of Oklahoma's Economic Development Institute and has taught for two decades. He received his Fellow Member designation, one of only 92 active IEDC members, for his passion in teaching and writing about the economic development profession.

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Value Propositions for the Next Generation of Economic Development			
Trending Now	**Traditional Value Proposition**	**Current Events**	**NexGen Value Proposition**
Organizations and Individuals	Silos of power, wealth and information hoarding, allow a small group of knowledgeable leaders to centralize power. Practitioners are change agents, leaders of leaders, and typically mobile.	Lackluster results, a lawsuit over open records, and increased engagement by public and private officials demand transparency. Competition for funding and managing emerging economies makes job much harder.	Adding system-building for businesses, communities & institutions to increase value. Must move from partnerships to action alignments with more leadership engagement and mutually allocated resources.
Boosting Relevance	The "Big Four" metrics of jobs announced, capital investment, tax base, and growing personal earnings have satisfied stakeholders for 50 years.	Stakeholders need more data to continue funding and support. Demand for transparency and accountability as the method for boosting relevance.	Adding quality metrics to transactions and improving routine reporting using a credible third party. Stakeholders must choose metrics deemed most valuable.
Incentives	Use incentives to improve corporate profits, reduce operating costs, increase stock value, in return for measurable growth in the local economy. But for incentives the deal will fail.	Raging national debate over the concept of picking winners and losers, corporate welfare, capital cronyism, all with dwindling government resources and the expectation of entitlement.	Invest in people, increase wages, upward mobility and deliver meaningful results. Invest to rebuild infrastructure and link to BR&E and entrepreneurship. Must eliminate wage thresholds.

ORGANIZATIONS AND INDIVIDUALS

Traditional Value Proposition –

EDOs have enjoyed an existence outside the normal government scrutiny because of the perceived need for secrecy about projects. Over long periods, this autonomy has led to silos of independent decisions, research, and the creative use of public funding for incentives. EDOs and their volunteer leadership often operate in a Command and Control environment whereby a small group of leaders possess the most information and make strategic decisions for the greater good. Therefore, motivated by respect for a company's need for confidentiality, information hoarding is commonplace in EDOs' operations.

Current Events –

- Clarion Call for Transparency

The standard operating procedure of secrecy is being challenged by elected officials, municipal staff and citizens. In February, 2016 a seven-year-old lawsuit in Florida was settled between the Citizens for Sunshine and the EDC of Sarasota County and the Sarasota County government. The EDC and County lost the suit, having to pay large fines and agreeing to open all records. An informal poll in June, 2016 at a Texas Economic Development Council conference asked "In the last four years, has engagement by municipal officials, elected and staff, increased, decreased or remained the same?" Overwhelmingly the answer was increased.

- Competing for Funding

During and after the Great Recession, EDOs funded by private investments found themselves competing with other non-profits for funding. Investors have been forced to fund organizations that promise to avert catastrophes rather than EDOs that promise a brighter economic future. When combined with fewer corporate resources and lackluster economic results, EDOs must find new ways to generate operating income. This brings EDOs into the realm of "survival of the most relevant," which is an unfamiliar playing field.

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- Managing Emerging Economies

Adding to the complexity is the fact that there are three different economies mixed together for the first time in our history.

