BUSINESS RETENTION AND EXPANSION: "SYNERGIZING" SERVICE DELIVERY

A Comparative Analysis for Saving North Carolina's Existing Industries

Will Lambe, Author and Researcher
Bill Schweke, CFED Project Supervisor

cfed
expanding economic opportunity

123 West Main St
Suite 210
Durham NC 27701
Ph: 919.688.6444
Fx: 919.688.6580
www.cfed.org

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EXECUTIVE SUMMARY

The goal of economic development programs in North Carolina is to improve the economic well-being and quality of life for all North Carolinians.[1] In order to pursue this goal, the practice of economic development is divided into four sets of activities: (1) strategic planning, (2) industrial recruitment, (3), entrepreneurial development and (4) business retention and expansion.[2] In response to the continued loss of small manufacturing firms in North Carolina, this paper will seek to answer the question:

> *How can the state optimize synergies between local, regional, and state Business Retention and Expansion programs to maximize their effectiveness for small manufacturing firms in North Carolina?*

BACKGROUND

In the last 5 years, North Carolina has lost more than 165,000 manufacturing jobs. However, more importantly in terms of this project's aims, manufacturing continues to be a vitally important contributor to our state's economy. The manufacturing sector:

- employs 15% of our state's workforce, or nearly 600,000 people;
- contributes 23% of our state's total economic output;
- pays a "fair" wage of $818 per week, which is twice that of retail and agriculture and three-times that of food service; and
- generates economic "spin off" of $1.43 worth of economic activity for every $1 in manufactured goods produced.

Given these conditions, the basic rationale for Business Retention and Expansion (BR&E) programs is as follows: The average community derives 76% of its new jobs and capital investment from existing business. Alternatively, when existing industries fail and are forced to layoff workers, public costs (including unemployment compensation, welfare, and health care expenses) can skyrocket. Therefore, given the public value of existing industry on one hand, and the public cost of structural unemployment on the other, the public sector may provide limited resources to private industry in order to retain firms and to avoid large-scale layoffs. These activities and resources are referred to as being parts of a BR&E program.

PROBLEM

This report addresses the following problem: *The State of North Carolina has lost – and continues to lose – too many small manufacturing firms, which are at the core of our state's economic base.*

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[1] As defined by the North Carolina Department of Commerce.

[2] Luger, M.I., and Stewart, L.S., Improving North Carolina's Economic Development Delivery System: A Report to the North Carolina General Assembly. In response to Senate Bill 1115, S.L. 2002-126. The Frank Hawkins Kenan Institute of Private Enterprise, Chapel Hill, North Carolina. 2003

In the last 5 years, we lost more than 1600 small manufacturing facilities (defined as employing <500 people). Although many of these losses are attributable to "natural" market turnover, given the wide range of reasons for plant closures and the findings from this analysis, there is a widespread consensus in our state that a substantial number of these firms might have been saved by a proactive, coordinated, and synergistic BR&E service delivery system.

FINDINGS

North Carolina has a variety of resources in place, at the state, regional, and local level for addressing the problems of Small Manufacturing Firms (SMFs) and helping them to remain as competitive as possible. The main findings from this analysis are:

Positive

- BR&E has increased in prominence among other economic development objectives at the local level
- No shortage of technical, marketing, or training assistance for SMFs
- Incentives for new industries are also available for the expansion of existing industries

Negative

- Uncoordinated and reactive economic development delivery system
- BR&E not a top priority within the state Department of Commerce, both in terms of funding and stature
- Overlapping client contact from different levels of the system
- No centralized collection of data from existing industries in the state, which precludes analysis of trends and accurate predictions
- Gap between the services and programs that are available, and the knowledge of them at the firm level

Neutral

- Successful BR&E built on relationships, trust, and confidentiality
- Local retention specialists have more history and tighter relationships with local manufacturing firms (than specialists from the state or region levels)

CRITERIA

A BR&E service delivery model that meets each of these criteria will harness the synergies possible in our state, given limited resources.

1. Maximize effectiveness of statewide BR&E service delivery
2. Maximize systemic proactivity
3. Maximize subsidiarity
4. Engage all relevant stakeholders
5. Maximize political feasibility

OPTIONS

This study used comparative analysis to explore four options, each based on a model currently at work in another state. These include:

1. Regional layoff aversion contractor: *Strategic Early Warning Network* (Western Pennsylvania)
2. Local membership association: *Westside Industrial Retention and Expansion Network (Wire-Net)* (Cleveland)
3. Non-profit university-based program: *Kent State's Ohio Employee Ownership Center* (Ohio)
4. State development authority initiative: *Foundations for Growth* (Alabama)

The common theme across each of these models is that they serve manufacturing firms in their respective states. In addition to providing direct service, each of these models has a "catalyzing" element – that is they work across organizational lines to bring resources to manufacturing firms. Each has a different organizational structure and level of authority, which means that they use different means for optimizing synergies between stakeholders involved with BR&E.

RECOMMENDATIONS

> *North Carolina should implement a model based on the Foundations for Growth initiative in Alabama – which uses technology and training to upgrade BR&E.*

This approach would minimize redundancies in BR&E service delivery; it would close the gap between services that are available and knowledge of them at a local level; it would allow state policy makers to identify statewide industrial trends, leading to more efficient resource allocations; and it would create a communication link between local, regional, and state retention experts.

This new model will require the following changes to North Carolina's BR&E service delivery system:

- First of all, local developers – those with the closest links to SMFs in their region – would become the primary contacts between firms and public sector retention services.
- The Department of Commerce would purchase a BR&E software program and manage its implementation as well as the analysis of data aggregated from across the state.
- State retention specialists from Commerce would shift responsibilities from visiting SMFs to visiting and training local retention specialists in the collection and analysis of data.
- The Commerce existing industry division would be charged with educating local developers about the wide variety of services and programs available for industry in North Carolina.
- The Commerce existing industry division would provide modest support for networking among BR&E institutions and leaders, including convening meetings, developing newsletters and training materials, and supplying technical assistance based on best practices elsewhere.

Chapter 1 – Introduction and Background

North Carolina continues to lose valuable manufacturing employers and – by extension – the jobs that accompany them. In a market economy, a certain amount of churn, or "creative destruction," is inevitable and healthy.[3] However, firms shut-down or layoff workers for a variety of reasons, not all of which are unavoidable. In some cases, import competition prices a locally produced good out of the market, or technology-driven gains in productivity force certain jobs into obsolescence. In other cases, a business owner fails to plan for succession, leading to liquidation of their business upon death, or a branch plant operates profitably, but not profitably enough for corporate expectations. These examples are some of the many reasons for the continued loss of manufacturing jobs in North Carolina.

National research indicates that the average community derives 76% of its new jobs and capital investment from existing business.[4] Alternatively, when existing industries fail and are forced to layoff workers, the public costs – in terms of increased unemployment compensation, welfare, and health care expenses – can skyrocket. Therefore, given the value of existing industry on one hand, and the public cost of structural unemployment on the other, the public sector can provide resources (under certain circumstances) to private industry in order to retain firms and to avoid large-scale layoffs. Business Retention and Expansion (BR&E) refers to a community's effort to help local businesses survive and grow within their community.[5] BR&E models operate at different levels of government, and they vary across states, regions and counties within North Carolina.

In response to the continued loss of small manufacturing firms in North Carolina, this paper will seek to answer the question: *How can the state optimize synergies between local, regional, and state Business Retention and Expansion programs to maximize their effectiveness for small manufacturing firms in North Carolina?*[6] There is a widespread belief among North Carolina's development community that a preventative posture is crucial in order to optimize the effectiveness of our state's current retention efforts.[7] This analysis will consider four options: (1) a regional layoff aversion contractor; (2) a local membership association; (3) a non-profit

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[3] Creative destruction is the expression introduced by the economist Joseph Schumpeter to describe his view of the process of industrial transformation that accompanies radical innovation. In Schumpeter's vision of capitalism, innovative entry by entrepreneurs was the force that sustained long-term economic growth, even as it destroyed the value of established companies that enjoyed some degree of monopoly power.

[4] Canada, Eric The importance of an existing business strategy. Blane, Canada Ltd., 2006.

[5] Morse and Loveridge, BR&E: Is it for our community? NERCRD Publication No. 72., 1997.

[6] Synergies are defined as the effects of two or more agents working together to produce an effect that is greater than the sum of the parts.

[7] See, for example, the North Carolina Rural Economic Development Center and the Dislocated Worker Advisory Committee. "Gaining a Foothold: An Action Agenda to Aid North Carolina's Dislocated Workers." April, 2005. In 2004, the Rural Center convened an 18-member advisory committee made up of leaders in workforce, economic and human services programs to develop strategies for dealing with economic dislocation in the State. The committee's final report included recommendations that the State: 1. Establish the 'system infrastructure' for an early warning system and for effective, collaborative response to economic disasters involving local public leaders and the voluntary/nonprofit sector; and 2. Develop strategies to prevent economic disasters and worker dislocation.

university based program; and (4) a development authority initiative using technology to upgrade BR&E.

BACKGROUND

Our state's manufacturing sector continues to be a significant source of jobs. In recent years, however, it has been suffering under the strains of economic downturns and globalization (see Appendix B). In the last 5 years, North Carolina saw a record number of jobs lost, plants closed, and mass layoffs as major elements of its traditional manufacturing base moved abroad. However, there may be reason for optimism. We may be losing more than we need to, and opportunities exist for improving the state's capability to retain existing industries.

Given the economic "shake-out" of the last few years, a snapshot of *today's manufacturing sector* in North Carolina is telling – and begins to shed light on the importance of the sector for our state's overall prosperity. Manufacturing:

- employs 15% of our state's workforce (or roughly 600,000 workers),[8]
- encompasses 10,700 individual facilities across the state (95% with fewer than 500 employees),[9]
- contributes 23% of our state's total economic output,
- pays an average weekly wage of $818,[10] and
- generates "spin off" of $1.43 worth of additional economic activity for every $1 in manufactured goods.[11]

Also, given the continued importance of small manufacturing firms in the state, when a community in North Carolina loses valuable employers, it also loses consumer spending and taxes and suffers the reverse of the spin-off effect, which impacts other jobs in the region. It might also have to spend money, through the federal, state and local governments on increased unemployment compensation, medical and welfare payments, and more serious crisis intervention services. Another impact can be the long-term decline of cities and neighborhoods created when mass dislocations occur. This can be especially true in rural areas of the state, where there may be fewer employment opportunities. The field of economic development grapples with each of these problems through a wide range of policies and programs.

