

NEW MODELS OF ECONOMIC DEVELOPMENT



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Where We Stand

For at least three decades, newspapers have shared stories of plant closings and lost jobs. By now, these dislocations have touched every corner of our country. The notions of career and job security that we grew up with no longer seem to apply. The stories provide a steady drumbeat of discouraging news which still shapes our perceptions.

At the same time, a new economy is emerging across the country. Unlike the older industrial economy, this new economy is embedded in smaller companies with unfamiliar names. These new companies share some common characteristics, however. They are flexible, adaptive, and connected.

The challenge for civic leaders across the country is to embrace this new economy and understand it. In the coming years, we will continue to struggle with plant downsizing and closings. In most cases, these changes are unavoidable, as millions of new consumers and producers enter the flow of global commerce every year. At the same time, globally competitive regions continue to attract talent and create new pathways to prosperity.

Changes in our economy hit home

If this all sounds a little abstract, it should not. For example, in rural counties, the shifting dynamics of global competition mean that old strategies of business recruitment will not be as successful in the future as they may have been in the past. At the same time, our rural communities have new and unprecedented opportunities. Renewable energy, innovative manufacturing, and cultural tourism provide opportunities to create wealth among even our smallest communities.

Like other living organisms, economies and markets go through cycles of rapid growth, maturity and decline. We experienced dramatic growth during the early decades of the Industrial Age one hundred years ago. During this period of rapid growth, entrepreneurs from across the country planted seeds. Many of the seeds withered, but some did not. The successful ones grew into large and prosperous companies that built our communities with high income jobs and deep wellsprings of philanthropy.

Our strong industrial growth continued in the years after World War II, but the economic climate began shifting. By the early 1960s, we started seeing shifts within the country as Northern states -- where industrial growth initially took root -- faced stiff competition from Southern states. The South emerged from World War II with a new economic dynamism. The growth of the Interstate highway system made it easier for manufacturing plants to move from the North to the South.

Beginning in the 1970s, we faced another dynamic. New competition sprung from abroad, principally from Japan. In the 1970s, large industrial corporations faced stiff competition, as Japanese companies began moving into US markets. We commonly refer to these changes in the global economy as "globalization." We are really talking about the integration of global markets. Changes in trade law, new efficiencies in logistics, and dramatic improvements in communications have driven this integration.

Changes in civic leadership

The increasing competition faced by U.S. businesses have also altered dramatically the nature of civic leadership in our communities. In the past, most communities relied on business leadership from stable, established corporations to help guide our civic life. We could easily identify our business leadership. We drew our civic leaders from our largest industrial enterprises and financial institutions. With the relentless changes in our economic landscape, the patterns of civic leadership are no longer so clear.

In the Industrial Age, change took place at a relatively slow pace. We understood where we started and where we were heading. Strategic planning, a management discipline of drawing logical links between two points, provided the tools that most managers and civic leaders needed in the chart the future.

Now, however, the road to the future of leads away from strategic planning and toward new concepts of “strategic doing.” In a stable world, a strategic plan can be more or less permanent. In an unstable world, the increased speed of change renders many strategic plans quickly obsolete.

To meet the challenges of more rapidly shifting markets, we need new patterns of thinking and doing. Strategies still vitally important. Strategy provides a beacon to guide us. Strategic thinking is vital to our future and a core responsibility of leadership. Yet how we develop strategy and how we implement strategic activities must change.

So, for example, we can no longer rely on a handful of civic leaders to sit in a closed room and make decisions about the future of our communities and regions. First of all, many communities don’t have a strong civic leadership that guided them in the past. Locally owned banks have been purchased. Many established industrial enterprises are now guided by plant managers who are only located in the community for a relatively short period of time. Moreover, the world has gotten more complex as markets have become more fluid and dynamic. No small group of people, no matter how gifted, can hope to manage the complexity within our communities.

Our prosperity will be built on new patterns of civic leadership. These patterns will be more open and networked than they have in the past. We will find collaborations stretching across both organizational and political boundaries. The communities and regions that embrace this new approach to civic leadership will prosper. Those that do not will likely fall farther behind. Here’s why.

Moving from a First Curve to a Second Curve economy

In the old industrial economy, business firms and their communities prospered by transforming and moving large volumes of material efficiently. So, for example, in the Great Lakes states, we became very skilled at producing steel. In other communities, we became very skilled at producing automobile parts and assembling these parts.

