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TO: Metropolitan Economic Policy Task Force

FROM: Joe Cortright, Impresa

RE: Review of Economic Strategy

This memorandum summarizes our review of economic development activities in the metropolitan Portland region. We've examined the inventory of economic development strategies and actions prepared by the Institute of Portland Metropolitan Studies. In addition, we've assessed Portland's efforts against the activities and best practices of competitor regions, and against established definitions of economic strategy. .

We report our findings in the form of the answers to four questions:

1. What is strategy?  
*A strategy establishes a vision of how our region will differentiate itself economically from our competitors, and how various aspects of what we do will fit together to accomplish this vision.*
2. What is the status of current economic development plans?  
*Current economic plans mostly address specific tactics employed by local units of government to enable and encourage incremental real estate development. While they recognize connections between localities and the region, they focus on the local jurisdiction.*
3. What are our competitor regions doing?  
*Regions are now recognized as the critical unit of global economic competition. Our competitors have developed specialized institutions for coordinating regional economic strategy, some public, some private, but all with a strong public-private collaboration. These institutions deal explicitly with issues of positioning, vision and assessment. They promote dialog and collaboration, but don't dictate to member institutions.*
4. What are the gaps in our effort?  
*The region has no explicit strategy. Specifically, it lacks a process for articulating its collective vision, positioning metro Portland against competitor regions, developing and promoting its brand, and encouraging collaboration and consensus to realize this strategy. There are broad commonalities in many of the elements of local plans, and arguably the region has benefited from quality of life as a strategy. Many tactics have been well implemented.*

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## Detailed Findings

### 1. What is Strategy?

The first and most basic question that the economic policy task force has to address is what it means by economic strategy. It will be difficult to assess whether in fact the Portland economic region has a strategy, or whether the strategies that it does have are adequate, unless we have a clear definition of what we mean by strategy.

Drawing from our analysis of the relevant literature we have developed the following definition of economic development strategy: A strategy establishes a vision of how our region will differentiate itself economically from our competitors, and how various aspects of what we do around the region will fit together to accomplish this vision.

Michael Porter of the Harvard Business School has studied business strategy extensively and also written on economic development (Porter 1996). Although there are a number of important attributes to strategy, Porter stresses that the essential element of any strategy is differentiation. In Porter's words, "competitive strategy is about being different. The essence of strategy is choosing to perform activities differently than rivals do."

Besides differentiation, there are several other important elements of strategy that Porter emphasizes. First, Porter notes that efficiency alone does not constitute a strategy. In other words, it isn't sufficient to simply try to be more efficient or lower-cost than one's competitors because such an approach can easily be imitated.

Second, Porter argues that strategies necessarily involve trade-offs between competing attributes, that no one competitor can excel in every possible aspect of competition. Consequently businesses have to choose those areas in which they are going to be exceptional and recognize that in other areas their performance might only be acceptable.

Third and finally, Porter argues that a key element of strategy is achieving a tight fit among the various activities one pursues. Effective strategies consist of a series of mutually reinforcing actions that have taken together constitute a differentiated and defensible position in the marketplace. In the case of Southwest Airlines, for example, the route structure, cross-training of crews, and rapid boarding all complement and reinforce one another as a means of lowering costs.

While Porter's analysis is directed specifically at businesses, it has great applicability to economic development strategy. (Porter, author of the *Competitive Advantage of Nations* is a highly sought after consultant to national and regional economic development efforts.) Like businesses, communities have to make the same choices and about what their strategy will be. Communities have to differentiate themselves, make trade-offs and fashion strategies that have a good fit among their various activities. Efficiency alone is not a sustainable basis for economic strategy because it does not establish those defensible, relatively sustainable areas in which our region will excel.

In an analysis prepared for the Council on Competitiveness, Porter and his colleagues outlined the case for, and key elements of a regional economic strategy. The executive summary of this report, *Clusters of Innovation: The Regional Foundations of US Competitiveness*, is reproduced in Appendix A of the Inventory Document. Their major points can be summarized as follows:

- A shared economic vision helps elicit broad support and coordinate activities
- Strong leadership is a necessary part of any successful economic development strategy
- An overarching organization for economic development helps coordinate and routinize the process
- Broad-based collaboration is needed for development strategies to succeed
- Rigorous analysis is an important early step in implementing a regional strategy, but mechanisms for translating ideas into action are necessary
- Regions need to overcome transition points in the development of their economies

Source: (Porter, Monitor Group et al. 2001)

In summary there are a number of important hallmarks of effective economic development strategy. Strategies need at the outset to identify how a community or region will differentiate itself from its competitors and how the various elements of its strategy fit together to give it a defensible competitive advantage. Good economic development strategies should clearly state their goals and provide an ongoing basis for measuring progress toward their attainment. An essential element strategy is a clear understanding of who wants competitors are anywhere one stands in relation to them -- -- and this includes both national and international competitor regions. Finally it may be just as important for strategies to rule out certain types of activities, as it is to identify those things one will pursue.