Economic Development in North Carolina

In order to understand the mechanisms through which BR&E programs connect public resources to private firms, it is useful to step back and take a broad survey of economic development delivery in North Carolina. In general, the practice of economic development can be divided into four sets of activities: (1) strategic planning, visioning, and coordination, (2)

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[8] Author's calculations based on data from the North Carolina Employment Security Commission. Available at: http://www.ncesc.com/lmi/default.asp?init=true.

[9] Author's calculations based on data from LINC (Log Into North Carolina). Available at: http://data.osbm.state.nc.us/pls/linc/dyn_linc_main.show.

[10] Compared to Retail services ($424), Agriculture ($472) and Accommodation and food services ($232).

[11] From the National Association of Manufacturers, using data from 2005.

industrial recruitment, (3) entrepreneurial development, and (4) business retention and expansion.[12] The actors involved in each activity include state, regional, and local governments, non-profits, colleges and universities, and for-profit companies.

Business Retention and Expansion

This analysis will focus only on one of these activities – Business Retention and Expansion (BR&E). The ultimate aim of BR&E is to stimulate local economic development by helping existing businesses increase their sales and employment, through a combination of programs that not only increase these firms' competitiveness but also improve the community's quality of life.[13] BR&E is a means to several ends, including the prevention of layoffs, retention and expansion of local firms, the fostering of an economic spin-off effect, and the attraction of new investment into the community. A conceptual model of BR&E is provided in Appendix C. The most common activities associated with BR&E are:[14]

- routine visits by economic development professionals to existing businesses, to assess their situation and pre-empt any problems;
- technical assistance by various organizations, to solve particular problems, either in person or via "service centers;"
- job retraining and re-skilling assistance;
- marketing assistance for existing firms to find new domestic or international markets and develop strong local buyer-supplier linkages; and
- provision of financial incentives, especially for modernization and expansion.

Theoretical Framework for BR&E

BR&E programs focus on manufacturing companies because the sector has a substantial economic impact, both in terms of better paying jobs and the ripple effect of creating additional jobs in local communities.[15] The theory behind BR&E is based on four suppositions:[16]

1. In a dynamic economy, some firms inevitably die or depart. However, total jobs can grow over time if viable companies are retained and able to expand.
2. Manufacturers will generally seek to avoid the costs (financial and operational) of moving. Companies—especially smaller, locally owned businesses—have many incentives to stay where they are.
3. Existing firms are an "efficient" focal point for economic development efforts. There is often a good reason why they selected their current location in the first place.
4. To survive and expand locally, companies need to remain competitive in the market for their products. Particularly for smaller companies, an effective retention program can

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[12] Luger & Stewart, 2003.

[13] Morse, G.W., The retention and expansion of existing businesses: Theory and practice in business visitation programs. Iowa State University Press: Ames, Iowa, 1990.

[14] Luger & Stewart, 2003.

[15] Eileen Appelbaum, Peter Berg, et al., Manufacturing Advantage: Why High-Performance Work System Pays Off. ILR Press, 2000.

[16] Mayer, N.S., Saving and Creating New Jobs: A Study of Industrial Retention and Expansion Programs. A study from the Center for Community Change (CCC), U.S. Department of Housing and Urban Development and the Pew Foundation, 1998.

improve a manufacturer's ability to compete by providing assistance in such areas as marketing, technology and location of qualified workers.

A proactive approach to BR&E can minimize losses

Proactive BR&E refers to retention efforts with an eye toward preventing facility shut-downs (rather than reacting to specific conditions or situations). Proactive BR&E programs have systems in place that allow them to identify – through the collection and analysis of accurate and timely data – signals that certain companies may be having problems before trouble is imminent. These systems are sometimes called "early warning systems (see appendix D for details on Early Warning) ."[17] Several communities in North Carolina utilize early warning systems to monitor existing industries, but this practice is limited.

Local BR&E programs can achieve positive outcomes when services are delivered well

A 1998 study of four community-based programs concluded that BR&E programs are keeping firms in areas they might otherwise leave, fostering companies' competitiveness and growth, and increasing job opportunities for disadvantaged people; that they are doing so efficiently; and that people-to-people activities are usually the most effective.[18] However, according to the study, these positive outcomes were possible only when programs were run by well-trained, experienced staff with credibility in the local business community, and when programs had clearly defined linkages with local, regional, and state-wide actors.

BR&E can be cost effective

Given the value of BR&E efforts, it seems appropriate to point out the cost of these programs vis-à-vis business attraction. The recent tax incentive package granted to Dell – to build a facility in Forsyth County – amounted to approximately $120,000 per job.[19] In a more extreme example, the State offered $ 572,700 per job in 1998 to lure Nucor's headquarters to Charlotte and offered FedEx $ 167,200 per job to build a facility at Greensboro International Airport the same year.[20] On the other hand, using a sample of community-based business retention programs across the country, the Center for Community Change (CCC) has calculated the average cost for job saved, through an effective BR&E program, to range from $200 to $4,000.[21]

Although these costs do not account for tax revenues, employment longevity, and other important factors that would lend validity to these comparisons -- this disparity is striking enough to warrant consideration. The major difference between the cost to retain and the cost

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[17] Early warning systems seek to identify (1) individual firms that may be at risk to inform response strategies that help prevent layoffs and support the remaining firms viable; (2) potential layoffs of workers that can not be prevented: to be able to provide adjustment services as quickly as possible; and (3) labor market trends to inform economic/workforce development strategies. From Early Warning/Retention Data Sources, Resources and Issues. Unpublished manuscript from Tom Croft, Executive Director of Pennsylvania's Strategic Early Warning System (SEWN). Undated.

[18] Mayer, 1998.

[19] Charlotte Observer, North Carolina offers incentives for Dell plant, 11/5/04

[20] Op.Cit.

[21] Mayer, 1998.

to attract is based on the fact that business retention is built on relationships (rather than subsidies). BR&E organizations learn about firms' needs, provide direct services, and build links to other actors and institutions that can serve the companies. Staff costs are the main expense. The BR&E services that help most in retaining firms or helping them to expand are highly people-intensive, not large capital subsidies. When compared to the public costs of dislocation, and the costs of creating new jobs, BR&E appears to be a very smart investment.

Chapter 2 – Problem Statement and Research Findings

This chapter presents the overarching problem that North Carolina faces, followed by research findings. These findings are presented to illuminate the problem and provide some grounding for the recommendations. This analysis assumed a three-pronged strategy to address the question of what the state can do to optimize synergies within BR&E service delivery. Details of the methodology can be found in Appendix E.

PROBLEM STATEMENT

The remainder of this report addresses the following problem:

> *The State of North Carolina has lost – and continues to lose – too many small manufacturing firms, which are at the core of our state's economic base.*[22]

Small Manufacturing Firms (otherwise known as "SMFs") serve as the primary link between many communities in North Carolina and economic survival. Because most communities recognize the value of existing industries, BR&E operations are working – in varying capacities – at the local, regional and state levels to retain and expand the operations of key employers. However, in the last 5 years, North Carolina lost 1675 manufacturing facilities – 95% of which were SMFs (< 500 employees).[23] This loss translates into a net deficit of 165,000 manufacturing jobs – nearly half from SMFs. Although many of these losses are attributable to "natural" market turnover, given the wide range of reasons for plant closures or layoffs and the findings presented in this chapter, this analysis will argue that a substantial number of these firms could have been saved by a proactive, coordinated, and synergistic BR&E service delivery system.

In terms of the aims of this paper, perhaps even more important than these losses is the continued resilience of manufacturing in our state: 400,000 North Carolinians, or 11% of our total workforce, currently work for SMFs.[24] Small firms contribute more than 50% of the total value added in manufacturing and account for 75% of new jobs in the sector.[25] Last year manufacturing production represented $62 billion, or 23% of our State's total output and the State's labor productivity index ranking was the highest among the top ten manufacturing states (see Appendix F).[26] In addition, employment in the manufacturing industry is typically considered "good work" – in terms of compensation, healthcare benefits, and retirement security. Unlike employment in services and agriculture, manufacturing jobs typically offer

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[22] The national Association of Manufacturers considers firms employing fewer than 500 employees to be small-sized manufacturers. This paper will follow this delineation.

[23] Author's calculations based on data from the North Carolina Employment Security Commission.

[24] Author's calculations based on data from the North Carolina Employment Security Commission.

[25] Data from the North Carolina State University Industrial Extension Service (IES). Available at http://www.ies.ncsu.edu/_library/docs/questions1.pdf

[26] From the National Association of Manufacturers, 6/23/05.

living wages that support families in North Carolina. The bottom line: *The manufacturing sector – typified by small-sized firms -- can not be written of as the "old economy sector.*

RESEARCH FINDINGS

North Carolina has a variety of resources in place, at the state, regional, and local level for addressing the problems of SMFs and helping them to remain as competitive as possible. In addition to nonprofit and university-based programs, which work across all levels of the state, the public sector interacts with SMFs in North Carolina at three main levels – the state, regional, and local. At the state level, the Department of Commerce (NCDOC) operates a modest BR&E operation, including a business service call center. At the regional level, the state is divided into seven economic development partnerships which generally focus on marketing their region, both to new firms and to potential clients of existing firms (i.e., export promotion). At the local level, county economic development associations and chambers of commerce focus – in varying degrees – on existing industries within their communities. *The first and most obvious point is that with so many different actors offering overlapping assistance from different levels of the state, coordination becomes a prominent challenge*. The following chart summarizes the major actor's involvement in the most common BR&E activities:

Reach ↓	Activities → Actors ↓	Routine visits by economic development professionals to existing businesses	Technical assistance to solve particular problems	Job retraining and re-skilling assistance	Marketing assistance to find new domestic or international markets	Provision of financial incentives
Statewide	NCDOC Business & Industry Division	Yes	Yes		Yes	Yes
	NCDOC International Trade Division				Yes	
	NCDOC Division of Employment and Training			Yes		Yes
Regional	Regional Partnerships	Yes			Yes	Yes
	Workforce Development Boards	Yes		Yes		

Local	Local Economic Developers	Yes	Yes			Yes
Varying	Universities, Colleges and Non-profits	Yes	Yes	Yes	Yes	

POSITIVE FINDINGS

From a local perspective in North Carolina, BR&E has gained prominence among other economic development objectives:

Over the last 5 or 6 years, many local development agencies (if not most) have started focusing on retention and expansion of existing industries. This point was expressed in interview after interview. For example, Franklin County has recently created a new position within the Franklin County Economic Development Corporation. On the other hand, the executive director of the Beaufort County Economic Development Commission concentrates a substantial portion of his time on existing industries. Lincoln and Gaston Counties have had full-time existing industry specialists on staff for 6 years each. Increasing global competition has highlighted the importance of existing industries across most communities in North Carolina and local developers have responded.

