

Building High Performance Communities

Seven Strategies and Other Considerations

by\

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Talking Points

With Elaborations and References ¹

A. Economic Development: Misleading Ambiguity

1. The term "economic development" lacks a clear and widely-shared definition.² To some it is an *objective*:

- more jobs
- higher per capita income
- expanded tax base
- increased government revenues
- good business climate
- redistribution of economic benefits to targeted areas or classes of people.

¹ Note to readers: During my trip to Bathurst, people asked about my briefing notes and related books and articles, so in response, I have prepared this "Talking Points with Elaborations and References." Many of the footnotes also include information that I used in my extemporaneous comments. Here they are integrated in one presentation.

² For a brief but excellent overview of economic development in the US, see J. Mac Holladay. "Economic and Community Development: A Southern Exposure." Dayton, Ohio: Kettering Foundation Occasional Paper, August 1992, 43 pages. Other instructive overviews include David H. Treichler. *Creating World Class Communities*. New York: Lord Byron Press, 1993; Marianne K. Clarke. *Revitalizing State Economies*. Washington, D.C.: National Governors' Association, 1986; Roger Vaughn, Robert Pollard, and Barbara Dyer. *The Wealth of States*. Washington, D.C.: Council of State Policy and Planning Agencies, 1986.

Others talk about economic development as a *strategy*:

- business or industrial recruitment ("smokestack chasing")
- business retention
- small business development
- growth management
- regional development
- "hunting" v. "gardening"³

2. One thing is clear. Except for growth management advocates, **economic development almost always means "growth"** of something — jobs, income, wealth, population, tax base, bank deposits, size of jurisdiction and on and on.

3. But, the profession's **fixation on growth is also a problem**. Reasons:

a. Some communities are not going to grow, especially those in rural areas.

- Many, in fact, will decline (losing jobs, enterprises, population) — especially rural jurisdictions that lack access to modern transportation, telecommunications, health care and other services demanded by New Economy enterprises.
- Yet, even these communities will want to improve their standard of living and their QoL.
- Example from the USA: Superior, Nebraska.

b. Many communities do not want to grow.

- Many want to shut the door and keep things "like they used to be."
- Leaving aside the feasibility, wisdom or public ethic of so-called growth management policies, "no growth" and "slow growth" communities do not want increased jobs because more jobs mean more people.
- Yet most still want "economic development" — i.e., they too want to improve their standard of living and their QoL; they want to increase the community's per capita wealth; they want more choices for people and their community.

³ "Hunting" refers to business and industrial recruitment, smokestack chasing and other externally oriented strategies to generate job growth and economic development; "gardening" refers to job growth strategies that are based primarily on the retention and expansion of existing businesses — and on creating a business climate and infrastructure that encourages business start-ups. See Philip M. Burgess. "Gardeners Grow Better Economies." *Rocky Mountain News*. May 24, 1990 and "Wyoming Tends to Its 'Gardening.'" *Rocky Mountain News*. April 25, 1995.

- Examples from the USA: Petaluma and Santa Barbara, California; Boulder Colorado.

c. Many big cities will not grow.

- Reason: Many cities in the USA are becoming less attractive places to live because of violence, gridlock, pollution and bad schools.
- Yet, even these mature or even declining still want “economic development.”
- Examples from the USA: New York City; Boston; Minneapolis; Denver.

d. Demographic forecasts show slower population growth in the US and most other developed economies — at least over the next decade or so.

- That is bad news for those who would assess the success of an economic development program by job growth criteria. Reason: Job growth itself will slow, compared to the 1980s, when the Baby Boom bulge entered the labor force.
- But despite slower job and population growth, we still need a way to talk about “economic development.”

4. Punchline: it's important to revise and overhaul the way we think about "economic development" and, especially to liberate the concept from measures of growth.

- The main culprits are job and population growth — or any other measure that is population based or that is not computed on a per capita basis.
- In short, what we need is an alternative way of thinking about and measuring success in the business of economic development.

5. The challenge of economic development is bigger than growth. Economic development is about:

- Creating jobs
 - Expanding wealth
 - Increasing hope
- } For People and Communities

6. That is why success in economic development requires new ways of thinking.

B. The High Performance Community (HPC) Described.

1. Today, it's my task to discuss "high performance communities."
2. Overview: The **ideal high performance community is a place where things work:**
 - in the *public sector* — e.g., water, sewers, streets, hospitals, schools and airports — all the things government does;
 - in the *enterprise sector*, where per capita wealth increases and where all enterprises have a good chance to become fast, flexible, customized, networked and global — the hallmarks of a New Economy enterprise; and
 - in the *civic sector* — e.g., neighborhoods, churches, synagogues, all the things voluntary associations do; and where there is a broad sharing of power, and other values (e.g., enlightenment, well-being, skill, respect), many of which can be affected positively by increasing wealth.
3. More specifically, a **high performance community is a place that provides:**
 - good jobs at good wages — growth or not!
 - business enterprises that have a future — growth or not!
 - more per capita wealth for the community — growth or not!
 - strong and healthy voluntary associations, a robust civic order — growth or not
 - a user-friendly government that responds to citizen direction — growth or not!
 - more hope for families, communities and the future — growth or not!

It's our view these are nearly universal goals in a democratic society. So let's explore what they mean — and especially how to achieve them.

4. The **HPC vision** requires a community where:
 - per capita income increases (increasing wealth)
 - enterprises become more productive (increasing competitiveness)
 - social, economic and political values are broadly shared (increasing equity).⁴
5. The HPC is also a place where all institutions — public, private and voluntary — have a good chance to become **fast, flexible, customized, networked and global** — the hallmarks of a New Economy enterprise and a New Economy community.

