



A WAY FORWARD: Building *a* Globally Competitive South



Global Research Institute

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Southern Industrialization Revisited: Industrial Recruitment as a Strategic Tool for Local Economic Development

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INTRODUCTION

Southern industrialization has long been associated with the practice of industrial recruitment: that is, an attempt by state and local governments to lure business establishments and investment to a region, often with the help of generous incentive offers or subsidies. As noted in MDC, Inc.'s *Shadows in the Sunbelt* report, "The Southern strategy for economic development has been simple: Recruit new industry. Industrial recruiters have been able to claim great success as thousands of new plants have located in the South, both in urban and rural areas." A similar message was echoed in *Halfway Home and a Long Way to Go's* review of economic development practice. Still, while acknowledging economic and employment gains from recruitment, both reports recommended significant policy changes in an attempt to end the pernicious practice of recruiting firms on the basis of a cheap, complacent Southern workforce and minimally regulated business environment.

Twenty-five years later, industrial recruitment continues to dominate Southern — and for that matter, non-Southern — economic development. At first glance, this suggests that the calls for reform put forward by the Southern Growth Policies Board and MDC were largely ignored. Yet in pushing for change, the authors of these influential reports also were careful to reserve space for improvements to industrial recruitment. In this regard, they foreshadowed and

likely helped inspire institutional changes currently under way in several areas of the South today.

This essay highlights some of these accomplished reforms through a case study of industrial recruitment involving North Carolina's biopharma manufacturing industry. In particular, it features innovative aspects of North Carolina's approach to recruitment and the specific steps that are taken by state and local practitioners to embed this strategy within a larger economic planning effort that centers on making high-quality jobs both accessible and long lasting in the state. The future challenge for this region is drawing policy inspiration and direction from this and related cases to reclaim industrial recruitment as a truly innovative, development-enhancing Southern tradition.

BACKGROUND AND CONTEXT

With the creation of the Balance Agriculture with Industry program in 1936, Mississippi became the first U.S. state officially to sanction and support industrial recruitment. The program was vetted and designed carefully, with nested layers of state and federal oversight and the added requirement that local decisions regarding the use of scarce public resources for incentivizing industry recruitment be put to a community-wide vote. Other Southern states quickly followed Mississippi's lead, thus enabling state and local agencies throughout the region to finance industrial recruitment and retention activities and

incentives and hire dedicated staff to support these efforts.

Still, as these strategies diffused across the regional landscape, recruitment practices changed considerably, and in the process, many of the early standards achieved through the program were watered down. Furthermore, recruitment efforts were dramatically rescaled, shifting from smaller deals with manageable incentive amounts in the 1950s and 1960s to fiercely competitive megadeals involving hundreds of millions in corporate tax breaks and cash giveaways from the 1980s onward. It is not surprising, therefore, that strategy diffusion met with considerable criticism, especially from economic development scholars and historians who claimed that Southern recruitment efforts simply encouraged Northern businesses to relocate south to take advantage of lower production costs, mostly in the form of a less educated and nonunionized workforce. In addition to the ever-increasing size of incentive offers, concern about labor arbitrage and growing awareness that businesses could easily relocate to even cheaper, non-U.S. locations eventually led to calls for widespread reform both from within and outside the South.

Over the past few decades, economic development practice in the region has changed considerably. Like other states, those in the South have embraced alternative development strategies and goals designed to promote entrepreneurship, upgrade and innovate technologies, and deepen workforce skills, often through increased investments in university infrastructure. Furthermore, many Southern states have tackled pressing equity concerns head-on by expanding the reach of their vocational-tech and community college systems, with the goal of providing individuals with a “second-chance” educational system for securing quality job opportunities and transferring existing skills from declining to expanding industrial sectors. These efforts reflect insightful recommendations

made by both MDC and the 1986 Commission on the Future of the South.

But this story of Southern strategy reform involves more than just a shift away from traditional recruitment activities. It also involves significant improvements to recruitment practice itself. Southern states continue to rely heavily on industrial recruitment. In fact, a national survey conducted in 2009 by the International City/County Management Association found that twice as many southern counties and municipalities had official plans for guiding industrial recruitment activities as had comparable plans for small-business development or industrial retention. As this finding suggests, recruitment remains a regional policy priority and continues to guide contemporary economic development activities in the South.

Still, it is important to recognize that not all industrial recruitment is the same. Some places in the South continue to recruit businesses in less than ideal ways and often rely on the use of excessive incentives that can undermine much-needed public services, including public education. But others use recruitment in a more strategic and targeted way and in the process embrace standards and performance controls that help to temper and moderate excessive incentive use. Furthermore, in some places, recruitment is not simply viewed as a development panacea but rather is situated within a larger portfolio of complementary development strategies, including those supporting workforce development and small-business assistance. In this context, recruitment may be used strategically to fill gaps in the local supply chain, to elevate the global status of or reposition a regional industry or cluster, or to expand career ladder opportunities for less educated individuals who might normally be excluded from processes of economic, industrial, and technological transformation. Furthermore, by linking recruitment to other economic development strategies, practitioners in

these places not only influence firms' initial location decisions but also, and more important, help to anchor them to the region and thus help to buffer against future rounds of disinvestment. Turning to North Carolina, we see how strategic recruitment efforts have been institutionalized in the case of biomanufacturing, with job-access and skill-transference concerns in mind.