There is no shortage of technical, marketing, or training assistance for SMFs in North Carolina:

If a company has a market for their product, and an adequate management team, there are resources available throughout the state to assist SMFs. These include:

- International Trade Division at NCDOC: provides assistance to North Carolina businesses seeking to take advantage of overseas market opportunities. Export support services include counseling and referral, distributor assistance, trade shows, export financing, and advocacy.
- Division of Employment and Training at NCDOC: provides incumbent worker and on-the-job training to employees of qualified businesses across the state through 24 Workforce Development Boards.
- N.C. Community College System (58 colleges): customized industry training programs including the Focused Industry Training program.
- North Carolina State University's Industrial Extension Service (IES): consists of various free and fee-based programs to enhance the profitability and competitiveness of manufacturing companies statewide; receives some federal support through the Manufacturing Extension Partnership. NCSU also has programs focused on specific industries including polymers and textiles. IES is currently embarking on a strategic effort to collect more revenue from fees for service.
- Small Business and Technology Development Centers (SBTDCs): administered by the University of North Carolina system and housed in each of the 17 campuses. These help North Carolina businesses grow and create new jobs within the state through management

training, education, specialized research and technology consulting to small and mid-sized businesses.

- North Carolina Biotechnology Center: provides training, networking, technical assistance to pharmaceutical and life sciences companies statewide.

Incentives for new industries also available for the expansion of existing industries:
The business incentive programs in North Carolina allow for benefits to flow to existing industries that are expanding their operations. These programs are administered by the NCDOC "Commerce Finance Center" and include:[27]

- William S. Lee Quality Jobs and Expansion Act: Rewards eligible companies expanding or relocating in North Carolina that hire within the North Carolina workforce to fill positions.
- Industrial Revenue Bonds: The State's principal interest in Industrial Revenue Bonds is assisting new and expanding industry while seeing that North Carolinians get good jobs at good wages.
- Composite Bonds: The Composite Bond Program looks to build on the already advantageous aspects of the issuance of Industrial Revenue Bonds.
- Community Development Block Grants: These funds may be accessed by local government applicants (municipal or county, excluding entitlement cities or designated urban counties) with proposed projects that involve a specific business creating or retaining jobs.
- The Industrial Development Fund: Provides incentive industrial financing in the form of grants and loans. These funds may be accessed by local government applicants (municipal or county).
- One North Carolina Fund: Provides financial assistance to those businesses or industries deemed by the Governor to be vital to a healthy and growing State economy and are making significant efforts to expand in North Carolina. The fund is a competitive fund and the location or expansion must be in competition with another location outside of North Carolina.
- Job Development Investment Grant: This discretionary incentive may provide sustained annual grants to new and expanding business measured against a percentage of withholding taxes paid by new employees. The program is competitive and the Economic Investment Committee, which oversees it can award up to 25 grants in a calendar year.

NEGATIVE FINDINGS

Uncoordinated Economic Development Delivery System:
At the recent Emerging Issues Forum in Raleigh, former IBM executive Lou Gerstner drew a parallel between the current state of economic development in North Carolina to the balkanized divisions of IBM in the early 1990s, in a competitive rather than collaborative culture, and without a clear customer focus.[28] Since 2003, there have certainly been incremental steps forward, but according to interviews with local, regional, and state developers -- this generalization still holds true today. Although the resources are plentiful, the delivery of those resources is, more often than not, uncoordinated and haphazard.

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[27] Details available at www.nccommerce.com.

[28] From Luger & Stewart, 2003, p.3.

BR&E is not a top priority within NCDOC – both in terms of funding and stature:
The BR&E operation within NCDOC includes seven full time existing industry specialists working out of 9 regional offices, as well as a telephone call center for industry inquiries. BR&E is allocated approximately 13% of the total resources spent on economic development.[29] The remaining 87% of the state's economic development budget goes toward attracting new industries to the state, fostering business formation within the state, and various community development initiatives.[30] In addition, since business retention is not a "headline grabbing" activity (as opposed to attraction of new firms), retention operations are not accorded stature within the department.

NCDOC does not collect consistent data from existing industries in North Carolina, which precludes analysis of trends and accurate predictions:
Retention specialists from NCDOC do not ask a consistent set of questions during calls on companies, and the data that they gather is driven by company concerns. Data is collected, but is not analyzed in any coherent manner. Although this is not necessarily a negative for all intents and purposes, the lack of consistent data on existing industries in North Carolina precludes the possibility of analyzing aggregate data for trends and predictions.

On the other hand, at the local level many communities in North Carolina collect and track data on their existing industries. Cabarrus and Randolph counties have begun using a BR&E software program that facilitates consistent data collection and analysis. North Carolina does not have the technological capacity to aggregate local data into a centralized location for analysis.

Reactive services for dislocated workers are well-coordinated and funded, but proactive BR&E is not:
In terms of economic dislocation, BR&E could be considered proactive policy, whereas rapid response is reactive policy. Rapid response includes a range of activities, coordinated by the NCDOC and delivered to dislocated workers when facilities close or layoff a substantial number of workers.[31] Rapid response services are provided to workers affected by the layoff or closure and the Dislocated Worker Unit, which delivers rapid response, is well-coordinated and funded. It operates through effective networks of public, private and nonprofit service delivery agents.

There is no coordination between BR&E and Rapid Response at NCDOC:
What seems like a natural alliance, between the NCDOC division responsible for helping existing industries – and the NCDOC division responsible for responding to mass layoffs – is

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[29] From the National Association of State Development Agencies, 2002 State Economic Development Expenditure Survey. Cited in Luger & Stewart, 2003.
[30] Op. cit.
[31] Rapid Response refers to those activities necessary to plan and deliver services to enable dislocated workers to transition to new employment as quickly as possible, following either a permanent closure or mass layoff, or a natural or other disaster resulting in a mass job dislocation. From Title 20 of the Code of Federal Regulations, Section 665.300-665.320.

actually not an alliance at all. There is minimal communication between the Rapid Response division (from the Dislocated Worker Unit at NCDOC) and the existing industry team (from the Business and Industry division at NCDOC). The services provided by Rapid Response could be improved through collaboration with BR&E. Put most simply, the priorities of NCDOC are not aligned toward serving existing industries. The department is focused on, and geared for, attracting new industries to the state and reacting to mass dislocations.

BR&E service delivery is not organized to facilitate coordination and communication among specialists at different levels (state/region/local):
The goals and targets for retention specialists are designed to ensure that a certain number of companies receive face-to-face visits, not that individual developers coordinate their efforts. Interviews revealed that, more often than not, retention specialists with overlapping jurisdictional responsibilities do not communicate on a regular basis. This lack of communication can lead to duplication of efforts and wasted resources within BR&E service delivery, as well as an unprofessional and negative perception of public service.

Overlapping Client Contact:
BR&E specialists from NCDOC make 10 face-to-face calls (per week) on existing industries in their area. In addition to the NCDOC business visitation program, the Business and Industry Division also operates a statewide "Business Service Center" telephone call center which takes incoming, and makes outgoing calls to companies across the state. The North Carolina State University's Industrial Extension Service operates a separate business visitation program, with 9 regional specialists spread across the state. At the local level, chambers of commerce or economic development councils often have deputy-level specialists who run visitation programs. *The result of these overlapping visitation programs is that any particular facility could receive 3-4 different visitors in a given period of time – representing some form of BR&E program – without any coordination of resources*. This overlapping client contact leads to confusion and ambiguity about what is available from whom, and can foster outright disdain for public services in general.

A gap exists between the services and programs that are available, and the knowledge of them at the firm level:

> Interviews with local developers indicated that the services available to industries are simply not well targeted and/or marketed. We have a wide range of potentially "life-saving" services and programs for SMFs in North Carolina, but too often the right service does not reach the right person at the right time. The market needs an "expeditor" function – someone well informed about programs and services across the state – who can link industry to their specific needs.

NEUTRAL FINDINGS

The success of BR&E is built on relationships and trust:
Plant managers are much more likely to solicit assistance from economic developers with whom they are familiar and that they trust. The retention specialist who has the tightest relationship

with the plant manager will be the most successful, in terms of assisting companies in North Carolina. In most cases, this is the local developer and not the state retention specialist.

Local retention specialists have more history and tighter relationships with local manufacturing firms (than specialists from the State or Region levels):
Interviews revealed that local developers are more tuned-in to local manufacturers and have a longer history with them. For example, Gaston County has a database of all existing industries in their county, including history of visits, complaints lodged, problems solved, and contact information going back 15 years. Given the geographic scope of local retention specialists, it is natural that they would know their local manufacturing communities better than state authorities.

Business retention and expansion is a quiet and confidential affair:
The relationship between existing industries and public sector representatives is rooted trust and confidentiality. Therefore, the activities within a particular retention effort often go "under the radar." In contrast with business attraction, business retention is rarely a headline-grabbing activity.

Chapter 3 Criteria And Options

CRITERIA

This analysis has employed the following criteria to assess the projected outcomes of the options presented in the next section. The criteria selected are concrete and evaluative objectives of a *synergistic* BR&E system. The ultimate goal is to envision a system that maximizes the synergies possible within realistic constraints. These criteria are intended to impose constraints, as well as highlight synergistic elements of service delivery. Literature, interviews, and intuition suggest that a BR&E service delivery model that meets each of these criteria will harness the synergies possible in our state, given limited resources.