⁴ A broad sharing of political values yields "democracy." A broad sharing of economic values yields "prosperity." A broad sharing of social values yields "order," "safety" and "justice."

C. Three Macro Strategies to Create HPCs

1. Go for wholesale (rather than retail) approaches.

- Those promoting HPCs must be brokers, not doers; they must engage in capacity building, not problem solving; they must help, not hinder local problem solving.
- Example: HPC promoters should provide data, training services or technical assistance (e.g., strategic planning or market assessment services) to local, grassroots groups.

2. Follow transition rather than transforming approaches.

- Though exceptions might be called for here and there, success is most likely to follow when **communities build on their strengths, stick to their knitting and add value to existing activities**. This was the strategy of successful enterprise building documented by Bob Waterman and Tom Peters nearly 20 years ago in *In Search of Excellence*. It is a sound strategy for community and economic development.
- Examples: A farming community develops downstream businesses in food processing; a livestock community develops upstream businesses in feed

manufacturing; a mining community diversifies into computer peripherals or software, reflecting core competencies of the mining engineer.

3. Create a political and business climate that will help all enterprises to become fast, flexible, customized, networked and global.

- From individual proprietors to large corporations, all institutions (including public sector institutions) must learn to be fast, flexible, customized, networked and global in order to compete in the new global economy.
- There is growing evidence that communities with tax and regulatory restraints create the most jobs and are most attractive to high performance companies.
- Examples of fast, flexible, focused, customized, networked and global in the **enterprise sector** are FedEx, Microsoft, Gateway 2000 (computers), and many others. Examples in the **public sector** include electronic city halls that are now being deployed by many cities around the US. Examples in the **voluntary sector** include most think tanks, Habitat for Humanity, many evangelical religious organizations and others.

D. Seven Action Strategies to Create HPCs

1. Ensure the rapid deployment of modern telecomputing⁵ capacity — specifically, high-speed, broadband, interactive telecomputing technologies that take full advantage of CATV, computers, software and telecommunications (both wireline and wireless) to provide anytime, anywhere communications capacity.⁶

- New telecomputing applications are making profound and **revolutionary changes in the way we live, work, play, learn, move around, and govern**. That's why getting an on-ramp to the information super highway and getting people and enterprises up to speed using new telecomputing applications are the two highest priorities for building an HPC.⁷
- Advances in telecomputing are being driven by new applications in business, education, health care and, especially, entertainment. The impacts of the telecomputer will be far-reaching.

⁵ Telecomputing is used here to refer to hybrid industry that is emerging from the “convergence” of the telecommunications, computer, software and television industries — a process that is already dramatically changing the way we live, work, play, learn, move around and govern.

⁶ The high performance community must provide the **infrastructure and services** to put the power of information into the hands of every business and every individual who needs it — these include, **at a minimum**: (a) digital switches; (b) enhanced services — including one-party, voice grade, touch-tone, 9,600 baud and options for voice messaging, fax messaging, call waiting, and call forwarding; (c) wireless telephony — e.g., cellular/mobile services; and local access to the Internet. **Before this century is over** Nebraska's Chris Hoy argues that what we call a high performance community will require: (d) interactive video capability; (e) access to Ku and C Band satellite downlinks; (f) an Information Technology Forum (or equivalent body), capable of providing planning, marketing, training and coordination in the use of telecomputing technologies; and (g) content applications moving down the pipe — for example, telemedicine, agricultural, manufacturing or business extension services; distance learning; etc.

In addition, a high performance community will provide access to related information and communications services. In the US context these would include: (a) access to cable television news and information channels such as CNN, C-SPAN, CNBC, financial news, ESPN and others; (b) regular overnight express mail services — e.g., UPS, Federal Express, DHL; and (c) access to a commercial airport with scheduled airline service — within 90 minutes and not more than three hours.

⁷ For a non-technical overview of all the major media involved in the convergence that is driving the telecomputing revolution, see Steven Lubar. *InfoCulture*. New York: Houghton Mifflin, 1993. For an insightful and easy-to-read assessment of the impact of telecomputing see Walter B. Wriston. *The Twilight of Sovereignty: How the Information Revolution is Transforming Our World*. New York: Macmillan, 1992. For different views of the cyber future see Bill Gates. *The Road Ahead*. New York: Penguin, 1995, or read the contributions of George Gilder, Peter Huber, and John Perry Barlow in *Forbes ASAP, Wired, Business Week* and other business and telecom publications, or consider the alternative futures of Arthur C. Clarke. *The City and the Stars* (1956), Samuel Delaney's *Nova* (1968), William Gibson's *Neuromancer*. (New York: Ace Books, 1984) or see the range of utopias and dystopias that are presented in *The Jetsons, Star Trek, Blade Runner*, and the *Terminator* movies that have surfaced in recent years.

- People like these new applications because they provide more of **what people want most: (a) more choices, (b) more convenience, and (c) more control** over the environment in which they live work and play.
- **The telecomputing revolution is particularly important for small towns and rural areas** because it checkmates the tyranny of distance and eliminates most of the liabilities of a remote location.
- One result is the migration of Lone Eagles -- entrepreneurs and freelance professionals (writers, brokers, analysts, manufacturers' reps) to what Rand McNally has called the nation's "mild and wild" areas.
 - In the US favorite destinations include the barrier islands of the Carolinas and the West Coast of Florida, parts of New England, Puget Sound in the Pacific Northwest but especially the Rocky Mountain West.
- The same phenomena appears to be happening in other countries.
 - In Australia, entrepreneurs and freelance professionals are, I'm told, migrating in large numbers to the mild and sub-tropical areas of the nation's Northeast coast -- from the Gold Coast region just south of Brisbane up through Rockhampton to Cairns.
 - In France, a recent survey by *Le Pelerin* magazine says that only three percent of the French want to live in Paris, the city of romance and by some accounts the world's most beautiful metropolis. Instead, the French are also choosing mild coastal or river cities such as Nice, Montpellier, and Bordeaux or Toulouse in the South of France or Grenoble at the foot of the French Alps.
 - Like Americans, the French also showed a preference for small towns (46%) and villages (29%) over a large city (24%).⁸
- **Telecomputing is also dramatically improving productivity** in the US, especially among service industries. In fact, as a result of telecomputing, we are likely to dramatic increases in productivity in the service sector before the turn of the century in the US, UK and other countries that are moving aggressively to deploy a high-speed, broadband I-way that is interactive and free of gatekeepers.
- It's important to distinguish between the problem of "information haves and have-nots" and "**information wants and want-nots.**"⁹ Just as the Industrial Age created new