In the beginning, these skills were relatively rare, and they were highly compensated. So, our communities prospered. We built and managed large industrial enterprises that were vertically integrated. We generated wealth with hierarchical organizations and efficient command-and-control management practices.

Now this First Curve, industrial economy is giving way to a Second Curve economy based on knowledge and networks. The Internet provides a powerful metaphor to explain how this new economy works. Wealth comes from our ability to generate and apply new knowledge. By applying new knowledge to new products and services we generate new wealth.

So, for example, we generate new wealth in our rural counties when we take agricultural products and transform them into renewable energy sources, like bio-diesel. Or, we generate new wealth when we transform an idea into a new software package that makes computations easier. Or, we generate new wealth when we attract visitors to a unique experience in one of our historic downtowns.

In other words, the pathway to creating wealth is no longer straight and clear. Now, a single entrepreneur can create wealth with a new idea and the willingness to build the networks she needs to bring her idea to market. In our networked world, the locus of wealth creation is shifting from large hierarchical corporations to networks of connected people both inside and outside corporations.

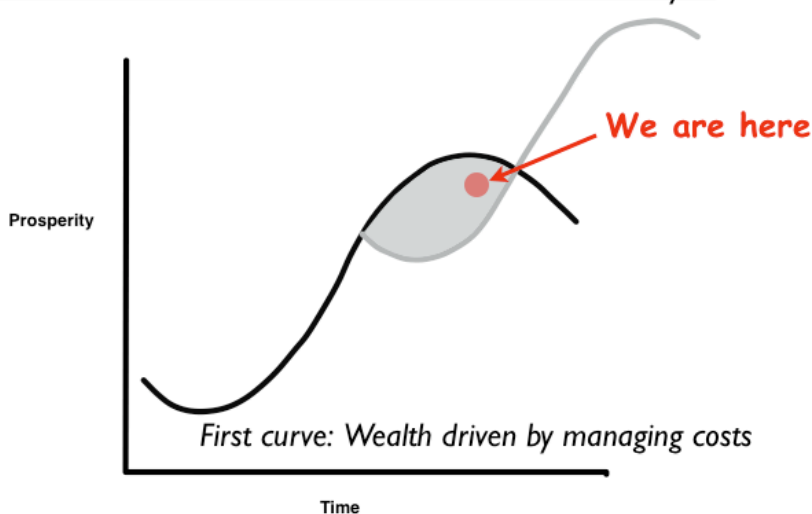
Wealth creation is now a function of relationships and networks. Michael Porter, a professor at Harvard, was one of the first academics to spot this shift. In the early 1990s, he pointed out that wealth arises from clusters of interconnected organizations: businesses, educational institutions, and nonprofit organizations. He argued that clusters provide the key insights into how economies -- as small as neighborhoods and as large as countries -- create wealth. The challenge for economic developers has come in applying these insights. As one commentator notes, "Clusters are

hard beasts to tame for economic development purposes".¹

Nevertheless, Porter's perspective is important. He was one of the first economic analysts to understand that the ongoing changes in the world economy have led to a new type of economic growth. We are now living in the interplay between our First Curve and Second Curve economies.

Our economy is operating in the interplay between the First and Second curves.

Second curve: Wealth driven by innovation



Successfully competing in this situation demands greater adaptability and a readiness for change. The old economy was based on supplying goods. The new economy is based on the integration of new knowledge with goods and services: in a word, innovation. Our central challenge involves moving our old economy assets to adapt the new economy dynamics. We need new models of economic development, new approaches to shape our thinking and guide our actions.

¹ David Wolfe and Matthew Lucas, eds., *Global Networks and Local Linkages* (School of Policy Studies, Queens University, 2005), p. 2.

The Urgency of Open Innovation

To understand the challenges ahead for our communities, regions and states, we need to step back and get a clear picture of the dynamics of economic development. The easiest way to understand how an economy works is to divide the money flowing through it into three parts: good, neutral, and bad.

Good money flows into the coming from the outside. This money comes from businesses which trade with customers outside our state. These so-called “traded businesses” are vital, because they inject to new money into our economy. The wages generated by these traded businesses tend to be higher.