- *Maximize effectiveness of statewide BR&E service delivery*
- The purpose of this criterion is to evaluate the likelihood of an option improving BR&E across the state, rather than aiding one area at the expense of another, and also to identify any rural/urban bias imposed on the system.

- *Maximize systemic proactivity*
- One goal of BR&E should be to establish systems and procedures that allow retention specialists to identify troubled firms before it is too late. This criterion is intended to isolate whether the outcome of any particular option will facilitate the collection of data for predictions and trends analysis.

- *Maximize subsidiarity*
- A realistic option will empower communities to make decisions that impact their economic futures. Subsidiarity will allow decisions to be pushed to the lowest level able to manage them, or as close as possible to those who will ultimately benefit. An option that meets this criteria will reduce the duplication of service and push local decisions into the hands of local actors.

- *Engage all relevant stakeholders*
- From the perspective of private firms (the clients of BR&E), retention services are only useful to the extent that all the stakeholders are at the table. This might include state, regional, local, government officers as well as financial service agents and training program representatives.

- *Maximize political feasibility*
- Political feasibility encompasses two concerns. First, options need to be feasible internally for NCDOC, regional partnerships, as well as local developers. This implies that new costs would be minimal and administrative burdens for shuffling resources negligible. Second, options requiring additional funding or appropriations must be able to pass through in the General Assembly given the current political climate.

OPTIONS

This section will explore four options for optimizing synergies between local, regional, and state retention programs to maximize the effectiveness of business retention for small manufacturing firms in North Carolina. (Refer to Appendix G for a summary of options in table format.)

Each option is based on a model currently at work in another state. These include:

1. Regional layoff aversion contractor: Strategic Early Warning Network in Western Pennsylvania
2. Local membership association: Westside Industrial Retention and Expansion Network (Wire-Net) in Cleveland.
3. Non-profit university-based program: Kent State's Ohio Employee Ownership Center.
4. State development authority initiative: Foundations for Growth in Alabama.

The common theme across each of these models is that they are concerned with servicing, in some way, existing manufacturing facilities in their respective states. In addition to providing direct service, each of these models has a "catalyzing" element – that is they work across organizational lines to bring resources to manufacturing firms. Each has a different organizational structure and level of authority, which means they use different means for optimizing synergies between the players involved with BR&E. These options vary in terms of geographic scope, age, and funding sources. They were chosen from a larger pool of options because of their reputations as examples of "synergistic" service delivery models, as well as their continued viability in today's global economy.

OPTION #1: REGIONAL LAYOFF AVERSION CONTRACTOR

The Strategic Early Warning Network, Western Pennsylvania

Summary

The Pennsylvania Steel Valley Authority's Strategic Early Warning Network (SEWN) is a sub-state, nonprofit, layoff aversion contractor that was launched in 1993 to monitor industries in southwestern Pennsylvania and develop strategies to retain key manufacturing industries and businesses when they appear to be at risk of closure or major downsizing. SEWN is unique in its strategy to bridge private market solutions with public resources: it implements market solutions supported by, but not dictated by, public economic development assistance for troubled firms. Today, SEWN operates in twenty counties, representing most of Western Pennsylvania.

Description

The Network provides confidential, efficient operational and financial restructuring, turnaround, buyout, and labor management services to firms in distress. With a small professional staff, SEWN has assisted all industry types, including steel, metals, electrical, industrial equipment, instruments, and food production. The SEWN staff manages an ever-growing internal network of private, nonprofit, and for-profit partners to augment its in-house staff and draw on specialized expertise.

Structure and Funding

SEWN operates as a non-profit with a public mandate, allowing for greater flexibility in hiring and financing. Establishing trust between businesses and a network of service providers requires hiring practitioners with experience and credibility in the business community. Successful retention practitioners are able to provide fast informed assessments, have certain business skill-sets and leadership ability to identify, marshal and manage a broad range of resources and processes that can come into play during a retention case. SEWN uses former or existing CEO's of firms that it has worked with as a source of managerial assistance, to legitimate SEWN's operations, and to acquaint troubled firms' ownership and management with what lies ahead.

SEWN's work is supported by Workforce Investment Act (WIA) Rapid Response dollars, matched with local government and foundation support. Diversified funding streams are an important ingredient for success, as bureaucratic funding approval would limit the effectiveness of SEWN's response.

Networks with State, Regional, and Local Stakeholders

SEWN's role is to serve as the primary link between troubled industries in their coverage area and other actors/resources throughout the state. Some of SEWN's success comes from being closely associated with and effectively recognized by the Governor's office. As part of the recent attention given to manufacturing industry retention by the governor and other state legislators, SEWN has assembled a regional retention team to advise and guide their network's expansion.[32] The team includes the Governor's Action Team, the State dislocated worker units, regional technology and planning agencies, city and county economic development groups, industrial unions and chambers, and utility and academic groups.

Impacts

Since 1993, SEWN has worked with approximately 380 companies representing over 25,000 full-time employees and an additional 5,000 employees who were on layoff at the time. The network has had a major impact on 3,442 of these jobs, extended the employment life of 4,467 jobs, and played a role in retention efforts for an additional 4,814 jobs. SEWN has had a positive impact on 12,724 manufacturing jobs.[33] SEWN has saved the Commonwealth of Pennsylvania hundreds of millions of dollars of otherwise lost wages, taxes, and required income supports.

Synergies

- Early warning database crucial for proactive identification of businesses at risk.
- Union ties and internal staff with business credibility facilitate "deep" access into company operations.
- Quasi public organization allows flexibility and adaptability in changing times. Also helps the organization say no.
- SEWN focuses on a particular subset of manufacturers – small (50-200), regional, locally owned. Therefore, they have a specific market niche, and have been effective at demonstrating success in that market and "getting the word out" to state/regional retention specialists. This allows developers working on retention cases to "refer" cases to SEWN. In essence, they have become a specialized BR&E service provider within a larger network of retention efforts.

[32] In March of 2004, the Governor of Pennsylvania (Edward G. Rendell) held a statewide summit to call attention to the state's most pressing challenge of attracting and retaining jobs in the manufacturing sector. Several months after the summit, the Governor's office released its strategy for manufacturing innovation, which included a renewed policy focus on retaining manufacturing sector employers in Pennsylvania.

[33] Steel Valley Authority, Annual Report, 2004.

OPTION #2: LOCAL MEMBERSHIP ASSOCIATION

Westside Industrial Retention and Expansion Network (Wire-Net), Cleveland

Summary

The Westside Industrial Retention and Expansion Network ("WIRE-Net") is a membership-based economic development organization that seeks to retain, grow, and attract manufacturing-related businesses and to link leaders to each other and to Cleveland's west side community. As a pioneer of "neighborhood-based industrial cooperation," WIRE-Net acts as an intermediary between businesses and the community by providing job training and referrals, workforce development services, industrial real estate services, and technology assistance to companies.

Description

WIRE-Net's approach to the issue of industrial retention is to combine labor force programs with direct assistance to member firms. With local manufacturers as its primary constituency, WIRE-Net offers a number of programs which foster the attraction, growth, and retention of local firms, including manufacturing and technology assistance, peer-to-peer learning, inter-firm collaboration, manufacturing advocacy, and an array of business consulting services. Although more than half of WIRE-Net's budget is dedicated to its employment programs, another major area of growth in recent years has been its industrial real estate efforts. In the early 1990s, WIRE-Net conducted a survey which found that one reason companies leave their west side base is because they want to expand and simply don't have the space. In order to fulfill its mission of retaining and expanding industry on the west side, WIRE-Net is in the process of developing a 15-acre industrial park.

Structure and Funding

WIRE-Net has implemented a distinctive organizational approach to dealing with industrial retention. In a sense, WIRE-NET is a manufacturing trade association model. By organizing as a membership-based, neighborhood-focused economic development entity, WIRE-Net has been able to overcome the familiar issues of credibility and buy-in from private sector firms. WIRE-Net customers are company leaders, rather than affected workers. The dynamic is unique and creates a situation in which companies are primary stakeholders in WIRE-Net's activities. In addition, the organization's geographic concentration allows it to maintain focus and demonstrate results.

WIRE-Net is funded through a combination of state and local grants, foundation grants, membership dues, and program revenues, and has earned its reputation mainly in the area of workforce development.

Networks with State, Regional, and Local Stakeholders

WIRE-Net's network of manufacturing companies, community development corporations (CDCs), business service providers, and policy makers includes the following:

- More than 210 manufacturing and related members (as of June 2004).

- Five CDCs: Each CDC collaborates with WIRE-Net and has its own unique focus to strengthen local retail districts, develop and maintain housing, and provide residential and other services.
- City, county and state policy makers.

Impacts

In 2004, WIRE-Net served 271 unique companies, placed 134 residents in area manufacturing related businesses, and created a coalition of Ohio manufacturers to promote policies to enhance the region's manufacturing capabilities. In 2005, the scale of service provision was similar, with about 300 companies served (encompassing approximately 13,000 jobs).

Synergies

- Membership structure creates a unique environment of collaboration between companies and developers, allowing the retention efforts of WIRE-Net to reach beyond traditional "outside the plant gate" issues, such as workforce and infrastructure, to inside issues, such as management assistance and strategic planning.
- Dues-paying members "purchase" the services provided by WIRE-Net, creating an ownership stake in the organization's success or failure.
- WIRE-Net links their members to local, state, and federal resources without overlapping client contact (from different levels of government).

OPTION #3: NON-PROFIT UNIVERSITY BASED PROGRAM

Ohio Employee Ownership Center, Kent State University

Summary

The Ohio Employee Ownership Center (OEOC) is a non-profit, university-based program working out of Kent State University to provide outreach, information, and preliminary technical assistance to Ohio employees and business owners interested in exploring employee ownership. OEOC's activities are designed to promote employee ownership under a variety of circumstances -- from succession planning to employee buyouts. It has also established that employee ownership can be a major tool to anchor capital and jobs locally as part of an overall economic development strategy.