⁸ Reported in *The Sun* (Baltimore), Sunday, January 14, 1996, p. 22A.

⁹ I am indebted to Jeff Eisenach, president of the Progress and Freedom Foundation, for alerting me to the importance of this distinction.

institutions (such as advertising) to make people want the products of the Industrial Revolution, we also need to create institutions to make people want the products of the Information Revolution. As "wants" are translated into "demands," the enterprise sector will move rapidly to meet them.

- Examples: Librarians and the New Economy (Littleton);¹⁰ the Center for the New West's California projects: WorkSmart, Smart Communities, Telework Business Centers; Annapolis Electronic City Hall.

2. Promote entrepreneurship — including the growth of small and mid-sized enterprises (SMEs) and the rapidly growing SOHO (small office, home office) movement.

- The world's most dynamic (i.e., most rapidly growing and most adaptive and creative) economies are the **family-based, entrepreneurial economies** of the US, China, and Southeast Asia.¹¹
- Consider the US, as an example of a dynamic entrepreneurial economy:¹²
 - There are 22 million business enterprises in the US;
 - Only 14,000 have over 500 employees.
 - The rest are small businesses, partnerships, sole proprietorships.
 - Many are traditional industries that have transformed themselves by incorporating advanced technologies.¹³

¹⁰ See Stephanie Neumann and Chris Gibbons, "Dialog v. the Cash Incentive: Librarians as Cornerstones of Economic Development." Littleton, Colo.: City of Littleton, Department of Business/Industry Affairs, June 11, 1991; or Philip M. Burgess, "Librarians Help Littleton Grow." *Rocky Mountain News*, September 13, 1990. Another example: The Denver Business Journal carries a weekly column called "Ask the Librarian," which tracks the "latest, most helpful and accurate information available from business people" by using on-line data bases to respond to questions from business people about markets, technologies, and business practices.

¹¹ By contrast, Europe, Japan and South Korea are what we call "**plantation economies.**" They are guided by producer-driven (as opposed to consumer-driven) policies; they are dominated by large business enterprises and interventionist, bureaucratically-driven industrial policies, high taxes and state enterprises or systems of massive subsidies at home and neo-mercantilist policies in their relation to the outside world.

¹² For one of the best overviews of small business in America see "The State of Small Business," a special report by *Inc.* magazine, May 16, 1995, and especially John Case. "The Wonderland Economy," pp. 14 ff.

- And many large enterprises are the primary markets of small enterprises and many large enterprises use small enterprises as part of their own innovation strategy, so the large and the small are often joined at the hip.¹⁴
- In fact, according to small business guru David Birch, small businesses under 100 employees create between 40% and 100% of the net new jobs, depending on local circumstances and business cycle condition. Moreover, firms with 20 or fewer employees add about two-thirds of these jobs.¹⁵
- These small businesses are the enterprises that create most of the new jobs — more than 24 million since 1980 in the US.¹⁶ The same pattern has been found in the UK.
- It is also noteworthy that the best of the managerial class are abandoning large corporations. Example: Graduates of the class of 1974 of the Harvard Business School are now senior executives and entrepreneurs with a medium income of about \$250,000. According to John Kotter's *The New Rules*, only 23% of the 800 graduates

¹³ Keep in mind that many of the **traditional industries** of Australia and the US have been revolutionized by software and the application of other advanced technologies — for example, their natural resource industries (e.g., mining, timbering, ranching, agriculture) and textiles. This has allowed the best of the enterprises of these industries to remain competitive even though they have to compete with low cost, high grade producers in less developed nations.

Example: **mining** — at every stage: *exploration* (remote sensing), *recovery* (tertiary recovery of oil using CO₂; chemical leaching for gold, deep drilling for oil and gas, etc.), *processing* and refining — everything from remote sensing to find the stuff to new technologies to move earth and process it once it's out. **Mining is now one of the most high tech industries** — both in the US and Australia.

Other examples: **timbering** — everything from genetics to milling technology; **ranching** — animal husbandry; **agriculture** — hybridization of corn, wheat, soybeans; **textiles** — by process innovations in milling and by the industry's adoption of "just-in-time" inventory practices. US examples: large retailers such as GAP and The Limited.

¹⁴ On this point see James W. Botkin and Jana B. Matthews. *Winning Combinations: The Coming Wave of Entrepreneurial Partnerships Between Large and Small Companies*. New York: John Wiley, 1992.

¹⁵ For background on small business job creation, see David L. Birch. *Job Creation in America*. New York: Free Press, 1988. See also David L. Birch. *The Job Generation Process*. Cambridge: MIT Program on Neighborhood and Regional Change, 1978; and Birch's *Inc.* magazine column, where for several years he wrote a monthly column reporting general findings and conclusions from his many studies of job creation and enterprise formation in the US.