## **2. What are Metropolitan Portland organizations doing in economic development?**

Impresa has carefully reviewed the inventory of local economic development plans and activities prepared by the Institute of Portland metropolitan studies. In addition we have reviewed the survey of economic development organizations conducted by the Institute. Our review identifies a broad number of common elements in these plans and activities.

Interest and involvement in economic development is widespread throughout the region. All of the region's counties, most of the region's cities, and many of the region's special districts and other quasi-governmental agencies have either economic development plans or ongoing economic development activities. Much of the work in economic development is closely related to local government responsibilities for land-use planning and the provision of infrastructure. Since these activities are in part driven by economic development, and because economic development is influenced by planning and infrastructure, there is a necessary relationship between the two.

We offer five three broad conclusions about the nature of local economic development plans and efforts.

First, local economic development planning and activities are primarily concerned with incremental physical development. Economic development is generally equated with real estate development--as identified by the building or expansion of a business on a particular physical site. Other forces that influence economic activity, for example the general level of human capital, the availability of investment capital, the development of new ideas and the like are rarely mentioned in economic development plans.

The IMS survey showed that 14 jurisdictions listed "expansion, retention and relocation," as a top concern and 8 listed infrastructure, only 2 listed either workforce development or technology transfer (Inventory Document, page 45). Land supply and infrastructure are the two most commonly cited obstacles to economic development in local economic plans (Inventory Document, pages 14-15). This isn't surprising, given that most plans (and the ongoing responsibilities of most economic development agencies) are closely related to physical development.

Second, these local economic development efforts mostly address the various tactics that will be employed in encouraging economic development. A "tactic" can be defined as a specific action, policy or investment. Typical economic development tactics include designating land for commercial or industry growth, undertaking an infrastructure project to serve such land, or recruiting a particular company.

The tactical focus of economic development programs is clearly reflected in their performance measures and program accomplishments. Many jurisdictions do not have performance measures; those that do are as likely to focus on activity levels and caseloads, rather than jurisdictional changes in overall economic indicators (Inventory Document, pages 18-19). Accomplishments are typically lists of completed projects (Inventory Document, page 60-61). Ongoing economic development programs promote incentives and particular projects to encourage specific businesses to build or expand their facilities.

Third, most economic development plans and activities around the region recognize the connections between the local jurisdiction and the larger region. There are clearly important economic connections between different parts of the region, in terms of a common regional economy, flows of workers to employers around the region, and a shared regional infrastructure. It is also quite common for jurisdictions to report that they view other entities around the region as their partners in economic development (Inventory Document, pages 20-24). These plans and activities generally stop, however, at comparisons and connections to other places in the region. They don't usually deal with the competitive position of this region in relation to other regions.

Fourth, a striking theme is the extent to which quality of life is viewed as an economic development asset. Not only do jurisdictions within the region perceive that they individually have a strong quality of life, they also perceive that it is a regional strength as

well. Many survey respondents also identified quality of life as an important competitive factor (Inventory Document, pages 67-68).

Fifth, many economic development efforts (as well as recently adopted or revised economic development plans) are embracing the notion of industry clusters as a basis for understanding the economy and organizing economic development efforts, though not all plans use the term "cluster either consistently or accurately. A cluster is a geographically proximate group of inter-related firms connected by common markets, technologies and frequently buyer-supplier relationships. A cluster is not synonymous with an entire industry sector. Portland has identified a series of industry clusters as part of its latest Economic Development Strategy (Inventory Document, page 25), as has Beaverton (page 29).

### **3. What are competitor regions doing in economic development?**

Regions are increasingly becoming the most important units for understanding the geography of economic competition. Our historic perspective, of competing nation states struggling for development, or our more narrow domestic view of states competing against one another for business investment, is increasingly out of date. Today, the real competition seems to be among metropolitan regions that have developed strong specializations or clusters in specific industries.

There is a growing recognition among economists, business strategists and geographers that especially in a knowledge based economy, the crucial competition is between different metropolitan areas and their ability to nurture successful industry clusters. Recognized scholars from such diverse fields as economics, international trade theory and political science, like Harvard's Michael Porter and Robert Putnam (Putnam, Nanetti et al. 1993) and Paul Krugman (Krugman 1995), are pointing to the critical role that metropolitan regions play in driving economic progress.

This is a common view among business strategists, who recognize the value of regional location to private competitive success. Rosabeth Moss Kanter, also from Harvard, argues that businesses local linkages, particularly their relationship-based social capital formed in cities, is a decisive advantage (Kanter 1995). Japanese scholar Kenichi Ohmae, has gone so far as to write of the "End of the Nation State," and argues that city-centered regions will be the dominant locus of economic competition from here on out (Ohmae 1995).

The emphasis on region has a very practical implication for economic development strategy. One's competitors may not be adjacent states or even nearby metropolitan areas, but similarly situated metropolitan areas in other parts of the globe. So, for example, when the Government of Finland commissioned the Paris-based Organization for Economic Cooperation and Development to study the competitiveness of its largest metropolitan area, they chose to compare Helsinki with Dublin, Tel Aviv, and Portland, the three economies judged to be most economically similar (Organization for Economic Cooperation & Development 2002).