Description

Employee ownership policy has developed in Ohio as a public-private partnership between the Ohio Department of Development (the state executive branch department devoted to economic development), a public university, private foundations, and the most committed employee-owned companies. OEOC provides free preliminary technical assistance to companies and unions interested in exploring the possibility of employee ownership. In addition, they offer ownership training on a single and multi-company basis to existing employee-owned firms.

Structure and Funding

This Kent State-based effort is the most successful, long-running public or nonprofit service center for promoting and encouraging employee ownership, as well as undertaking worker buyouts of closing, but still viable, facilities and firms. OEOC's successes demonstrate the critical importance of a clear, animating mission, measurable goals, deft positioning, and good, appropriately trained, and committed staff. The Ohio experience also documents the importance of a synergistic, complementary portfolio of services and products.

Funding for the Center comes from the Ohio Department of Development, private foundations, dues from firms belonging to Ohio's Employee-Owned Network, income from training contracts, and donations.

Networks with State, Regional, and Local Stakeholders

As described above, OEOC includes the Department of Development and the university. The employee ownership field includes two "trade associations" – the National Center for Employee Ownership and the National Employee Stock Ownership Plan (ESOP) Association. In addition, the Capital Ownership Group is an international network, spawned by the OEOC, consisting of the most important thinkers and doers in employee ownership in the world. And the Center has played an important role in creating an employee ownership trade association in Ohio itself.

Impacts

A preliminary study to quantify the wealth creation effect of the work of the OEOC estimated that the companies helped by the OEOC to become employee owned created more than $300 million in employee wealth between 1987 and 2001 and that this total grows annually by more than $20 million in new wealth for worker owners. (The total wealth figure does not include equity which retirees cashed out over the period.)

Since 1987, OEOC has helped 438 Ohio companies, employing more than 83,000 people, to explore the possibility of employee ownership. Of these, 64 have implemented partial or complete employee ownership plans. In fiscal year 2003, OEOC provided technical assistance to 39 companies and employee groups investigating employee ownership; these companies employed 5,260 people.

Synergies

- Employee ownership brings all stakeholders together – including employees, managers, community leaders, and funders.
- This model taps into the intellectual resources of a university to promote retention of local firms – albeit through a specific mechanism.
- Public-private partnership – with funding from the state and expertise from the private sector – helps to exploit the positive elements of both sectors, without relying on negative elements.

OPTION #4: STATE DEVELOPMENT AUTHORITY INITIATIVE

Foundations for Growth, Alabama

Summary

The Foundations for Growth program is a statewide effort, initiated by the Economic Development Partnership of Alabama (EDPA), to provide local development organizations a proven tool for servicing existing industries. Its ultimate goal is to upgrade the BR&E programs across Alabama by developing a uniform system for the collection and analysis of information on their industrial base. Each county or region responds to companies in whatever manner it wishes and develops its own approaches to firm outreach. The purpose of the program is to provide a consistent statewide method for accumulating data needed to spot and analyze economic trends at the state, regional, or local level.

Description

In order to collect and analyze state-wide data on existing industries in Alabama, EDPA purchased a master license for a business retention and expansion software program called *Synchronist.* Access to the software is made available to any local or regional economic development organization in the state through licensing agreements – at a greatly reduced cost. The program includes a survey instrument, an easy data entry component, the capacity to generate 40 different pre-programmed reports and to enable users to capture, codify, and report over 250 data points of interest, and a tool for assessing (and ranking) the vulnerability and strengths of individual companies. It offers in-depth answers to questions such as a business's value to the community, its growth potential, its risk of downsizing or leaving, the company's satisfaction with the community, existing or emerging problems, and untapped marketing opportunities.

Confidentiality safeguards are maintained through licensing agreements, which are crafted between individual counties and EDPA. EDPA provides interviewer training classes, software use instruction, and technology support.

Structure and Funding

EDPA's approach to data collection is to sell local communities on the concept, and then provide the necessary support elements (software and training). They operate on the belief that the value at the local level is a requisite success factor from the standpoint of building relationships and providing follow-through on local issues. Representatives at the county, multi-county, or regional level organize themselves and contact EDPA to work out agreements. This helps to create new and better relationships and provide effective follow-through on issues and problems raised in the interviews.

EDPA would not release specific financial information, but was able to roll out Foundations for Growth at a very nominal cost. Expenses have included the purchase of the software, photocopying of materials developed, travel expenses for the "rollout" meetings, and some program expenses for a speaker. The organization did not add staff to implement Foundations for Growth, but prioritized existing industry in their corporate objectives and created a four-person team of existing staff members who devoted a portion of their time to the program.

Networks with State, Regional, and Local Stakeholders
EDPA's approach to BR&E is to convince, enable and support local economic development stakeholders to act proactively, by gathering consistent and accurate data on their existing industries and analyzing the data for red flags. EDPA's achievements to date include establishing partnerships with multiple allies to present the new initiative, including the state economic development agency, regional planning commissions, utilities, and the Alabama Technology Network.

Impact
To date, 68 percent of the state's counties hold licenses for the software, indicating their active participation in the data collection effort. More than 300 firms have been interviewed.

Synergies
- Enabling local organizations -- by providing computer survey software and training -- allows local decisions to drive local actions.
- Consistent statewide data collection will allow state-level policy makers to identify trends, through accurate and detailed analyses, which will facilitate more efficient resource allocations (across the whole state).

Chapter 4 – Analysis and Recommendation

ANALYSIS:

This chapter includes an analysis of the outcomes of each option against all criteria (see Appendix H: Analysis of Options for a graphic representation of this analysis). When the model meets a criterion, this is considered to be an advantage. When a model fails to meet a criterion, this is considered a disadvantage.

OPTION #1: REGIONAL LAYOFF AVERSION CONTRACTOR

In Pennsylvania, the creation of SEWN came from the initiative of the contractor – not from the state. Opting for this model of BR&E service delivery would require the proliferation of a program or nonprofit actor that does not yet exist in North Carolina. Policy makers can not create this model, but given an opportunity, the state can choose to support or oppose its creation and authority. Therefore, in addition to supporting the contractor, there is a state-level advocacy role -- to soften policy makers to the concept of a 3rd party contractor. A contractor of this nature, regardless of its geographical reach, would impinge on the responsibilities of state, regional, and local BR&E specialists. Therefore, there would have to be support from all levels in order for such a model to be politically feasible.

In terms of the links between the contractor, client, and other stakeholders; SEWN manages the "contact" between their organization, other retention programs/services, and small manufacturing firms by differentiating their product from other -- more general and universal – services. SEWN focuses on locally owned, small manufacturing firms with a strong management team, and that operate within their service area. SEWN undertakes an extensive triage process before contacting company management. Oftentimes, SEWN comes into contact with companies through a referral network with other retention specialists in Pennsylvania. A regional contractor modeled after SEWN would not operate a general business visitation program, but rather would operate as a specialized resource available to struggling firms.

Advantages:

The SEWN model, given its programmatic focus on collecting data from companies in its service area to avoid layoffs, is systemically proactive. SEWN uses a time-tested triage process to identify companies that are at risk – before foreclosure or layoffs are imminent – and organize the delivery of relevant "life-saving" services. However, even though this model allows for proactive BR&E, given resource and geographical constraints, it must remain selective in terms of the retention cases that it takes on. In addition, because SEWN has the flexibility to hire business-people, who come with respect and credibility from the communities that they serve; their retention specialists are able to maximize coordination among resource providers. This model is administratively feasible because its administration remains almost entirely outside of the public sector. The political feasibility of this approach obviously depends on its funding and structure. SEWN is funded through a combination of public and private sources. A contractor would have to demonstrate effectiveness and efficiency and compete with other similar service providers for limited resources. This model could minimize new costs by convincing policy makers to shift resources from other less effective mechanisms of BR&E service delivery.

Disadvantages:
A BR&E delivery system modeled on SEWN in Pennsylvania has to "bubble-up" from a local, to a regional, and (eventually) to state-wide coverage. Because of its bottom up trajectory, it is unlikely that this option would meet the criterion of maximizing statewide BR&E service delivery. For the same reason, it may take time before subsidiarity is maximized. Once a regional contractor is engaged with a specific client, there is an increased likelihood of retention resources from other parts of the system being used effectively. However, it remains ambiguous as to whether this particular model would help or hinder business retention from an existing industry visitation perspective. In addition, this model would not necessarily minimize the rural/urban bias in retention service delivery, although incentives for meeting this criterion could be created through the public funding mechanisms. It is possible that a successful regional contractor could demonstrate effectiveness to be copied in other areas of the state, as evidenced by SEWN's expansion from 10 to 49 counties. It is not clear that this model would engage all the relevant stakeholders. A regional contractor would lack the clear authority to serve as the single point of contact between companies and public sector services, and may not have the power to bring together all stakeholders (except on a local or regional scale).

OPTION #2: LOCAL MEMBERSHIP ASSOCIATION

As with the first model, the local membership association approach to BR&E is a bottom-up organizational strategy; but one requiring support from all levels of the state. The pursuit of this particular model of BR&E service delivery would require the proliferation of an existing association or network. Advocates would also play a role by convincing policy makers to recognize and support an association model for BR&E.

Advantages:
In contrast to the other models, a membership association model -- in which local manufacturers pay a fee for membership – can most easily overcome the familiar issues of credibility and buy-in from private sector firms. WIRE-Net customers are company leaders, rather than affected workers. This dynamic is unique among BR&E service models and creates a situation in which companies are primary stakeholders in WIRE-Net's activities. This localized membership model can achieve maximum proactivity and collaboration, simply by nature of its proximity to, and credibility within, its manufacturing community. Although WIRE-Net can not guarantee non-duplication of existing industry visitation, it can guarantee that companies know where to go when trouble looms. A local membership association, because of its connections with local developers and chambers of commerce, would empower communities to solve community problems. As with the regional contractor, this model is administratively feasible because its administration remains almost entirely outside of the public sector. The political feasibility of this approach obviously depends on its funding and

structure. WIRE-Net is funded through a combination of public and private sources. This model could minimize new costs by convincing policy makers to shift resources from other less effective mechanisms of BR&E service delivery.