¹⁶ At the same time, Fortune 500 companies have lost more than 4.5 million jobs since 1980 — while these small and medium-sized businesses have created 24 million net new jobs. See John Case. "The Wonderland Economy," *Inc.* magazine, May 16, 1995, pp. 14.

have jobs at companies employing 10,000 or more and entrepreneurs account for more than 40% of the class.¹⁷

- Policies in the public and private sector should **emphasize the special needs of small businesses**. Example: The threshold needs of a business change as they grow:

- 1-10 employees — or less than \$1.0 million revenues: **Time** is the biggest problem as the founder is the COO during the day; the CEO at night, planning the next day and week; the CFO on the weekend. The last thing this person needs is a "solution" that requires more of his or her time.

- 10-20 employees — or \$1.0-\$5.0 million revenues: **Delegation** is the biggest problem as the founder begins to think about bringing new people into management, people who aren't friends or relatives, but professional managers to help with running the business.

- 20 or more employees — or over \$5.0 million revenues: **Strategic business intelligence** is the biggest problem as the company reaches a stage where it must decide whether it has an Act II, whether it can grow and diversify, whether it can meet and beat new competitors. Critical needs are intelligence about (1) new markets, (2) new technologies or (3) the intentions and plans of competitors.¹⁸

- Unfortunately, very few of the small business assistance programs reflect these threshold needs. In fact, many make huge time demands on managers of the smallest enterprises.

- Public and private sector policies should also **try to identify and encourage rapidly growing small businesses**, not just *any* small business.

- Drawing again on the work of David Birch, we call these rapidly growing small businesses **Gazelles** — the 500,000 or so rapidly growing small businesses that create most of the jobs that are usually credited to small businesses.

- These are small and midsize companies in the \$5 m to \$150 m range account for 75% of all new jobs in the US. Translation: About **75% of new jobs are generated by 4% of the companies** (about 500,000 companies).

¹⁷ Cited by David C. Jamison. *Anomaly*. A quarterly publication of the Williams Reference Service, August 1995.

¹⁸ These three thresholds and the need characterizations are based on working with small businesses and discussions with other participant-observers and analysts, notably Chris Gibbons regarding the Littleton project and David Birch about his research on the characteristics of rapidly growing small businesses.

- The **character of small businesses** is an important issue for those who would create high performance communities. All entrepreneurs have one thing in common: They are people who pursue an idea or a dream without regard for resource constraints.¹⁹ That's why entrepreneurs are called risk takers.²⁰

- But not all entrepreneurs are the same in their motivation.²¹ We call the growth-oriented entrepreneurs **Swashbucklers**, the rest **Pilgrims** or **Explorers**:

- **Swashbucklers** are entrepreneurs who like to grow a business, not just run it. They like to make money, make things, discover new markets and new applications for a new or old technology. They like to create new jobs and new wealth. Most Gazelles are run by Swashbucklers.²²

- **Pilgrims** are people looking for a better life, entrepreneurs who simply want to make a job for themselves. They have no desire to grow. Sometimes it's because they don't know how to grow. Some — indeed, many — simply don't want to grow. They like what they are doing. They generally run stable, no growth companies.

- **Explorers** are Pilgrims that want to be Swashbucklers. They started a business and after some initial success begin to see new markets or even greater opportunities to grow the business in old markets, so they seek new information about markets, technology, talent, or capital in order to decide whether to try to expand and achieve rapid growth.²³

¹⁹ See Philip M. Burgess. "Entrepreneurs Driven by Vision." *Rocky Mountain News*. September 26, 1995.

²⁰ Though large corporations are trying to speed up the process of innovation by creating conditions that make the large corporate workplace more hospitable to entrepreneurs. See, for example, Gifford Pinchot. *Intrapreneuring*. New York: Harper and Row, 1985.

²¹ We first encountered this distinction in 1988, talking to a successful Tucson, Arizona landscape entrepreneur, who didn't want to grow his business. He liked his work and didn't want to become a "paper-pusher," as he called successful people. SOHO gurus Paul and Sarah Edwards also make this distinction. In conversations with the Edwards, they differentiate classic, big thinking entrepreneurs who want build a new Hewlett-Packard or Microsoft from people who simply want to create a job for themselves, what they call "pro-preneurs."

²² We prefer cultural images to the more common zoological images found in the business literature. David Birch sees mice, gazelles and elephants in his world of business enterprises. James W. Botkin and Jana B. Matthews identify beavers, bears, monkeys and kangaroos as nomenclature for talking about entrepreneurial strategies; see Botkin and Matthews, op. cit. , pp. 82-83.

²³ We are indebted to Roy Powell at the University of New England for alerting us to the importance of the "Explorer."

- An especially important dimension of entrepreneurship is **the SOHO (small office/home office) movement** — the most rapidly growing segment of the new American workplace. This unbundling of work and location reflects new trends, both in lifestyle preferences and corporate management practices. These include changes in:

Corporate practices²⁴

- flexible workplace
- distributed work
- telework
- outsourcing
- downsizing
- delayering

Lifestyle preferences²⁵

- Lone Eagles
- home working
- telecommuting
- temping
- job sharing
- cocooning

- The **purpose of the flexible workplace** is not just to give employees more options; increasingly, it is to cut costs. Indicator: These new approaches to workplace organization are increasingly run by the business resources unit of large companies — not the human resources unit. And, for the SME owner, the home office is a source of quick profits.

According to LINK Resources, 1 out of 5 Americans works in the home — a home worker is defined as one where at least 20% of his or her income is earned while working at home:²⁶

- 43.2 million work at home some part of the week
- 12.7 million work at home full time
- Office real estate is used only 30% of the time by information workers.