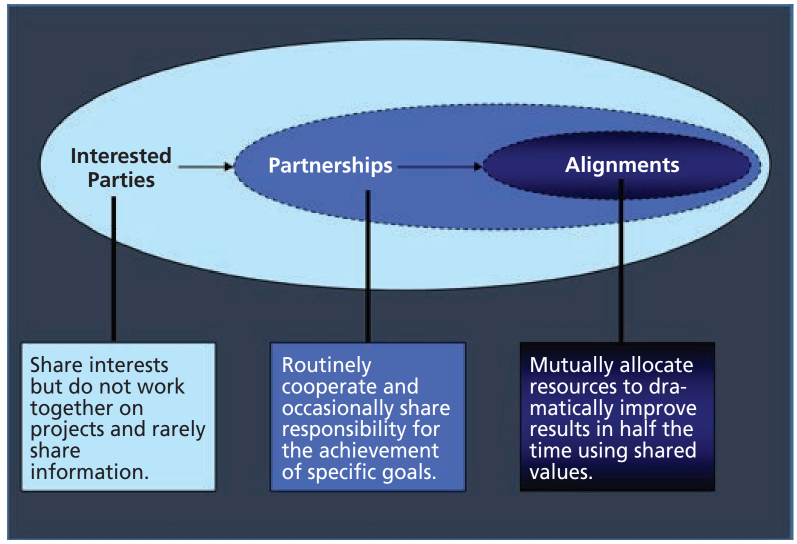
1. First, the last stages of the Industrial Age are based on hierarchies, economies of scale, mechanization, and predictability. Touch labor is giving way to robots in the Advanced Manufacturing model.
2. Second, the Knowledge Economy is based on converting large amounts of data into information which reveals new knowledge and using it to produce greater wisdom. The culmination of the Knowledge Economy is imparting human knowledge into machines, termed Artificial Intelligence

(AI) such as IBM's Watson and Hewlett Packard's The Machine.

3. Third, as the Knowledge Economy matures, developed nations will transition to the next economy. However, there is a pronounced uncertainty about what the next economy will be. The following is a short list of possibilities:
   - **Creative Molecular Economy (CME)** in which biological principles will form the framework for how the CME will be organized and operate. Rick Smyers, president of the Center for Communities of the Future, says the CME working definition is *"An economy based on the integration of emerging technologies, with creative individuals, small groups and companies organized in interlocking networks, connecting and disconnecting constantly in processes of continuous innovation and transformation."*
   - **Sharing Economy a.k.a Access Economy –** Instantaneous connectivity allows us to share virtually any tangible product and a multitude of services. Uber, Airbnb, and Zipcar are examples of the shared economy.
   - **Bioeconomy –** With a biobased economy, carbon products are replaced with substances such as (syn)gas, sugars, oil, fibers, and other products which are converted to energy, chemical products, (animal) food, and biomaterials. Recent examples of this shift nationally and globally are: in July, 2016 the USDA began funding advanced biofuels, renewable chemicals and biobased products as a way to boost the economy in rural America. In September, 2015 the United Nations approved 17 Sustainable Development Goals (SDG) as part of a new global sustainable development agenda.
   - **The Internet of Things –** Anything with an on/off switch is included in this economy. According to SAP, a market leader in enterprise application software, the number of connected devices is set to exceed 50 billion by 2020, generating $8.1B annually. Think smart grid, autonomous cars and drone deliveries.

The phrase "Transparency in government" entered our vocabulary in about 2000 with regard to EDOs. Addressing this new environment requires creative ways to inform without jeopardizing confidentiality requests. EDOs must boost transparency of transactions, accountability of incentives and visibility of operational budgets. To ignore this shift leads to questions of credibility and ultimately skepticism about our competitiveness. This is the foundational reason why EDOs must discover additional ways of boosting relevance before they can move to the next generation.

ADDING ALIGNMENT TO PARTNERSHIPS



   - **Nanotechnology –** In October, the federal government released the 2016 National Nanotechnology Initiative Strategic Plan designed to move from a fundamental research area to an enabling technology that can lead to new materials, devices, and systems that will profoundly impact our quality of life, economy, and national security. In this economy instead of designing and manufacturing tangible products, everything we need will be genetically patterned and we will simply grow the fenders for our next car. Witness the U.S. market value of products using nanotechnology is estimated to be $1 trillion or 5 percent of the GDP by 2020.

This current situation forces economic developers to have one foot in all three emerging economies which means our job has gotten three times harder.