Disadvantages:
Although WIRE-Net demonstrates the value of building a strong support network for local manufacturers, this model would not meet the criterion of maximizing statewide BR&E service delivery. For the same reason, subsidiarity may not get maximized for some time. In addition, this model could exacerbate the problem of rural/urban bias. Associations and networks are generally stronger in urban areas where geographic proximity encourages collaboration. As with the regional contractor approach, this model of BR&E may not possess the power and authority to bring all stakeholders together.

OPTION #3: NON-PROFIT UNIVERSITY-BASED PROGRAM

Support for this model of BR&E service delivery would require the proliferation of university-based programs working on manufacturing modernization and/or small business assistance. The most likely conduit through which to implement this approach would be to convince policy makers to divert additional resources and authority to the Industrial Extension Service (IES) at NCSU or the Small Business Technology Development Centers (SBTDC) at UNC campuses statewide. These programs are the most active university-based programs in North Carolina, working with existing manufacturers to modernize, compete, and adapt to shifting economic conditions. The main benefit to working through IES or SBTDC is that these programs already operate across the state, with contacts, offices, and employees in every region.

In terms of the links between the university center, client, and other stakeholders; the IES currently operates a business visitation program with 9 regional specialists spread across the state (SBTDC does not do business visitation). OEOC also does outreach to manufacturers across Ohio to educate managers on employee ownership and succession planning. Each is somewhat specialized in the services and programs that they offer. Therefore, given the goal of optimizing synergies between retention programs in North Carolina, it is perhaps best to envision IES or SBTDC as another service available to SMFs and not as the point of contact between the firm and all other public/private services.

Advantages:
In contrast to the first two models, university based programs tend to offer statewide service. Therefore, lending support to IES or SBTDC could maximize the effectiveness of statewide BR&E service delivery. However, given the specialized nature of these programs it is unreasonable to expect university based operations to facilitate statewide BR&E service delivery or to influence subsidiarity.

Disadvantages:

Given more resources and support from the state, IES or SBTDC could collect data on the companies with which they work to analyze trends and operate proactively. However, because of the specialized nature of university based programs (including IES), it is unreasonable to assume that this model would maximize systemic proactivity. Unlike SEWN and WIRE-Net, university programs are not generally concerned with identifying companies at risk in order to "save" them, but want to find companies that have a particular interest in their product or service. These programs must remain selective in the companies they support. It is also unreasonable to expect a university based program to engage all the stakeholders or to empower local communities. These programs have a specific service to offer, and are not in business to ensure coordination beyond their relationship with the client company. The political and administrative feasibility of encouraging a university based program to be the primary facilitator of statewide BR&E service delivery is ambiguous.

OPTION #4: STATE DEVELOPMENT AUTHORITY INITIATIVE

In Alabama, the creation of Foundations for Growth was initiated by the state-level economic development authority. In North Carolina, the comparable organization is the Economic Development Board that advises the governor. This model would require that state policy makers and executive agencies, as well as economic development board members be receptive to the concept of top-down change. The most feasible "agent" for purchasing the data collection software license and managing the training/ implementation of service upgrades is the NCDOC Existing Industry Division.

The goal of this particular model would be to upgrade the BR&E programs across North Carolina by developing a uniform system for the collection and analysis of information on their industrial base. This model would not require major changes in the structure of BR&E service delivery (except slightly within NCDOC), but could improve the targeting of resources to communities/regions/industries deemed to be most in need of public assistance. The Synchronist software that Alabama uses to collect and analyze data was designed by economic development professionals using research that eventually won a "Roepke Award," for being a significant contribution to economic development. Based on this research, Synchronist has developed an automated set of survey tools and 50 reports that issue marketing aids, warnings, and alerts that are relevant to the assessment of companies in four critical areas: company value to the community; growth potential; risk of leaving, downsizing, or expanding somewhere else; and satisfaction in the community.

Advantages:
Using technology and training – delivered by the state development authority -- to upgrade BR&E programs across North Carolina, combined with the shifts in responsibility that would accompany this model -- would maximize statewide service delivery. Using software to analyze data would allow retention specialists to be proactive in their approach to business retention. This model would also force the state to design protocols that would maximize subsidiarity – local decisions would be pushed down to local decision-makers. Accurate and

timely data would allow retention specialists to engage all relevant stakeholders and this approach would empower communities to make smart and informed decisions about industrial retention.

Disadvantages:
This model would require changes from above, including a reorganization of priorities and staff at NCDOC. Therefore, political feasibility is low. Although the costs from Alabama's implementation of Foundations for Growth are not public, nor are they said to be exorbitant. There would however, likely be additional state-level costs for pursuing this option.

RECOMMENDATION:

NORTH CAROLINA SHOULD IMPLEMENT A MODEL BASED ON THE FOUNDATIOS FOR GROWTH INITIATIVE IN ALABAMA – WHICH USES TECHNOLOGY AND TRAINING TO UPGRADE BR&E.

According to this analysis, a BR&E model in North Carolina – based on the Foundations for Growth model in Alabama -- would minimize redundancies in BR&E service delivery, close the gap between services that are available and knowledge of them at a local level, allow state policy makers to identify statewide industrial trends, leading to more efficient resource allocations, and create a communication link between local, regional, and state retention experts.

This new model will require the following changes to North Carolina's BR&E service delivery system:

- First of all, local developers – those with the closest links to SMFs in their region – would become the primary contacts between firms and public sector retention services.
- The Department of Commerce would purchase a BR&E software program and manage its implementation as well as the analysis of data aggregated from across the state.
- State retention specialists from Commerce would shift responsibilities from visiting SMFs to visiting and training local retention specialists in the collection and analysis of data.
- The Commerce existing industry division would be charged with educating local developers about the wide variety of services and programs available for industry in North Carolina.
- The Commerce existing industry division would provide modest support for networking among BR&E institutions and leaders, including convening meetings, developing newsletter and training materials, and supplying technical assistance based on best practices elsewhere.

Steps toward implementation:

1. Conduct a survey of local economic developers in North Carolina (through the North Carolina Economic Developers Association). The survey would be designed to gather detailed information about BR&E across counties in North Carolina. It would identify the various data collection mechanisms being utilized at the local levels, and the local resource allocations being devoted to BR&E. The ultimate goal of the survey would be to identify the strongest and weakest local areas, to help make a stronger argument for a policy of upgrading local operations.
2. Convene a meeting of economic developers in North Carolina (through the North Carolina Economic Developers Association). Guests from states using this model of BR&E would be brought in as guest speakers, including from Alabama. The goal of the meeting would be to solicit grassroots support for the policy and educate local

developers about the potential of having useful data that can be turned into intelligence.[34]

[34] A larger vision for reform was authored by Bill Schweke, CFED and is included as a final appendix.

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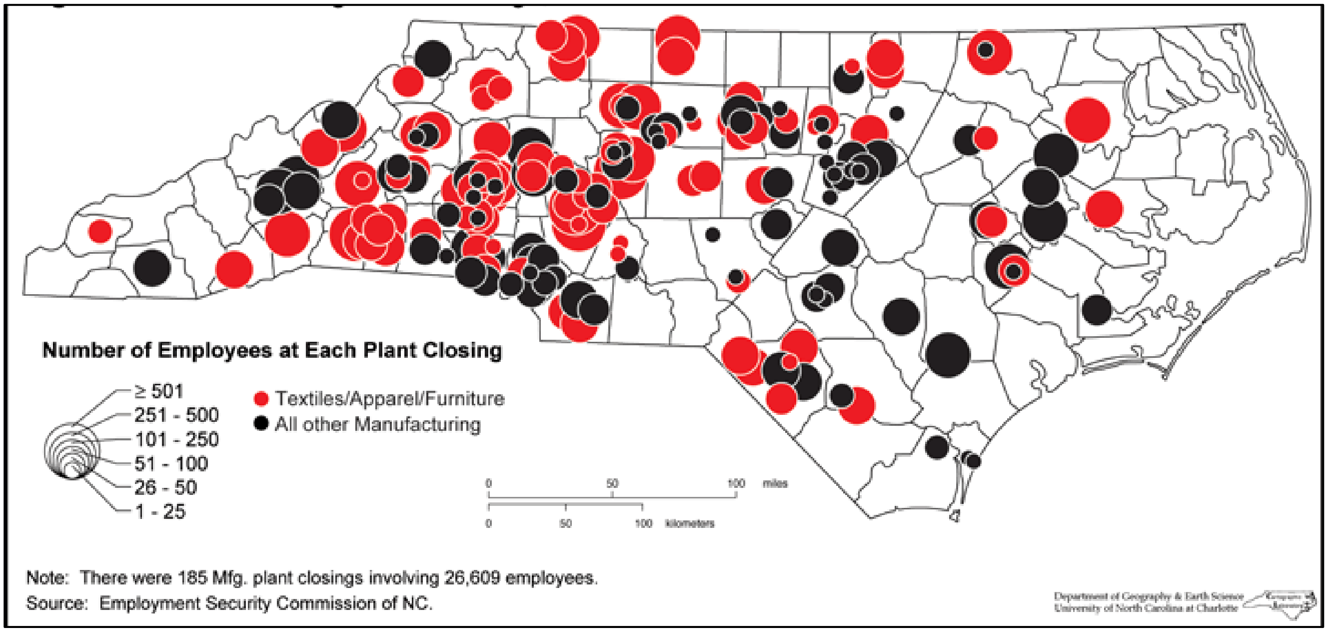
APPENDIX A: STAKEHOLDER INTERVIEWS