RECRUITING IN THE LIFE SCIENCES

In recent decades, North Carolina has established itself as a national leader in life science industry development. Ranked third in the nation after California and Massachusetts, North Carolina boasts an expanding population of entrepreneurial biotechnology and medical device companies as well as the nation's highest concentration of clinical trial research support firms, most of which are homegrown. In addition, North Carolina is home to a fast-expanding biopharma manufacturing subsector, with prominent global firms in the mix, including Merck, Pfizer, Novartis, Biogen-Idec, and NovoNordisk. As this suggests, life science employment opportunities are not only isolated to holders of advanced degrees but also expand across all segments of the industry and include everything from entry-level production operators and manufacturing quality-control specialists to pharma technicians and research scientists. And this employment diversity is by design.

State agencies continue to play a crucial role in building the institutional

infrastructure needed to support life science innovation and entrepreneurship. This includes investing in institutions of higher education, research laboratories, technology-transfer systems, and venture financing. But industrial recruitment also plays a pivotal role in industry and employment expansion. This is especially true for biopharmaceutical manufacturing, whose development provides important job alternatives to both new labor-market entrants and manufacturing workers displaced from declining sectors in the state, such as textiles, furniture, and microelectronics. In contrast to other prominent life science states, few of North Carolina's biopharma manufacturers are homegrown. In fact, close to 85 percent are nonlocal, and many of them were actively recruited from Europe, Japan, and other U.S. locations.

In supporting the expansion of biopharma manufacturing, North Carolina's state government has long been praised for its innovative workforce development initiatives. But it is also a successful case of strategic industrial recruitment, which has been institutionalized through three interrelated practices. First, biopharma manufacturing recruitment efforts are best described as proactive and paced. State agencies try to avoid surprise deals, which can

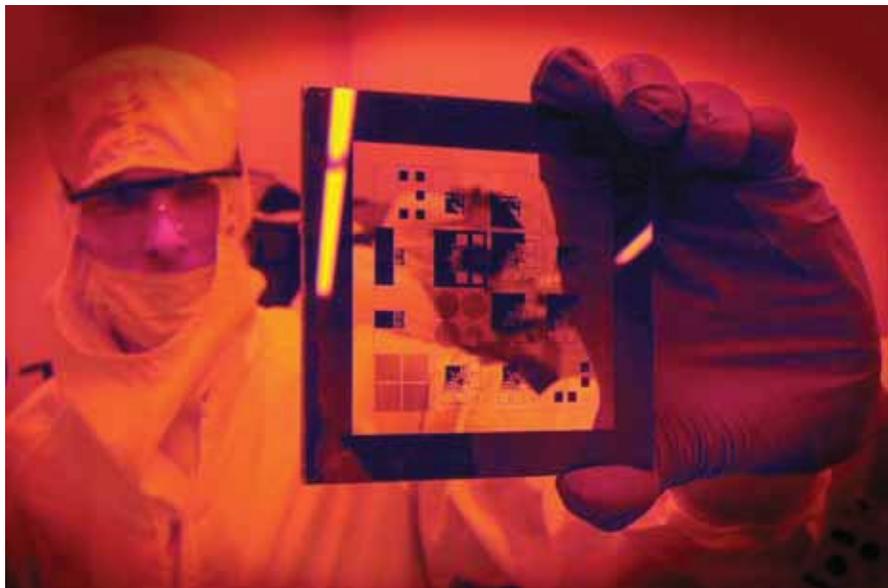


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undermine both preparedness and North Carolina's relative bargaining power. Instead, state agencies spend considerable time and resources identifying prospective biopharma firms years in advance of when they need to establish new manufacturing facilities. Staff at these agencies focus almost exclusively on industry analysis and data gathering. They continuously update information on hundreds of international life sciences firms, much of it gathered through informal conversations at industry meetings, networking events, and conferences. This information is used to estimate the time frame—often several years out—when pharmaceutical or biotech firms might be ready to establish new production facilities and ultimately helps state and local recruiters prepare well in advance for discussions with these firms and their site-location representatives.

A second, related activity involves up-front community preparation. Other states also support community development, often by helping local practitioners catalog and market industrial buildings and available infrastructure. But North Carolina prioritizes local-practitioner education. Local practitioners are brought into a state-coordinated outreach system that enables them to learn about the nuances of the biopharma industry, including technology and skill demands of both large and small manufacturing firms. Practitioners also learn about existing institutional supports within the state and how to leverage them to make their community more attractive to these firms. Again, this is not something that happens in response to a call by an industrial prospect but rather involves an ongoing process of outreach and professional development support.