NextGen Value Proposition –

- Transparency and Accountability

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- Adding Collaborative Systems to Traditional Transaction-based Economic Development

In 2004 Don Iannone, president of Donald T. Iannone & Associates, began espousing a shift from transactions to systems. However, it can't be an either or, black or white effort. Rather, it will require adding a second and equally important mission, that of deliberate system-

Quantitative measures use factual data collection from indisputably credible sources. Qualitative measures use perception, personal preferences, and broad opinions to shape reality. Both forms of measuring are recognized as necessary but until the Great Recession, economic developers were not forced to explore both.

building involving true action-oriented alliances with collaborative partners. Adding alignment to partnerships will improve results faster. The chart outlines the steps necessary to make this shift a reality.

BOOSTING RELEVANCE

Traditional Value Proposition –

For 50 years it has been very simple to determine if an economic development program is successful by counting the things that proved wealth building had taken place. Typically, stakeholders only monitor the "Big Four" metrics:

1. Jobs Announced 2. Capital Investment
3. Tax Base 4. Personal Earnings

In 2014, IEDC's Economic Development Research Partners launched its largest project to date titled *"Making It Count: Measuring High Performance EDOs."* Using a national survey of ED professionals, the team identified 1,000 things EDOs were measuring. This was narrowed down to 290 and organized into menus which offered a standard set of metrics from which to choose. The majority of these metrics focused on qualitative measurements associated with activities and transactions.

Current Events –

In addition to the "Big Four" above, a recent push by stakeholders has demanded EDOs demonstrate success in achieving quality results. Quality metrics include: Transparency, Accountability, Credibility, Collaboration, Competitiveness, and Customer Satisfaction, all in an effort to boost relevance. Some 30 percent of EDOs do not track any metrics. The IEDC metric project found that EDOs and stakeholders are unsure about what to track and how. Inadequate resources can complicate or eliminate the possibility of implementing a solid metric program.

NextGen Value Proposition –

The future value proposition will include selecting no more than 5-10 of the 290 qualitative metrics identified and standardized in the IEDC Making It Count project and adding some key measures of the EDO's quality.

- Adding Qualitative to Your Quantitative Metrics

Quantitative measures use factual data collection from indisputably credible sources. Qualitative measures use perception, personal preferences, and broad opinions to shape reality. Both forms of measuring are recognized as necessary but until the Great Recession, economic developers were not forced to explore both.

When looking at the elements surrounding perception and reality in economic development, it is challenging to sort through and organize many of these elusive concepts. Settling on a value chain which begins with measuring and ends with boosting relevance will guarantee greater success personally and for the organization. Here is how this new value chain works:

- Measuring Boosts Accountability
- Reporting Boosts Transparency
- Sustainability Boosts Credibility
- Credibility Boosts Relevance
- Relevance Boosts Success

When the organization has successfully boosted relevance, it becomes a natural step to see increased fundraising campaigns, undertaking new programming and likely increased staff pay and benefits. The first step is to commit to measuring the things stakeholders deem most valuable. The only way this new system will work is if the stakeholders establish the metrics for the organization. Stakeholder ownership is mandatory!

- Reporting Results

Reporting is best done in concert with a credible third party. The entity selected will vary community by community but transparency is greatly enhanced when results are reported by a high-profile third party such as a local college of business. The importance of collaborating with a third party for reporting will depend on the level of discontent found on a case-by-case basis.

Nothing succeeds like success. Once the new metrics and reporting system have been established, repetition will often quiet even the harshest critics. Decide on a reporting period and make sure nothing gets in the way of prescribed deadlines. Repetition is just as important as the content of the reporting. Once stakeholders are comfortable with this new system, the organization will be granted a higher level of credibility.

"Relevance is the currency of successful EDOs and is what pays all the bills."

INCENTIVES

Traditional Value Proposition –

Economic development incentives have been around for hundreds of years and will likely remain for the next 100 years. The underlying foundation for using incentives is the belief that a company's course of action will be changed if it sees the opportunity to improve profits in one location versus another. Incentives, therefore, are all about boosting corporate profits in return for the possibility of a measurable boost in the local economy. This seems like a win/win situation. Unfortunately, the use of incentives is shifting from inducements to entitlements thereby drawing fire from many quarters.