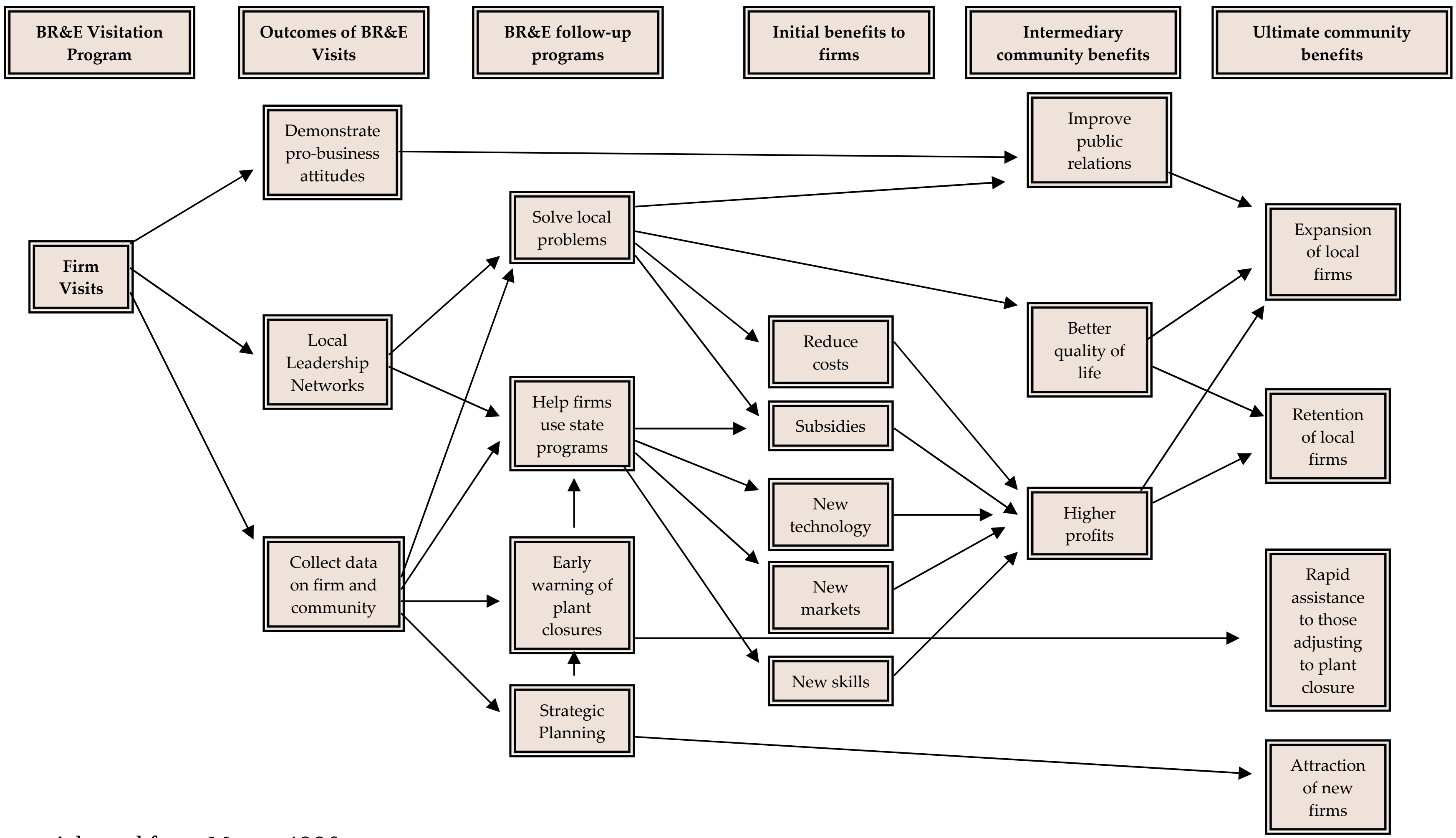
NAME	POSITION/ORGANIZATION	DATE
Tom Croft	President, Pennsylvania Steel Valley Authority	9/23/05
Eric Canada	Partner, Blane Canada, Ltd.	2/27/06
Susanne Teegarden	Director (former), Massachusetts Industrial Services Program	9/23/05
Tom Palisin	Manufacturing Ombudsman, Pennsylvania Department of Community & Economic Development	1/6/06
Steve Hertzenberg	Director, Keystone Policy Research Center	1/6/06
Angela Wier	Vice President, Economic Development Partnership of Alabama, Foundation for Growth	1/24/06
Paul Allen	Massachusetts Commonwealth Corporation	1/24/06
John Bell	Director, Ohio Employee Ownership Center	1/21/06
John Colm	President, WIRE-Net	1/6/06
Jim Cook	Director, Cabarrus County Department of Social Services	1/21/06
Jerry Saunders	Senior Executive, Business & Community, Cabarrus Regional Chamber of Commerce	2/27/06
Bonnie Renfro	President, Randolph County Economic Development Corp.	2/28/06
Staff	Beaufort County Economic Development Commission	3/7/06
Laura Foor	Existing Business Coordinator, Lincoln County Economic Development Association	3/7/05
Ronnie Goswick	Franklin County EDC, Vice President, North Carolina Economic Developers Association	2/20/06
Donnie Hicks	Gaston County EDC, Secretary, North Carolina Economic Developers Association	2/23/06
Rick Carlisle	Managing Partner, Dogwood Equity, Former North Carolina Secretary of Commerce	2/15/06
Tom White	Director, Employment and Training Division, North Carolina Department of Commerce	2/15/06
Gene Byrd	Director, Existing Industry Division, North Carolina Department of Commerce	2/1/06
Chris Beacham	Director, Research and Strategic Planning, North Carolina Department of Commerce	11/16/05

APPENDIX B: MANUFACTURING PLANT CLOSINGS (2003-2004)



The most substantial manufacturing plant closings, especially in the traditional industries (textiles, apparel, furniture) are centered in the west and west-central parts of North Carolina.

APPENDIX C: CONCEPTUAL MODEL FOR BR&E BUSINESS VISITATION PROGRAM



Adapted from Morse, 1990.

APPENDIX D: EARLY WARNING

Early warning systems seek to identify (1) individual firms that may be at risk to inform response strategies that help prevent layoffs and support the remaining firms; (2) potential layoffs of workers that can not be prevented: to be able to provide adjustment services as quickly as possible; and (3) labor market trends to inform economic and workforce development strategies.

Early warning systems endow decision-makers with the ability to intercept signals in time to make appropriate interventions. They enable states, regions, and localities to anticipate – rather than merely react to – important economic events, trends, and disasters. The actual form of early warning systems can range from keeping a pulse on a wide range of operating establishments through regular but informal communications and visits, to the development of a formal fully-automated data-driven system that provides a series of standard indicators pertaining to industrial sectors, individual firms, and geographic locations.

Data gathered through a BR&E delivery system modeled on Foundations for Growth in Alabama could inform a robust early warning system in North Carolina. Local industry intelligence could be combined with data from the following public data sources to build a system to inform development decision makers:

- Unemployment Insurance Claim Filing Notices Reports
- Individual Claims Records
- UI Claims Summary Reports
- Mass Layoff Report
- ES-202 Data
- New Hire Reports and Wage Records
- Employer Births and Deaths Information
- Local Employment Dynamics Reports

APPENDIX E: RESEARCH METHODOLOGY

This project involved a three-pronged research strategy, including a literature review, interviews with stakeholders in North Carolina, as well as with program directors from other states, and data analysis. Each component of the research methodology is described below.

LITERATURE REVIEW

I collected and reviewed literature from scholarly publications, non-profit organizations, and think tanks. In addition, I reviewed information from other states with experience in business retention and expansion, including policy briefs and memos.

LITERATURE WITH SRAKEHOLDERS

I interviewed economic developers who specialize in business retention and expansion at different levels in North Carolina. I also interviewed state-level program managers from within and outside of the state. Interviews confirmed the successes and challenges reported in this analysis.

DATA ANALYSIS

I used public data from the North Carolina Employment Security Commission and LINC (Log into North Carolina) to quantify the problem presented in this analysis, as well as to obtain a conceptual understanding of the particular regional challenges facing our state.

APPENDIX F: TOP 10 MANUFATURING STATES LABOR PRODUCTIVITY INDEX RANKING (NOVEMBER 2004)

STATE	% OF WORKFORCE IN MANUFACTURING	PRODUCTIVITY INDEX
NORTH CAROLINA	**13.82%**	**4.25**
Iowa	13.58%	3.6
Tennessee	14.06%	3.19
Arkansas	15.34%	3.12
Indiana	18.07%	3.11
Wisconsin	16.69%	3.01
Ohio	13.91%	2.97
Alabama	13.40%	2.82
Mississippi	13.71%	2.8
Michigan	13.95%	2.61

The index is derived by taking the statewide value added by manufacture and dividing by total production payroll. The result is the product value added per dollar of worker payroll throughout the manufacturing sector.

(Index = Value added by manufacturing/Total manufacturing payroll)

Source: North Carolina Department of Commerce

APPENDIX G: SUMMARY OF OPTIONS

MODEL	NAME	KEY FEATURE	GEOGRAPHY	SYNERGIES
Regional layoff aversion contractor	Pennsylvania's Strategic Early Warning Network	Quasi-public contractor providing early warning and layoff aversion	Regional	• Early warning database crucial for proactive identification of businesses at risk. • Union ties and internal staff with business credibility facilitate "deep" access into company operations. • Quasi public organization allows flexibility and adaptability in changing times. Also helps the organization say no. • SEWN focuses on a particular subset of manufacturers – small (50-200), regional, locally owned. Therefore, they have a specific market niche, and have been effective at demonstrating success in that market and "getting the word out" to state/regional retention specialists. This allows developers working on retention cases to "refer" cases to SEWN. In essence, they have become a specialized BR&E service provider within a larger network of retention efforts.
Local membership association	Cleveland's Westside Industrial Retention Network	Trade association model for broker and delivery of BR&E services	Urban neighborhood	• Membership structure creates a unique environment of collaboration between companies and developers, allowing the retention efforts of WIRE-Net to reach beyond traditional "outside the plant gate" issues, such as workforce and infrastructure, to inside issues, such as management assistance and strategic planning.

				• Dues-paying members "purchase" the services provided by WIRE-Net, creating an ownership stake in the organization's success or failure. • WIRE-Net links their members to local, state, and federal resources without overlapping client contact (from different levels of government).
Non-profit university-based program	Ohio Center for Employee Ownership	Ownership transitions & employee ownership as a crucial element of BR&E	Statewide	• Employee ownership brings all stakeholders together – including employees, managers, community leaders, and funders. • This model taps into the intellectual resources of a university to promote retention of local firms – albeit through a specific mechanism. • Public-private partnership – with funding from the state and expertise from the private sector – helps to exploit the positive elements of both sectors, without relying on negative elements.
Development authority using technology to upgrade BR&E	Alabama's Foundation for Growth	Existing business visitation and surveys	Statewide	• Enabling local organizations -- by providing computer survey software and training -- allows local decisions to drive local actions. • Consistent statewide data collection will allow state-level policy makers to identify trends, through accurate and detailed analyses, which will facilitate more efficient resource allocations (across the whole state).