²⁴ See any of the many books and articles by Peter Drucker or Tom Peters for a discussion of corporate practices.

²⁵ See, for example, Faith Popcorn. *The Popcorn Report*. New York: Doubleday, 1991.

²⁶ The work-at-home community is very diverse; it includes plumbers, electricians and taxicab drivers (who manage their business and do auto repairs at home) as well as white collar and professional services providers, such as physicians, attorneys and environmental engineers. The general categories break down roughly as follows:

- 60% = White collar — primarily marketing and sales but also writers, analysts, brokers, manf. reps.
- 20% = Professional — engineers, physicians, lawyers, accountants, programmers.
- 20% = Blue Collar — construction, fix-it household services, taxi cab owner-operators and other transportation, precision production.

- The **SOHO community has special needs**, particularly because people are subject to tremendous institutional discrimination. Examples from the US business environment:

- a. **bankers** are reluctant to give loans
- b. **merchant accounts** are hard to come by, and it's difficult to lease space, copiers and other equipment.
- c. **office supply stores** won't give credit
- d. **temp agencies** won't send people
- e. **insurance companies** won't insure
- f. **telephone companies** often want to charge you more for a phone used also for business purposes.

- There are also legal problems. For example, community **zoning laws** and neighborhood **covenants** often don't permit even non-intrusive businesses to be run out of homes. The SOHO worker burns good will because neighbors don't like express mail trucks, employees and other visitors coming into the neighborhood each morning. And the US tax system discriminates against the sole proprietor and the home worker in many other ways.²⁷

3. Promote job growth from within the community (expansion and retention) because most jobs will be created by locally owned enterprises and encourage relocation only when the enterprise "fits" a favored industry cluster.

- According to studies by David Birch, **most jobs are created within a community** by locally-owned companies:²⁸

- about 55% of the jobs are created by the **expansion** of existing companies.
- about 45% are created by **new start-ups**.

²⁷ It is not an overstatement to say that the **IRS is waging war on the self-employed** in the US. Example: The *Solomon* case — an 8-1 decision by the Supreme Court that denied a physician a deduction for a home office. The physician worked in four different hospitals, but had no office and no mailing address at any hospital. He received all his journals at his home office and did all his reading, billing and preparation from his home office. Still, he was denied a deduction. See Philip M. Burgess and Paul and Sarah Edwards. *Workshifting*. Denver: Center for the New West *Special Report*, 1995.

No one would object to a business expense if your office were rented from a friend, or located in a neighbor's house or a trailer or pre-fab building someplace. But not if it's at home. Instead of being treated like community gems, SOHO operators too often face obstacles at every turn. Result: Growth is delayed or stunted and the community sacrifices the loyalty of some of its most educated and productive people.

²⁸ Birch, op. cit.

- less than 1% of the new jobs are generating by companies relocating from outside the community.
- Even though start-ups have a high attrition rate — as many as 85% will not make it to their 5th anniversary, they should not be discounted, even those that fail. Reasons:
 - Start-ups **hire people**.
 - Start-ups **rent space**.
 - Start-ups **buy things in the local economy**: telephones, faxes, copy machines, office supplies.
 - Start-ups provide significant on-the-job **management training** and experience.
- In short, start-ups are gems in the rough and represent the hope of a community. Most will crumble, but some will grow and prosper. From time to time, a start-up becomes a Hewlett Packard or a Microsoft. And the first thing a failed start-up does is try all over again. At some point, they usually make it.²⁹
- There's another important issue here: **Most jobs are created by locally-owned companies**. Example: Based on a study by Cognetics and the Center for the New West, more than 95% of the net new jobs in every US Western state were created by locally owned enterprises during the two-year period leading up to the last recession. There is no reason to expect a different pattern today or in other parts of the country.
- That's why, in our judgment, it is a **big mistake** for a community to devote a lot of time and attention — and money — to attracting companies from the outside. It is very tempting to pour too much money into industrial recruitment. It seldom works over the long term — and it diverts attention and money from more important agendas. And it must be remembered: **One man's tax subsidy is another's tax burden**. So, why burden the enterprises that are really creating the new wealth and jobs for the jobs on the horizon?

4. Promote awareness, interest and participation in the global market place. Globalization is a key feature of the New Economy. Example: in 1945, global trade was less than \$100 billion; today, global trade exceeds 4.0 trillion and exports represent the most rapidly growing marketplace.

²⁹ Many world-famous companies began as home-based businesses: Gillette, Steinway (pianos), Hallmark Cards, Electronic Data Systems (EDS), Disney, Ford, Hewlett-Packard and other old stand-bys. Many of today's most exciting large and mid-sized businesses were small or home-based businesses only a few years ago — including major software businesses (Microsoft, Borland, Lotus), computer manufacturers (AST, Apple), retailers (Staples, Nike), food products (Baskin Robbins, Mrs. Fields Cookies, Pepperidge Farms) and others.

- SMEs are also playing a very large role in the expanding global marketplace. That's one reason why promoting global markets is a key feature of an HPC. Example: In 1970, 80% of US exports came from less than 1.0% of its companies — companies like Boeing, General Electric, General Motors and Caterpillar. No longer. Reason: Not only the volume but also the structure of international trade has changed dramatically:

- a 1990 DoC report shows that 50% of U.S. exports measured by **dollar value** are now achieved by companies under 500 employees.

- a 1991 report by David Birch shows that, measured by **exporters** (i.e., the size of company doing the exporting), 50% of U.S. exports are by companies under 100 employees — and in some Western states it gets as high as 81%.