Neutral money flows through businesses on that circulate money within our economy. We can talk of these firms as “local businesses.” When economists talk about a “multiplier,” they are referring to how well money circulates among these local businesses. These businesses also make major contributions to our quality of life. They represent our local retailers, cultural organizations, and tourism businesses.

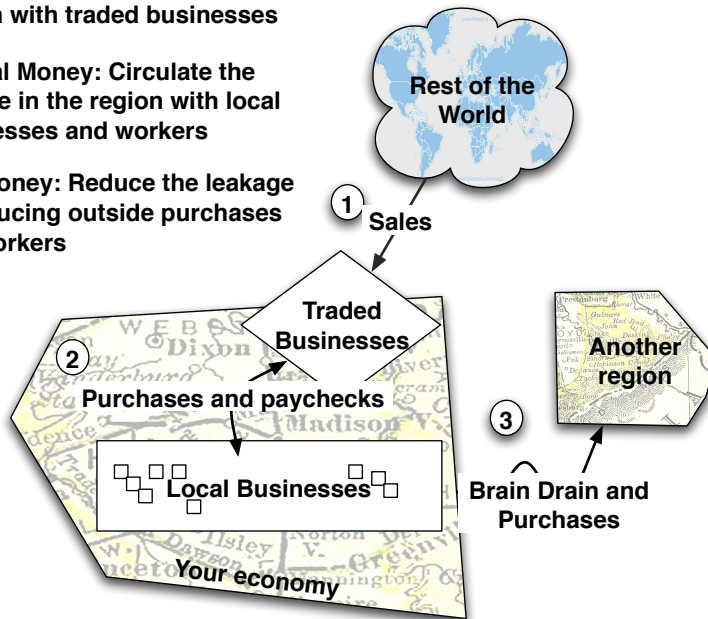
Bad money represents money flowing out of our economy from purchases we make outside and from people who leave.

The strategy of economic development is straightforward:

- Increase the volume of good money;
- Increase velocity of neutral money; and
- Reduce the flow of bad money.

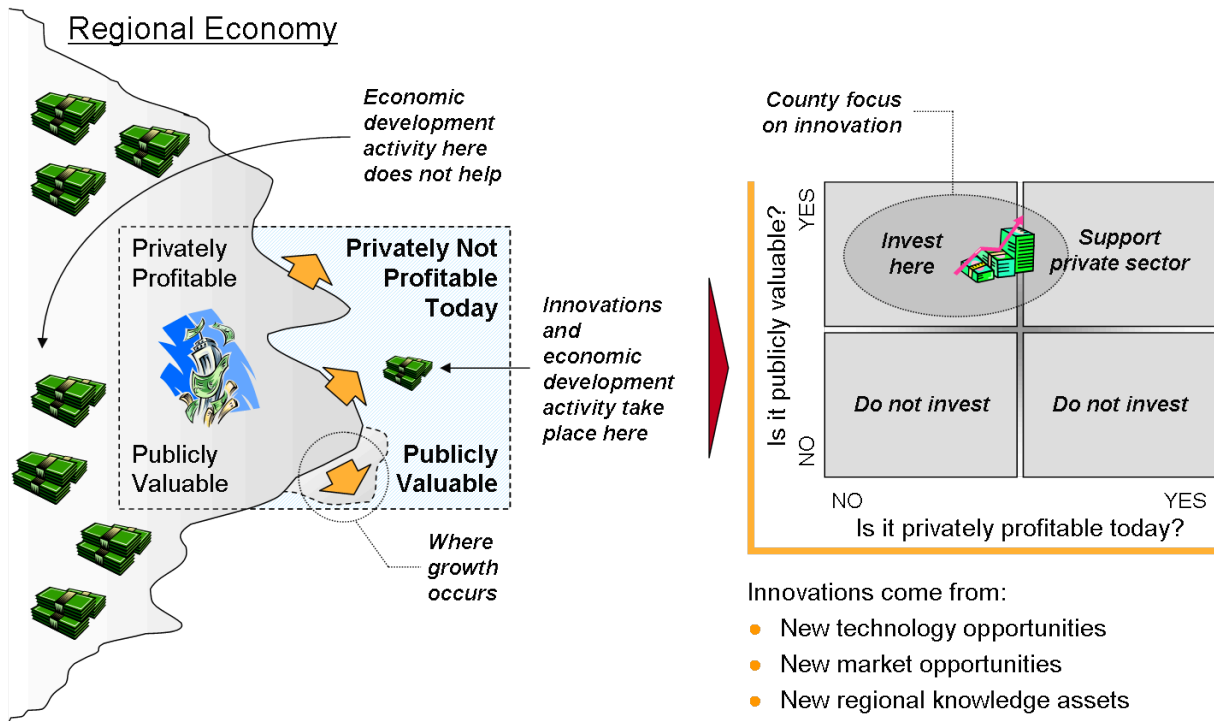
Economic development in a nutshell...