As part of our analysis, we examined the structure, history, and work products of a number of regional economic development efforts around the US, and in other advanced economies around the world. (For a complete listing of the relevant plans, see the Inventory Document, page 78).

Particularly in the past decade, many of our competitor regions have moved aggressively to establish their own institutions for regional economic strategy. While there is no single model—organizational arrangements are invariably tailored to the specific contours of the local policy environment—there are broad similarities among these efforts. The key elements of our competitor regions efforts include:

- A mix of public and private membership, emphasizing strong collaboration, and generally independent of any body with specific implementing authorities.
- An organization that focuses on establishing a vision of a preferred economic future and positioning the regional economy, as a whole, to compete in the global economy.
- An emphasis on identifying the industry clusters that drive the regional economy, and developing initiatives that will promote their competitiveness.
- An organization that provides information and promotes dialog and collaboration on the regional economy, but doesn't dictate policy to member institutions.

#### **4. What are the Gaps?**

Given what we know about the essential elements of strategy, what our region is doing today, and what our competitors are doing, we're now in a position to ascertain the gaps in our performance. In short, within the Portland metropolitan area, there is a strong and robust portfolio of economic development programs and activities, and while we have a collection of tactics, some very effective, there is no explicit economic strategy. We may have, in effect, enjoyed the benefits of an implicit strategy that bolstered our quality of life.

Although individual jurisdictions have their own statements of economic goals, there is no over-arching set of regional development goals or objectives. At the regional level, Metro defers to the economic development components of local comprehensive plans in complying with the state's Goal 9 for economic planning. Regional transportation and land use planning efforts treat economic variables passively, as the output of statistical forecasts, rather than as policy outcomes they are seeking to influence.

Unlike competitor regions, Portland lacks a diverse, recognized public-private forum, independent of any single implementing agency, for discussing the region's economic future and providing the organizational basis for developing strategy. No single region-wide group takes responsibility for identifying competitor regions, monitoring the region's performance vis-à-vis these competitors, developing a wide-shared positioning statement defining how metro Portland will compete, and coordinating common actions on economic development. No one is managing an agreed upon regional "brand."

We can summarize our analysis graphically in a two-by-two matrix, as shown in Table 1. Economic development efforts, broadly defined, can be thought of as either regional in scope or local, and can also be divided into tactics and strategy. Most of the economic development efforts in the region are operated at a sub-regional level (by cities, counties and other special units of government) and deal with the specific tactics needed to support industrial development (the lower left hand quadrant of our chart).

Cities and counties often express their development aspirations—strategy—in their comprehensive plans or in explicit strategies, like the Portland Development Commission’s recent plan (the lower right hand corner). A number of regional activities represent tactics that benefit the economy, for example, infrastructure planning and development, especially the regional transportation system, which has a major impact on economic activity (upper left hand corner). What’s generally missing, and where regional economic strategy belongs, is in the upper right hand corner of the chart—statements of vision, competitor analysis branding, and benchmarking.

**Table 1: Where Does Regional Strategy Fit**

| <b>Geography</b> | <b>Tactics</b>  | <b>Strategy</b>  |
|------------------|---|--|
| Regional         | (Marketing)   | Vision<br>Competitor Analysis<br>Brand<br>Benchmarking<br>Coordination |
| Local            | Zone land (city/county)<br>Permitting<br>Incentives<br>Projects | Comprehensive Plans  |

Source: Impresa, Inc.

Regional economic strategies differ from tactics in a number of important ways. The key differences are summarized in Table 2. Tactics—local economic development efforts—are usually specific policies or actions, dealing with particular sites within the region, they tend to be under the control of a single jurisdiction, and address immediate to longer term issues, and represent the prescriptive often legally binding action of the jurisdiction in question. In contrast, a strategy (as is typically used in our competitors metropolitan areas) deals primarily with positioning and the overall direction of economic activity, it contrasts one’s home region with that of competitors, and deals primarily with long term

issues, involves a wide range of partners in a consensual process, where partners retain their autonomy, because the plan is non-binding.

Table 2: Differences Between Tactics and Strategy

| <b>Characteristic</b> | <b>Tactics/Local Plans</b>          | <b>Strategy</b>                |
|-----------------------|-------------------------------------|--------------------------------|
| Content               | Specific Actions                    | Positioning, Direction         |
| Geographic Scope      | Site Specific                       | Region vs. Others<br>Regions   |
| Timing                | Immediate to Long Term              | Long Term                      |
| Involvement           | One jurisdiction                    | Many Partners                  |
| Authority             | Prescriptive, Often legally binding | Collaborative with<br>Autonomy |
| Assessment Metrics    | Activity Measures                   | Regional Performance           |

Source: Impresa, Inc.

## References

Note: "Inventory Document" is the Metropolitan Economic Policy Task Force Inventory Document prepared by the New Economy Observatory, Institute of Portland Metropolitan Studies, Portland State University, November 2002.

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