- These studies clearly show — for the US — the rapidly **increasing role of small and medium sized business** in international trade. International trade is important because: (a) **export create jobs**: Each \$1.0 billion of exports creates 19,000 to 24,000 jobs — depending on the industry; (b) **export jobs are growing at twice the rate** of jobs in the rest of the economy; and (c) **export jobs are good jobs**. Export jobs pay about 17% more than domestic economy jobs.

- There are **huge opportunities for SME export growth**. Reason: The biggest international trade problems of small business — **know-how** (e.g., letters of credit, paperwork, compliance with international quality standards, etc.), **strategic intelligence** about new market opportunities and **access to international contacts and networks** — are most effectively satisfied by collective actions that can help everyone. Example: the Littleton New Economy Project which is using strategic information to stimulate SME competitiveness and job growth. Many World Trade Centers also help meet the know-how, strategic intelligence and networking needs of SMEs.

5. Focus on industry clusters that combine producers and suppliers and encourage local competition among producers and among suppliers.

- In the old days, the "progressive" economic development professional would target industry sectors — such as civil aviation, biotechnology, computers, software³⁰ —

³⁰ There have been many studies of the major technologies and industries that are now shaping and likely to shape the new global economy. One recent account identified seven leading-edge industries: **Civil aviation** includes many household names. Boeing, McDonnell-Douglas, Cessna and Beechcraft are examples from the US; Airbus from Europe. Allied industries include everything from Jetways (made in Utah) to high tech navigation and other avionics. **Biotechnology** began in ranching (animal husbandry) and agriculture (hybrids). As noted in the *Wall Street Journal* (June 6, 1994), biotech industries in the US now boast more than 1,300 companies and more women senior executives — including CEOs (13) — than any other major manufacturing industry group. **Computers and software** — an area where the US has a

where a community was already strong. Key ideas were expressed in terms like "critical mass" and "target industries."

- Today, however, reflecting the influence of business strategists like Michael Porter,³¹ James Womack³² and others, community leaders will try to develop a "strategic grouping" approach to economic development that mimics the grouping strategy of successful business leaders.
- Womack describes it this way: "Rather than coordinating the supply chain through bureaucratic rules (vertical integration) or the market (arms-length bidding), the lean producer develops a 'shared destiny' with a core group of suppliers." In these kinds of arrangements, enterprises participating in an industry cluster are usually legally independent but organizationally integrated through the sharing of information and people.³³
- The local conditions that support the development of industry clusters take in what Michael Porter calls the "diamond of advantage" — including:
 - a. **Motivating factor conditions**, such as a work-ready labor pool or specialized infrastructure. They may even include even negative influences — such as

commanding lead. The top 10 US computer manufacturers account for more than 50% of the world's production of computers. Microsoft, Lotus, Borland and other US software producers dominate the world's software market. **Telecommunications** is an area where the US companies lead the world by almost any measure — universal service, advanced technology, more choices for consumers and the deployment of a high-speed, broadband "information superhighway" that is already well underway. When you consider the "convergence" that is occurring among the telecommunications, computer, software and television industries, you get the "**telecomputing**" industry, an emerging hybrid which is already dramatically changing the way we live, work, play, learn, move around and govern — and dramatically improving productivity increases in the US, especially among service industries. **New materials technology** from steel to aluminum to plastic to composite materials. From Head Skis to Corvettes and from Teflon to the Stealth bomber, the US, Germany, and Japan are among the world's leaders in new materials development and applications, but here competence is spread widely. **Microelectronics**, where the US has emerged as the premier producer of "specialty chips" while most of the commodity chips are produced by Japan, Korea, Peoples Republic of China and other Asian nations. Fortunately for the U.S., specialty chips are where the action is — the high margins, the creativity, the future. **Robots and machine tools**, which will also shape competitiveness in the next Century, is the only area among the top seven where the US has lagged behind. However, the combination of domestic resurgence and foreign investment suggest this too may be a "comeback industry" before the decade is over. For discussion, see Thomas A. Stewart, "The New Century in America: Where We Stand," *Fortune*, Spring/Summer, 1991, p.12.

³¹ See Michael E. Porter, *The Competitive Advantage of Nations* (New York: The Free Press, 1990).

³² James P. Womack. "The Lean Difference; Building a High Performance Enterprise." *Prism*, (First Quarter, 1992), pp. 103-111.

³³ *Ibid.*, p. 107.

strategic disadvantages that drive innovation and substitution. Two or more of these factors can create synergies that lead to business expansion opportunities. Examples: Japan's lack of energy resources has led to the deployment of significant energy-saving methods such as "Just-in-time" and other management innovations that have increased the energy efficiency of production and distribution. Similarly, high wage rates in the US has led to the substitution of technology for people — as in the ATM machine or the use of conveyer belts rather than trucks to transport coal in coal mining.

b. **Strong "home" demand** generated by domestic and especially local customers has the effect of pushing producer companies to innovate. This is a major reason for the desire to protect "infant industries."

c. **Local industry rivalries** result from intense local competition among local industries. This competition creates a local "culture" that shapes attitudes and practices to pursue innovation and is often more motivating than foreign competition. This competition, called "duplication" in the public sector, is what drives innovation, new efficiency and productivity increases in the private sector. Example: "duplicative" fiber optic telecom infrastructures, which actually speed innovation and the spread of consumer choice.

d. **Clusters of local support industries** create new local efficiencies. This happens because competition among local suppliers and auxiliary industries creates a high quality, supportive business infrastructure, and opportunities for the buyer to nurture and upgrade the performance of suppliers. Local clusters also spur innovation and the critical mass of talent and support industries encourages spin-off enterprises.

6. Foster inter-firm collaboration for education and information exchange and or to facilitate joint procurement, marketing, production arrangements or to enable resource sharing and risk pooling and risk management.³⁴

³⁴ The importance of inter-firm collaboration has increased because of the devolution of business activities — both in manufacturing and in the rapidly-growing business and professional services sectors.