- ① **Good Money: Import income into the region with traded businesses**
- ② **Neutral Money: Circulate the income in the region with local businesses and workers**
- ③ **Bad Money: Reduce the leakage by reducing outside purchases and workers**

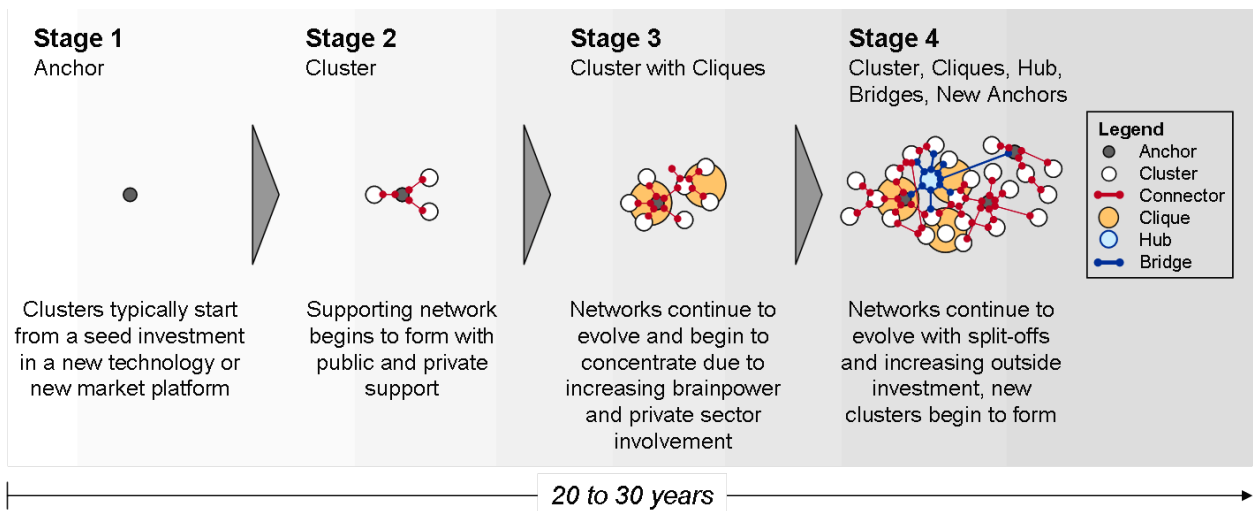


These basic tenets of economic development have not changed. However, the strategies we employ to translate these principles into action have changed dramatically. In the past, most communities and states relied almost exclusively on business recruitment as a way to expand good money flows. This may have worked well as a First Curve strategy, but as a Second Curve Strategy, its impact will be limited.

As the networked, global economy emerges, we need to play to our strengths. We will build our good money flows



by building innovative businesses. Recruitment still has a role to play, but a far more important challenge comes in building collaborations to tie together the extraordinary assets in our state. A globally competitive strategy means building clusters. Building clusters means building open networks of innovation. Every town, every county, every region, and every state can follow this approach to build its prosperity.



- Open innovation systems facilitate faster knowledge creation and dissemination
- Scarce resources allocated efficiently by market forces (clusters are self-selecting)
- Clusters that are inefficient, ineffective, or economically not viable will perish
- Clusters that survive attract private sector capital
- Organizations spawned through cluster innovation can become new technology or market leaders

Building clusters -- open innovation systems -- involves an open process of civic participation and effective leadership direction. The task balances openness with focus. In our neighborhoods, communities, and regions, we need to invent new ways to come together and translate ideas into action. We need to design civic engagements that spin out new and innovative collaborations.

This task is not easy, but it can be fun and rewarding. Building prosperous communities takes place in civic spaces where citizens can come together to exchange ideas and move forward. At the same time, these civic collaborations thrive with a new type of leadership. Command and control management styles do not work well. We need leadership with the skills to encourage alignment among different people and organizations.