APPENDIX H: OUTCOMES MATRIX

Options → Criteria ↓	Regional layoff aversion contractor	Local membership association	Non-profit university-based program	**Development authority using technology to upgrade BR&E**
Maximize state-wide effectiveness	Medium	Low	Low	***High***
Maximize proactivity	High	High	Low	***High***
Maximize subsidiarity	Medium	Medium	Low	***High***
Engage all stakeholders	Medium	Low	Low	***High***
Maximize political feasibility	Medium	Medium	Medium	***Low***

APPENDIX I: CAN NORTH CAROLINA'S MANUFACTURING BASE BE SAVED?

AN ECONOMIC BASE IN DANGER

It's no secret that the state's manufacturing firms are still going through tough times, despite the national economy's rebound. For example, a Wachovia bank economist forecasted that the state would likely lose as many as 20,000 jobs in the textile and apparel industry this year.

And it only seems logical to conclude that if we keep on doing what we're presently doing, nothing much will change – mass layoffs and shutdowns will continue at a fast clip, displaced workers, if they're lucky enough to land new jobs, will make less income than in their past manufacturing job, and auto supplier firms will join apparel, textiles, and furniture as industries heading for radical downsizing.

Yet, there are also many examples of companies in these threatened sectors that have turned around their fortunes by modernized their operations, discovering new market niches, adopting new management strategies and technologies, and upgraded their skill base. Furthermore, the state has a number of assets that can be brought to bear to make these events more frequent. To enumerate: almost all of the state's 100 counties have economic development staff detailed to help existing firms survive and flourish, as well as a range of technical assistance, training, and financial services (e.g., Small Business Technology Centers, Industrial Extension Program, Textiles Center, the existing industry program of the state's Department of Commerce, Hosiery Center, etc.) that can be brought to bear on these challenges.

What is needed is a genuine campaign to mount a much more holistic, proactive effort to save and renew much more of the state's manufacturing base. Such a strategy, of course, has its dangers. Many local firms are "past their peak" in their product life cycle, and are unable or unwilling to make major investments or take the risks to reposition themselves. Likewise, when the process of decline has transpired for some time and you're facing an imminent plant closing, emotions run high, and a bail-out retention and expansion effort may overly extend and preoccupy development staff and program dollars. Plus, the firm may not be viable. Another major pitfall to watch out for is to think that a retention and expansion (R&E) program stops with a visitation-communication-business survey effort. This information-gathering phase is an essential preliminary to the real work of improving the overall business climate or aiding existing firms in more direct and tailored ways. Moreover, to meet the needs of local businesses, retention and expansion programs may need to address technology applications, plant redesign, expansion financing, worker retraining, plant relocation and expansion, et cetera. A great deal of coordination with outside university, nonprofit, private, utility, and public institutions is required for effective programs. Here, retention and expansion efforts begin turning into modernization strategies.

The rest of this short advocacy essay maps out a course for grappling with these issues.

BUSINESS RETENTION, EXPANSION, MODERNIZATION BASICS

Business retention and expansion programs aim to expand and retain employment at, and investment in, local firms, and to upgrade their overall competitiveness. An R&E program's basic activities can also provide assistance to communities adjusting to plant closures, contractions, or relocations, and can help attract new firms.

A business retention and expansion program seeks to improve the flow of communication between firms and the community where they operate, particularly with economic developers, local governments, and other service providers. By enhancing this flow of intelligence and by building trust and relationships, the state and community can become a stronger partner for meeting the needs of local firms. It also should be pointed out that company expansion efforts can take roughly the same amount of time to implement as business attraction startups, which is an advantage relative to important, but more long-term endeavors, such as fostering entrepreneurship and improving the existing workforce quality or schools.

Other important elements and outcomes of good retention and expansion programs include:

- Developing informed leaders who have a strong sense of the business community's needs and the area's ability to respond to those needs;

- Conducting business visits during which local employers are surveyed about their needs and plans;

- Tackling short-term problems identified by enterprises through such activities as helping a company work with the city council to improve lighting outside the plant entrance, working with a firm to forestall a temporary or partial lay-off, and helping a firm expand by finding a new site nearby; and

- Developing long-term growth strategies for the local economy.

Business modernization strategies are just a further refinement of the R&E model. They focus more on increasing a firm's productivity, higher value products and services. Most such initiatives target goods-producing or technology-based businesses, especially manufacturing firms exporting beyond the community. Typical services are: awareness building, problem framing, resource finding, alliance building and management technologies, such as Total Quality Management and Six Sigma. The programs can be delivered in two ways – aiding an individual company or assisting an entire sector or cluster.

NEW ACTION OPTIONS FOR NORTH CAROLINA

All of these business retention, expansion, and modernization approaches are underway in this state. They only need additional provisioning, greater visibility and political support, augmented skills, an accurate and current database on firms across the state, additional research and trend monitoring, and a commitment to undertake new, more proactive efforts.

TASK ONE: In partnership with the NC Economic Developer Association, conduct a survey of local R&E staff to ascertain their activities and needs.

TASK TWO: Equip all local R&E staff with new software for inputting survey results in a uniform format and for conducting analyses of the strengths and weaknesses of area firms and their local economies.

TASK THREE: Convert Commerce Department's Existing Industry Division into a trainer and technical assistance service to local R&E staff and to provide survey-visitation services to those counties lacking staff.

TASK FOUR: Engage Existing Industry staff in Commerce in arranging ownership succession educational workshops, with private sector accountants and attorneys, across the state.

TASK FIVE: Assemble representatives from universities and economic development institutions to start developing a NC industries "observatory" to monitor current and future trends and to explore devising a data-based "early warning system."

TASK SIX: Develop protocols for action and confidentiality for layoff aversion services and alliances of business service providers in partnership regions.

TASK SEVEN: Create a new Center for High Performance Workplaces and Employee Excellence, aiming to offer a nationally-recognized clearinghouse on such management strategies and practices, along with employee ownership and other forms of gain sharing.

TASK EIGHT: Craft a more strategic and cost-effective approach to prioritize industries and firms for proactive services, such as strengthening supplier chains.

TASK NINE: Set a five-year goal for raising the productivity of in-state small and mid-sized manufacturers.

TASK TEN: Create a high-level Advisory Body which would hold conferences and workshops on these issues and monitor performance outcomes, reporting to the Governor and the General Assembly.

For more information, contact CFED article author William Schweke at 919.688.6444 or bschweke@cfed.org.

CFED is a nonprofit organization that expands economic opportunity. We work to ensure that every person can participate in, contribute to, and benefit from the economy by bringing together community practice, public policy, and private markets. We identify promising ideas; test and refine them in communities to find out what works; craft policies and products to help good ideas reach scale; and foster new markets to achieve greater economic impact.

Established in 1979, CFED works nationally and internationally through its offices in Washington, DC; Durham, North Carolina; and San Francisco, California.

WILL LAMBE{PRIVATE }

Will Lambe was a graduate student at Duke University's Sanford Institute for Public Policy and just earned his masters degree. He holds an undergraduate degree from the University of Colorado. Prior to graduate school, Will managed several small businesses and spent two years as a management consultant. He has worked on various economic development issues with CFED, including those focused on asset accumulation for low-income workers and preventative strategies for economic dislocation. Last year, Will helped author an evaluation report for the North Carolina Department of Labor on the department's administration of Individual Development Accounts (IDAs). His most recent research is focused on early warning protocols for identifying companies at risk and preventing economic dislocation. He is now employed as a Research Associate at the School of Government at the University of North Carolina at Chapel Hill where he is managing a study of effective rural economic development strategies and programs in North Carolina and across the country. He can be reached at: School of Government, University of North Carolina, CB#3330 Knapp-Sanders Building, Chapel Hill, NC 27599-3330 (919-966-4247) whlambe@sog.unc.edu.

WILLIAM SCHWEKE{PRIVATE }

William Schweke is a Vice President of Learning and Innovation at CFED (formerly, the Corporation for Enterprise Development) and was President of Interchange, a firm specializing in public policy exchange between the United States and Europe. A graduate of the University of Texas at Austin, he is a specialist in development finance, plant closings, small and community business, environmentally-compatible development, and local development planning. In the past, he has written reports on investing pension funds in business development, operating small business initiatives, designing and running state-wide and local economic adjustment programs, reforming business incentives, and launching urban low-income neighborhood development initiatives. In his technical assistance work, he has advised a variety of state and local governments, community-based organizations, foundation, trade unions, chambers of commerce, private utilities, and governmental authorities in the U.S. and Great Britain. And in the area of training, he has developed courses on rural development, community economic development, and local development planning.

Mr. Schweke's publications include: *Bidding for Business; Dislocated Workers in North Carolina: Aiding Their Transition to Good Jobs; Improving Your Business Climate: A Guide To Smarter Public Investments in Economic Development; Building Healthy Communities: Resources for Compatible Development, Smart Money: Education and Economic Development; Hidden in Plain Sight: A Look at the $335 Billion Federal Asset-Building Budget;* and *Employer IDA Initiatives: The Promise of Delivering Individual Development Accounts through Employers.*

His current research, policy development, and advocacy work focuses on the impact of trade and investment liberalization on domestic economic development policies and practices, plant closings and globalization, economic adjustment programs for displaced workers, and business incentive reform. Mr. Schweke delivered the Werner Sichel Lecture at Western Michigan University in 2004 on “Getting Beyond Argument and Invective: Can We Bridge the Gap between Free and Fair Trade Advocates?” He was awarded the “North Carolina Defender of Justice Award for Advocacy and Policy Research” by the NC Justice and Community Development Center in 2005. He can be contacted at: CFED, 123 West Main Street, Suite 210, Durham, NC 27701 (919-688-6444) Schweke@cfed.org.