Devolution accelerated in the 1980s and is creating many new opportunities, placing new demands on small and mid-sized enterprises (SMEs). Reason: SMEs must compete successfully against low-cost labor in Mexico (for the US) and Southeast Asia (both the US and Australia). Developed country enterprises compete successfully by being fast, flexible, customized and global — and especially by their ability to tailor products and services to the specialized needs of customers, by providing more product and service diversity, and by achieving shorter production cycles. SMEs are well equipped to deliver customization (e.g., specialization and diversification) and speed — especially if they can expand their asset base through inter-firm collaboration.

- IFCs take many forms.³⁵ At one end of the continuum is informal, unbrokered, ad hoc cooperation around a specific problem or event. At the other is a formally constituted, well-staffed value-adding partnership to reduce costs, find new markets, create or transfer new technology, create new products or services, or establish tighter links between customers and suppliers.³⁶

a. **Learning networks** of firms to help them identify and acquire new technologies and "best practices" to improve their businesses. Example: a network to learn how to use the Internet for business purposes — to send or receive information or to do transactions.

b. **Intelligence networks** that use collective and cooperative means to acquire business-sensitive knowledge about competitors ("competitor analysis"), new technologies or new markets to remain competitive in high value markets. Example: helping a Gazelle CEO find out about planned product launches of competitors.

c. **Resource networks** of firms that jointly develop solutions to shared problems — and do it more cheaply by spreading the expense of meeting requirements, insurance, training, or equipment or testing facilities and, in the process, learning how to better concentrate their resources for improvement. Example: gearing up for compliance with new environmental laws or to create telework business centers to permit people to work closer to home.

d. **Co-marketing networks** that use joint marketing to gain access to or exercise more leverage in high value markets — especially overseas markets. Examples: trade shows, common branding.

e. **Co-production networks** of SMEs jointly manufacturing components, assemblies, or finished goods.

³⁵ I am indebted to the work of Brian Bosworth, Stuart Rosenfeld and others for clarifying many of these points for us. For example, according to Rosenfeld, inter-firm collaboration "is a new and largely uncharted territory of economic development." IFC allows firms to combine resources, to gain knowledge or intelligence, achieve economies of scale, acquire technologies and resources and enter markets otherwise beyond their reach.

³⁶ It should be noted that IFCs can link SMEs around a **project** (e.g., cost-cutting or technology acquisition or application) or a **function** (e.g., marketing or procurement) and enable the participating firms to assemble assets and otherwise accomplish things that individually they could not do. For a very interesting discussion on how to manage the process of interfirm collaboration, see Botkin and Matthews, op. cit., especially Chapter 5: "Making Partnerships Work: Principles and Practices for Success."

f. **Joint procurement networks** so that SMEs can get the benefit of volume discounts, better service and, generally, more market leverage with suppliers. Also used to help identify and use local suppliers as a regional development policy.

7. Cultivate civic institutions and regional collaboration. In the end, high performance communities are created and sustained by high performance people — and especially by people who have what Chester Finn and his colleagues have called the "essential virtues."³⁷ These include personal responsibility, citizenship, civility, generosity and goodwill.³⁸

- It is important to underscore that the "essential virtues" are instilled and sustained by institutions of the civic order, *not* by governments or other institutions of the public order.³⁹

³⁷ See Gregg Vanourek, Scott W. Hamilton and Chester E. Finn, Jr. *Is There Life After Big Government? The Potential of Civil Society*. Indianapolis: The Hudson Institute, 1996, p. 10.

³⁸ Finn and his colleagues talk about "compassion." I have substituted the terms "generosity" and "good will" because the term "compassion" is now loaded with too much political overburden. See Marvin Olasky. *The Tragedy of American Compassion*. Wheaton, Ill.: Crossway Books, 1992, for a powerful assessment of the role of civic institutions in American life.

³⁹ In America, people have always been bound together by small, human scale associations — what British philosopher Edmund Burke called the "little platoons" of society — rather than by social class or a loyalty to institutions of the state. That is an advantage today, as the centralized and bureaucratic institutions of the state are increasingly unable to achieve high performance. On the demise of the bureaucratic state, see James Pinkerton. *What Comes Next*. New York: HarperCollins, 1995.

By contrast, the voluntary, civic associations that provide the underlying strength of a high performance community are now getting increased attention — including strong families, tightly knit neighborhoods, active fraternal groups and voluntary associations (from Boy Scouts and Girl Scouts to Bowling Leagues and hunting clubs; from 4-H to the Grange and Farm Bureau; from Junior Achievement to the Chamber of Commerce and Rotary); and active churches, synagogues, mosques and other religious organizations.

See the writings of Harold D. Lasswell and his collaborators for some of the most insightful discussions of the importance of the public order-civic order distinction. See Harold D. Lasswell and Abraham Kaplan. *Power and Society: A Framework for Political Inquiry*. New Haven: Yale University Press, 1950; Daniel Lerner and Harold D. Lasswell. *The Policy Sciences: Recent Developments in Scope and Method*. Stanford: Stanford University Press, 1951; and Harold D. Lasswell. *A Preview of Policy Sciences*. New York: Elsevier, 1971.

For a penetrating critique of how the central ideas of the Progressive Movement — nationalization, professionalization, bureaucratization and "scientific management" — and their advocates (e.g., Walter Lippmann, John Dewey, Herbert Croly, Theodore Roosevelt, and Woodrow Wilson) represented a frontal assault on America's civic order, see Michael S. Joyce and William A. Schambra. "A New Citizenship, A New Civic Life," in Lamar Alexander and Chester E. Finn, Jr. *The New Promise of American Life*. Indianapolis: Hudson Institute, 1995, pp. 139-163.