Current Events –

- *"Job Fairies"* Story

During the first decade of the 21st century, the use of incentives hit an all-time high. Punctuated by efforts to stimulate the economy during the Great Recession, virtually all projects were offered incentives without regard to need. Coincidently, employment growth during the same period of time was the worst in the nation's history providing fuel for many opponents in this national debate. The debate hit home when the National Public Radio (NPR) story *"Job Fairies"* was broadcast in May, 2011. NPR's Planet Money team attended the IEDC's Leadership Conference in San Diego asking attendees how their local economy was weathering the Great Recession. Most said things appeared to be improving. This localized improvement was then cross referenced to the nation which was still very much hurting, and the conclusion drawn by NPR was that economic developers live in a fairytale world.

- Lack of Evidence to Defend Incentives

One study by Good Jobs First, a national policy resource center for grassroots groups and public officials, promoting corporate and government accountability in economic development, looked at a limited set of major tax incentives, including ones from nearly every state, and hypothesized a shockingly high combined cost that exceeded $9 billion per year. In 2012, the Pew Charitable Trust published *"Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth"* stating that only 13 states were able to document the value of incentives spent, by tying results to improved job creation. Pew, therefore, deemed it nearly impossible to accurately measure the return on investment and physical effectiveness of the use of incentives.

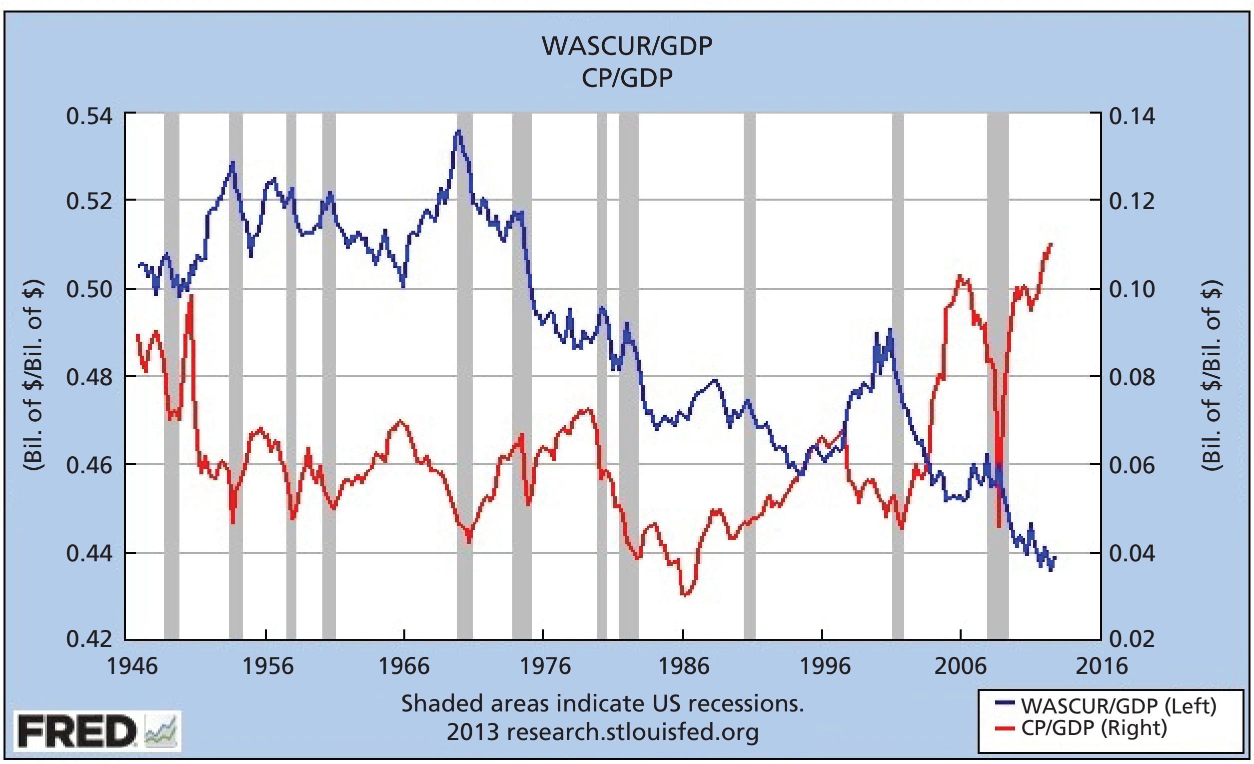
- Wall Street vs. Main Street

The Occupy Wall Street protest in September, 2011 attempted to connect the dots between explosive corporate profits and the anemic growth in personal income since the 1980s. This income inequality was referred to as the gap between the wealthiest 1 percent and the 99 percent of all others. This protest, and others like it, has put corporate profits under greater scrutiny thereby increasing the number of groups opposing the use of incentives. These changes have coined new phrases to cast aspersions on corporate profits. Phrases like Capital Cronyism, Corporate Welfare, and Picking Winners and Losers have become all too pervasive.

- Rising Citizen Discontent

At IEDC's 2016 Annual Conference, the newest EDRP report was released entitled *"Opportunity for All: Strategies for Inclusive Economic Development"* which spoke to the growing inequality gap between those individuals benefitting from the current economic expansion and those left far behind. Economic opportunity, or rather, its absence, has become a national conversation. Today, unlike ever before, people of all ideological stripes are debating cycles of poverty, school outcomes, executive pay, stagnant wages, and a host of other phenomena related to economic opportunity, exclusion, and inequality.