Building an open civic process: Strategic doing

Most of us are familiar with an electoral process, in which citizens turn to the ballot box to make decisions. Some of us can understand an administrative process, as when a homeowner seeks to get a building permit to add a new addition on to her house. And we learn about a legislative process when we visit our city council as it deliberates a new ordinance. Finally, most of us have gotten a brief introduction to the judicial process when we have to pay a speeding ticket.

A civic process is something different. It is far more open and flexible. In fact, there are generally no rules to civic process, unless we impose them on ourselves. In many communities, it's hard to find any effective civic process. There are no places where people come together routinely to discuss issues of common concern, like building a new community center or improving our schools.

As we move our communities and regions to the Second Curve economy, we will need more vibrant, flexible and focused civic processes. We will need new ways of coming together to explore complex issues. We will need new places where we can routinely convene to explore new opportunities. We will rely on trusted conveners to help us.

Equally important, we will need to turn away from bad habits of civic behavior. We will need to instill a new sense of civility in our discussions. We need to define and reinforce new patterns of interacting among citizens.

Our speed in moving our communities and regions to the Second Curve economy will be determined by new civic conversations that can generate practical collaborations. Moving any economy forward will require hundreds of new collaborations, as we connect First Curve assets to Second Curve opportunities.

We will need new networks, yet building these networks should not be haphazard. It involves teaching and learning new disciplines of authentic civic engagement. We need to build habits of exploring each other's strengths, identifying opportunities, focusing on practical outcomes, aligning our resources, and measuring our results. We need then to start the cycle over again informed with our new learning about what works.

In short, we need to move from concepts of strategic planning to strategic doing. Strategic planning is a practice mastered by successful First Curve organizations. It works well in situations in which changes relatively slow and predictable. We know we are standing at point A, and we know we want to get to point B. We develop a strategic plan to draw logical links between A and B. Typically, a small number of people drafted the plan for others to follow.

But what if A is moving and B is moving? What if there is a fog that obscures our view we try to find point B? This is a situation we most commonly find in organizations on the Second Curve. The disciplined process of strategic planning becomes less valuable in an environment that is continuously shifting. Strategic plans rapidly become obsolete.

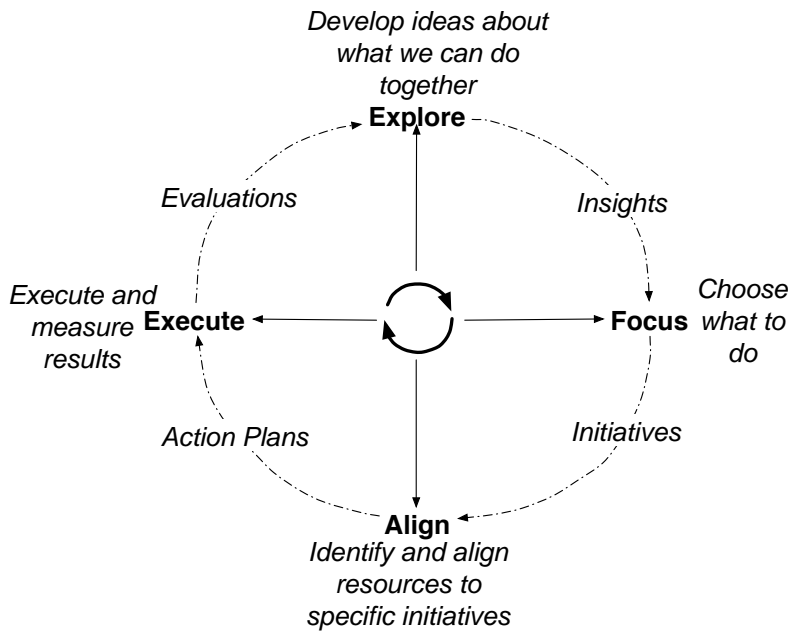
Formal strategic planning in the civic space faces other difficulties. A strategic plan presumes a command-and-control organization in which plans, once decided, can be quickly executed. But economic development and building our prosperous communities happens in the civic space, and there are no effective command-and-control mechanisms in the civic space. The mayor cannot tell the school board what to do. The school board cannot tell the chamber president what to do. And the chamber president cannot tell the superintendent what to do.