- The voluntary, civic order institutions that provide the underlying strength of a high performance community include strong families, close neighbors and tightly knit neighborhoods, active fraternal groups and other voluntary associations (from Boy Scouts and Girl Scouts to Bowling Leagues and hunting clubs; from 4-H to the Grange and Farm Bureau; from Junior Achievement to the Chamber of Commerce and Rotary); and active churches, synagogues, mosques and other religious organizations.⁴⁰
- Building a high performance requires mobilizing all the assets of a community. One way to do this is to build what we call a "civic leadership coalition." The civic leadership coalition has three elements:
 - 1) a **community forum**, which assembles the leaders of a community into an informal assembly where membership is by virtue of participants knowledge and interest, not by virtue of their position.
 - 2) a **capacity for technical analysis** — so that the members of the forum can undertake studies, assessments of local problems at the local level by local people.
 - 3) **access to risk capital**, so that the forum can launch tests and trials of community innovations.
- Civic leadership coalitions facilitate regional collaboration.
- However, in designing regional cooperation initiatives, it is useful to distinguish between at least **three different types of "regional" problems**.⁴¹

⁴⁰ See Olasky, *op. cit.*; Lasswell, *op. cit.* Alexis de Tocqueville, the French observer of the American scene during the presidency of Andrew Jackson, was among the first to note our "strong sense of community" and propensity to "form associations." See Alexis de Tocqueville. *Democracy in America*. New York: Vintage Books, 1990. The most recent view of the way the civic order works today has been documented by Chester Finn and his colleagues at the Hudson Institute. See Vanourek, *op. cit.*

Harvard sociologist Robert Nisbet called America's civic institutions "intermediate associations." He said: "the social problems of birth and death, courtship and marriage, employment and unemployment, infirmity and old age were met, however inadequately at times, through the associated means of these small groups." Economists Peter Berger and John Neuhaus in their prescient treatise: *To Empower People*, called them "mediating structures." The historian Robert Wickes called "island communities." Harold Lasswell included them in his institutions of the civic order.

⁴¹ These distinctions were first developed in Philip M. Burgess and Roy Romer. *Regional Policy Management*. Denver: Western Governors' Policy Office, 1978. See also Philip M. Burgess. "Regional Organizations in Economic Development: Some Considerations and Guidelines." Paper prepared for Australian Lecture Tour, December 1995.

- a. Multi-jurisdictional problems** are problems that *require* inter-jurisdictional collaboration and joint action because of interdependencies. Examples: air quality, water quality, transportation networks, and telecommunications networks — in other words, any problem that is a "flow" issue or a "network" issue that requires "interoperable" systems within a region and between regions.
- b. Shared problems**, where problems are the same from jurisdiction to jurisdiction but solutions *do not require* joint action — even though there could be many benefits of joint action. Examples: job training, public management capacity building, police protection, fire protection, food inspection, health care, housing, and other problems where there are important economies of scale, divisions of labor or just plain conveniences to be gained (but they are not required).
- c. Political problems**, where the major problem is to aggregate power. There is nothing more political than economic development and the location and scheduling of infrastructure and other assets of a community. Because numbers count in a democracy, aggregating numbers and constituencies in a regional organization can be an important way to ensure investments in an area or region.
- These are not just academic distinctions. They are important because **different types of problems call for different organizational forms and strategies**. Example:
 - If you are solving multi-jurisdictional problems, you want an organization that is as *small* as possible.
 - If you are solving a political problem, you want an organization that is as *large* as necessary to win.
 - If you are solving a shared problem, you want an organization as large as possible that is still *efficient and manageable*.
 - It is also important to remember that there are seldom regional decision-making institutions — and those that exist are usually organizations with jurisdiction over a single function such as water allocation or air quality.⁴²
 - So the ability of regional organizations to solve multi-jurisdictional problems is severely limited unless decision-making capacity is mandated, delegated or otherwise created (which it usually isn't). Result: most regional organizations will be used to solve "shared" or "political" problems — even though the rhetoric will generally emphasize "multi-jurisdictional" and "decision-making" issues.

⁴² Ibid.

E. The Tactics of Building the HPC

In creating the HPC, it is important to ensure that issues of job and wealth creation are not separated from issues of education, transportation, health care, housing and general QOL, which is demanded by the high performance people that build and sustain high performance communities.

That means it is important to:

- a. Take a **comprehensive approach** that integrates economic and community development.
- b. **Align** talent, information systems and performance measurement to meet the requirements of the local situation.
- c. Be **customer oriented**; tailor activities to satisfy the unique needs of local entrepreneurs, SMEs and other enterprises, the primary customers of an HPC.
- d. **Teach** by high fidelity feedback systems in organizations, by packaging knowledge and "best practices" and by practical, hands-on approaches.⁴³
- e. **Learn** by developing and using assessment strategies and tools to provide high fidelity feedback re the performance of those being helped and the strengths and weaknesses of services provided.
- f. **Mobilize** strong support for change at all levels in the community — from elected officials to neighborhood groups.

F. Conclusion

These are the main elements of the high performance community. Readers will notice certain omissions — things like work-ready labor force, capital availability and other items that are commonly discussed in the context of economic development. This omission is by design. Reason: It's our view that these things happen in the context of institutions and processes that are created by the core elements of a high performance community. It's our view that the job of those responsible for economic development is to keep their eye on the ball to make sure that all those core elements are in place and sustained.

⁴³ I've always found it interesting that Peter Senge and other management gurus talk a lot about the "learning organization" but very few talk about the teaching organization. Though, in a formal sense, you can learn without being taught, it helps the process to give some attention to a teaching process.