To document this inequity, the chart authored by the St. Louis Federal Reserve shows the astonishing decline in personal incomes since the peak in 1966 to an all-time low in 2013, and conversely that corporate wealth has skyrocketed over the last 45 years. This undeniable



Wages and Salary Accruals (WASCUR) Gross Domestic Product (GDP) Corporate Profits (CP) disparity has economic developers asking, "How can we deploy resources at the local level to address the national inequity discussion and effect a positive reversal."

NextGen Value Proposition –

"Incentives for the 21st Century," published in 2015 by IEDC's Economic Development Research Partners, warns that this new wave of discontent is not to be ignored or explained away as "They don't know what they are talking about," for to do so would have devastating results. Economic developers must be at the forefront of attempts to use incentives in new and creative ways, but always designed to provide the workforce with greater skills which command higher wages.

Incentive policies that set minimum thresholds on wages are a form of taxation without representation. Those citizens who do not possess certain marketable skills but are paying taxes are excluded from the opportunity of a better job. Once this group realizes this inequity, they too will join the chorus opposing tax-funded incentives. Economic developers cannot afford to ignore this disenfranchised population but must assemble resources and use them to improve outcomes for all people as well as corporations.

Incentives in the 21st century must accomplish new objectives. First, incentives must spark measurable improvements in employee skills and knowledge which will translate into improved personal incomes. Second, incentives should be used to make improvements in aging infrastructure. Seek to locate projects where roads, water and waste water systems have experienced deferred maintenance and bring them back to top condition as part of the new company's arrival. Third, incentives must be deemed valuable to the CFOs who calculate a net-present-value over three to five years, valuable enough to warrant consideration in making long-term business decisions.

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IEDC's research has demonstrated strategic planning, business retention and expansion programs, entrepreneurship promotion, and community development initiatives are some of the most effective economic development practices, so it is little surprise that incentives work best when they are linked to these practices.

CONCLUSION

In conclusion, the practice of accelerating wealth building by deploying unique community and state resources has lost some of its former shine. The next generation of economic development is just beginning to unfold and the concepts espoused in this article should be used as a platform on which to pivot and make a few simple course corrections. The scholarly work done by thought leaders and the IEDC's Economic Development Research Partners is to be encouraged and pushed to become more mainstream.