So, we need new approaches to generate strategic insights and consensus. We need these insights to focus our resources and make choices. We cannot do everything. Strategic doing emphasizes the importance of generating the strategic insights and translating these ideas into action quickly.

All of this happens through meaningful conversation. In the command-and-control world of the First Curve, conversation is regarded largely as a distraction. It undercuts productivity and takes people away from the work that they should be doing. First Curve leaders often think of conversation as “just talk.”

On the Second Curve, conversation plays a much more central role. Through conversation, we make sense of what is happening. The complexity of the change defies easy understanding. We need different perspectives on complex problems, and we need to assemble these perspectives into a understandable whole as quickly as we can. We need to test our assumptions and make adjustments. We have no way to ask the world to slow down or stop while we engage in a deliberate and lengthy strategic planning process.

Strategic doing involves a series of steps to build collaborations...



Instead, we need to adapt to a far more flexible approach to making strategic decisions. We call this new approach “strategic doing.”

Strategic doing starts with an exploration of potential strengths and opportunities to collaborate. We generate ideas. We brainstorm.

Quickly, though, we need to move onto the next step, which involves focusing on a small number of practical but truly transformative initiatives. These are the strategic initiatives that can generate significantly more prosperity for our region. As a practical matter, we need to focus on one or two initiatives on which we can work together. We need to dive deeply

into the details of these ideas, so that we can get a clear understanding of what a potential collaboration could look like. We need to agree on an answer to the question, “What does success look like?”

Once we have defined an initiative with sufficient clarity to excite people, we need to move toward execution. This step involves aligning the resources we need, setting some milestones, and drafting an action plan of “Who does

what by when?" Once we begin implementation, we need to stay in constant communication with each other as we move forward. We need to evaluate what is working and where we are getting off course.

The emerging role of the appreciative leader

This cycle of strategic doing sets forth the discipline for the types of conversations we need in order to move our communities and regions forward. To guide these conversations, we need a new type of civic leader. Effective civic leaders on the Second Curve are well-versed in the skills of "appreciative leadership." Instead of focusing on what we don't have, what we can't do, and how widely our problems are shared, the appreciative leader focuses on what we can do, what we can share, and what we can do together.

The appreciative leader understands a fundamental insight about human behavior: people move in the direction of their conversations. If we want to move far regions forward, we need to guide civic conversations toward the exploration of our opportunities. This skill requires an ability to frame questions in a way that guides people toward understanding their individual human potential to contribute to our civic life.

Too often, we frame issues in exactly the opposite way. For example, when we think of collaborations between County A and County B, we often start talking about eliminating people or organizations. Framing the topic in this way drives people away from each other into defensive positions. Instead, framing a collaboration around a potential opportunity creates a much higher probability of success. People are motivated to work together. They spend less time building defensive positions.

We have all been in communities that have been unable to strike the dynamic balance between open civic participation and appreciative leadership direction. When both leadership direction and civic participation are low, we sense an atmosphere of apathy. Few people are engaged, and those leaders who have been engaged seem to have given up.

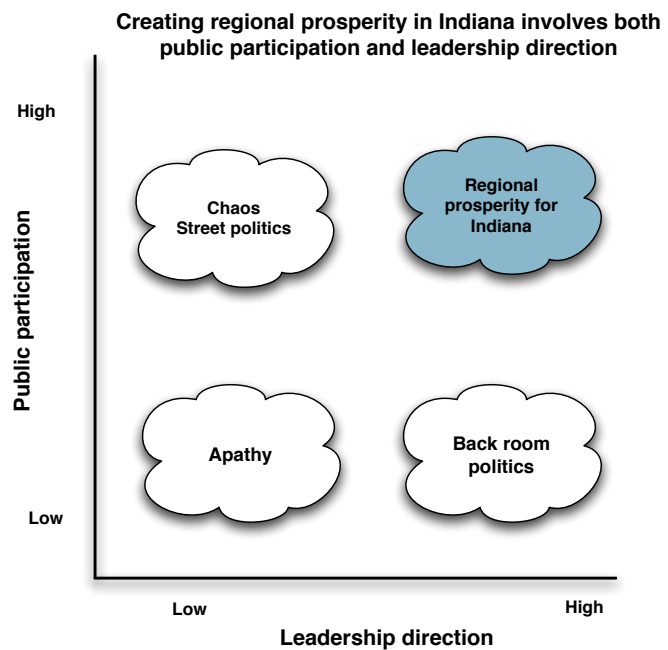
Different Mental Models of Civic Leadership

An Appreciative mindset:

Focus on what we do want, do have, can do, what's working & why, what we want to move toward, what matters to us

A Deficiency mindset:

Focus on what we don't want, don't have, can't do, what's not working & why, what we want to move away from, what we feel constrains us



In a community with strong public participation, but weak leadership direction. We confront the unsettling feeling of chaos. This situation happens, for example, in contentious public meetings when angry citizens become the focal point of attention, and sensible leaders seem to vanish.