A third important step involves bringing workforce development agencies into the mix early in the negotiation process. In other states, training institutions typically function in the background and during the early phase of a recruitment deal may simply be asked to write letters of support outlining the



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state's training commitment. In contrast, representatives from North Carolina's community college system are brought in early in the process and essentially sit at the head table during the first round of negotiations with prospective firms. In this regard, educators are treated as equals to state recruiters and thus receive an equal opportunity to learn about and influence prospective firms' thinking. This becomes essential for promoting the state's workforce development strengths and recruiting firms on the basis of worker skill and quality.

These practices are institutionalized through a complex division of labor involving three state-funded agencies. An essential actor in this partnership is the North Carolina Biotech Center (NCBC), which was established in 1981 as the nation's first state-funded economic development agency in the life sciences. The NCBC primarily focuses on information gathering and reaching out to life science firms at various phases of development. As the initial contact point for prospective firms, the NCBC also helps to reinforce long-range strategic thinking. In contrast to more traditional recruiters, NCBC staff are evaluated and rewarded not solely on the basis of successful recruitment deals but rather on the quality and depth of the relationships they develop with companies that may become future recruits. This practice encourages NCBC staff to stay well ahead of the recruitment process and to deepen their industry knowledge and networks.

The Department of Commerce, an agency often known as a more traditional recruiter in the state, also plays a key role. However, within this partnership,

its primary responsibility is community preparation—that is, helping local practitioners connect to various resources, networks, and individuals that can move them up the steep learning curve. Once NCBC has identified an interested firm, Commerce staff work with eligible communities and help them respond to the company’s request for information.

The third major player is BioNetwork, a consortium of community colleges in the state that provides specialized biopharma training. Its primary role is to promote the state’s workforce development system and to work with recruited firms to identify and address skills gaps. This partnership, which essentially forms the core of North Carolina’s biomanufacturing recruitment team, was formalized about five years ago but builds on strong institutional connections that date back 15 years or so.

This coordinated effort improves recruitment practice. First, this structure opens up the possibility for better community-company matchmaking. By working with communities and drawing on in-depth industry information, the biomanufacturing recruitment team is in a position to put forward select communities that offer the best combination of assets for a given firm. This approach can put team members in a potentially awkward situation where they might be accused of simply playing favorites among communities. To address this concern, recruiters also use their deep understanding of the industry to identify a subset of firms that recognize real advantages to locating in more remote or rural areas of the state. For example, a maker of poultry vaccines saw value in locating in a rural county, closer to its customer base. But team members also work together to develop and better market unique advantages of the state’s different regions.

This team approach also encourages a shift in focus away from the incentive offer toward other regional assets and advantages, such as quality local labor and strong research and development supports. In fact, by staying in close communication

with firms, team members can intervene when an incentive offer is initially requested and work to draw the focus toward other regional assets. Furthermore, by helping local practitioners recognize the importance of these locational advantages, the recruitment team helps to shift the bargaining power from the site-location consultant to the community while helping to reinforce performance standards for any local incentive that might be offered. This is not to say that the team’s actions eliminate incentives altogether; rather, by carefully mediating this recruitment process, the team shifts the focus to other locational advantages, thereby helping to reduce the relative size and importance of the incentive. As one illustration, an executive from Novartis stated in the *Atlanta Journal-Constitution* that the “main reason for selecting” a site in Holly Springs, North Carolina, “was the availability of a highly trained workforce.” Although Georgia offered Novartis a significantly larger incentive package, North Carolina was selected for the \$1.2 billion vaccine-manufacturing plant because of the high quality of public education and workforce development.

HOPEFUL LESSONS FOR THE FUTURE

The wrong lesson for other states in the South is simply to follow North Carolina’s lead in life sciences. This industry, after all, has specific institutional demands to support ongoing processes of innovation and applied research and development—institutions that North Carolina has spent decades building. Biomanufacturing firms are less dependent on these particular institutions because they are not research and development intensive. Nonetheless, they are attracted by North Carolina’s rich institutional environment and in recent years have even turned to some of these support institutions for help in biomanufacturing innovations.

Rather, the transferable lesson involves the particular way that recruitment

is institutionalized and embedded. As we see from this North Carolina example, low-wage advantages have given way to the active promotion of workforce skill and customized training supports, qualities that are relevant to a wide range of industries, not just life sciences. Similarly scattershot approaches to recruitment are being replaced by sectoral strategies that target specific groupings of firms, often with a goal of filling gaps in local supply chains or career ladders. Other states in the South likely will have a distinct set of regional advantages and industrial and institutional legacies from which to build a strategy of sector targeting. Still, by targeting particular sectors and using recruitment to address gaps, whether employment or supply chain related, state leaders will be in a better position to focus institutional resources and guide policy learning. Moreover, recruitment activities in North Carolina are highly coordinated, involving intensive collaboration among multiple agencies and nested levels of government. This structure helps to provide an important check against opportunism and hasty decision making on the part of potentially job-hungry communities. The ultimate result is a more tempered approach to industrial recruitment that not only helps to limit excessive incentive use but also ensures that recruitment activities are firmly anchored to strategic economic development goals. In this regard, recruitment complements rather than competes with other aspects of economic development and functions as one element of a coherent policy platform. ■

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