Another situation involves strong leadership direction, but weak public participation. In these communities, we have the impression that decisions about civic life are being made behind closed doors. Cynicism is deeply rooted in these communities.

In building communities and regions that value both civic participation and leadership direction, we need to nurture civic behavior that builds trust. Like our personal life, trust in our civic life emerges from stable patterns of behavior. We need to build civic trust by demonstrating that we can reliably form practical collaborations.

The importance of mapping our networks

In recent years, computers have become powerful tools and helping us understand how to build trusting social networks. We can actually map networks. By making these maps, we can learn how to strengthen our networks by building new connections.

Everyday, our networks evolve by the process of closing triangles. Bill knows Jane and Chuck, but Jane and Chuck do not know each other. We strengthen our networks when Bill introduces Jane to Chuck. Now Jane and Chuck may be able to find new opportunities together.

There are other ways of building networks. Regular civic forums can provide an opportunity for new people to meet each other and explore their connections. These regular civic forums, if guided with appreciative leadership, can become powerful tools for building of our networks, our social capital.

All of this may sound a little abstract, but it is very practical. Regions that build strong thick networks will be more competitive on the Second Curve economy. They will learn faster. They will spot opportunities faster. They will line their resources faster. And they will make decisions faster.

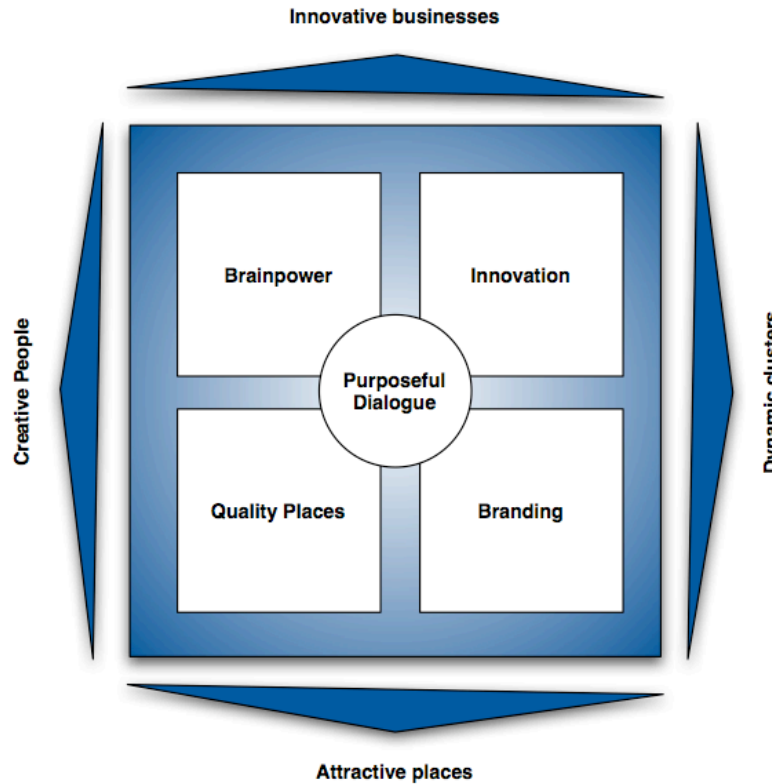
This approach to economic development is particularly important in rural communities. Take the case of Appalachian Economic Networks. This organization has focused on building networks as an economic development strategy for the past 10 years. With this approach, they have started to revitalize southeastern Ohio with new food and tourism businesses. Simple connections, relentlessly made, will over time build strong, vibrant networks. These open networks drive the creation of innovation and prosperity in the Second Curve economy.

Colleges, universities and libraries can play a vital role in strengthening these networks. We need places in our communities where people feel comfortable coming to meet and explore issues. People know that when they come to a library or college or university, they will be treated respectfully. There are simple, stable rules. Libraries, colleges and universities are places of learning, places of inquiry. Questions -- even dumb questions -- are expected and even encouraged.

In the years ahead, we will move forward more quickly to build innovative regional economies, if we pay attention to rebuilding our civic spaces. In any region, we need dozens of civic conversations taking place each week to explore what we can do with the many opportunities ahead of us. To frame and guide these conversations, we need a new set of civic skills that emphasize appreciative leadership. On the Second Curve, civic leadership is far more distributed than in a First Curve economy. Leadership comes from people who are willing to engage and who are capable of unleashing the energies of others for our common prosperity.

Open Source Economic Development

We still need some guidance as to which type of networks to build. Open Source Economic Development provides a simple set of tools for guiding the process of building open innovation systems. This model views local and regional economies as networks embedded in other networks. This approach captures the different dimensions of economic development and illustrates how they work together.



Successful regions operate with focused networks in strategic areas: brainpower, innovation and entrepreneurship, quality, connected places, branding and civic dialogue. The theory of change embedded in Open Source Economic Development is clear and concise.

To be globally competitive, any region needs to cultivate high quality brainpower. Next, the region needs to be able to convert this brainpower into wealth through innovation and entrepreneurship networks ("clusters"). The region needs to be able to retain and attract talent by building quality, connected places. The region needs to tell its story through effective branding. Most important, the region needs to cultivate civic habits of collaboration through an organized, disciplined process of "strategic doing".

A Glossary of Terms

Cluster

A cluster is a network of firms and organizations within a geographic region that provide products and services to a related group of markets. Clusters operate as open innovation systems in which participants regularly share ideas and resources.

Innovation

Innovation is the process of converting ideas into wealth. It involves the introduction of a new or significantly improved product or service to the market, or the introduction of a new or significantly improved process within a business. Innovation can be the result of the introduction, adaptation or adoption of new knowledge or technological developments. It can also be the result of the combination of existing technologies in a new business model.

Traded Business

A “traded business” represents a business that generates more than 50% of its revenues from customers outside a region. In economic development, a traded business imports income into a region. Typically, traded businesses pay higher wages than firms that serve a local market.

Sheltered or Local Business

A “sheltered business” circulates income within a local or regional economy. More than 50% of its customers are local. Sheltered businesses typically contribute to the quality of life of a regional economy.

First Curve Businesses

These traded businesses arose in the industrial age. Their business model depended generally on the control of cost and building economies of scale through volume production and vertical integration. By building volume and a relatively low cost position, the largest companies became the most profitable.

Second Curve Businesses

These businesses represent a new generation of firms that integrate knowledge and information into their products and services. Indeed, they blur the distinction between products and services. These businesses build value based on networks, and they achieve their scale through networks. These firms rely on innovation (top line growth) to power their business models.

Brainpower

Brainpower represents mental ability. Recent advances in brain science reinforce the notion that our brains continuously change throughout our lifetime, and that early childhood experiences are especially important in determining long term mental ability. The neural networks that form the “hardware” of our intelligence increase with use and decrease with disuse.

Quality, connected places

Quality, connected places refer to built environments that reflect principles of high quality design and sustainability. For example, quality neighborhoods are distinctive, accessible, diverse, linked to other areas, and environmentally

friendly. Quality commercial districts include distinctive, balanced and linked mixed uses. In addition, broadband access has become a critical component of quality, connected places.

Collaboration

Collaboration represents a process of joint decision-making that achieves collective results beyond what participants could accomplish working alone. Collaboration involves a range of activities, including communication, information sharing, coordination, cooperation, problem solving, and negotiation. Collaboration implies innovation and breakthrough results.

Entrepreneur and innovation networks

These are informal networks within the region that accelerate business development. If these networks are weak, business development, measured in the rate of business formation, is relatively low. In contrast, regions that aggressively and continuously build these networks have economies characterized by innovation, flexibility and resiliency. The networks effectively move resources – people and money – to areas of the greatest opportunity.

Branding

Branding represents the civic process by which a region explicitly manages the stories that leaders use to describe the region to residents and outsiders. Branding involves describing experiences with these stories. Effective stories shape perceptions and alter behavior. Community or regional branding relies on these stories to build a platform from which different marketing campaigns are launched.