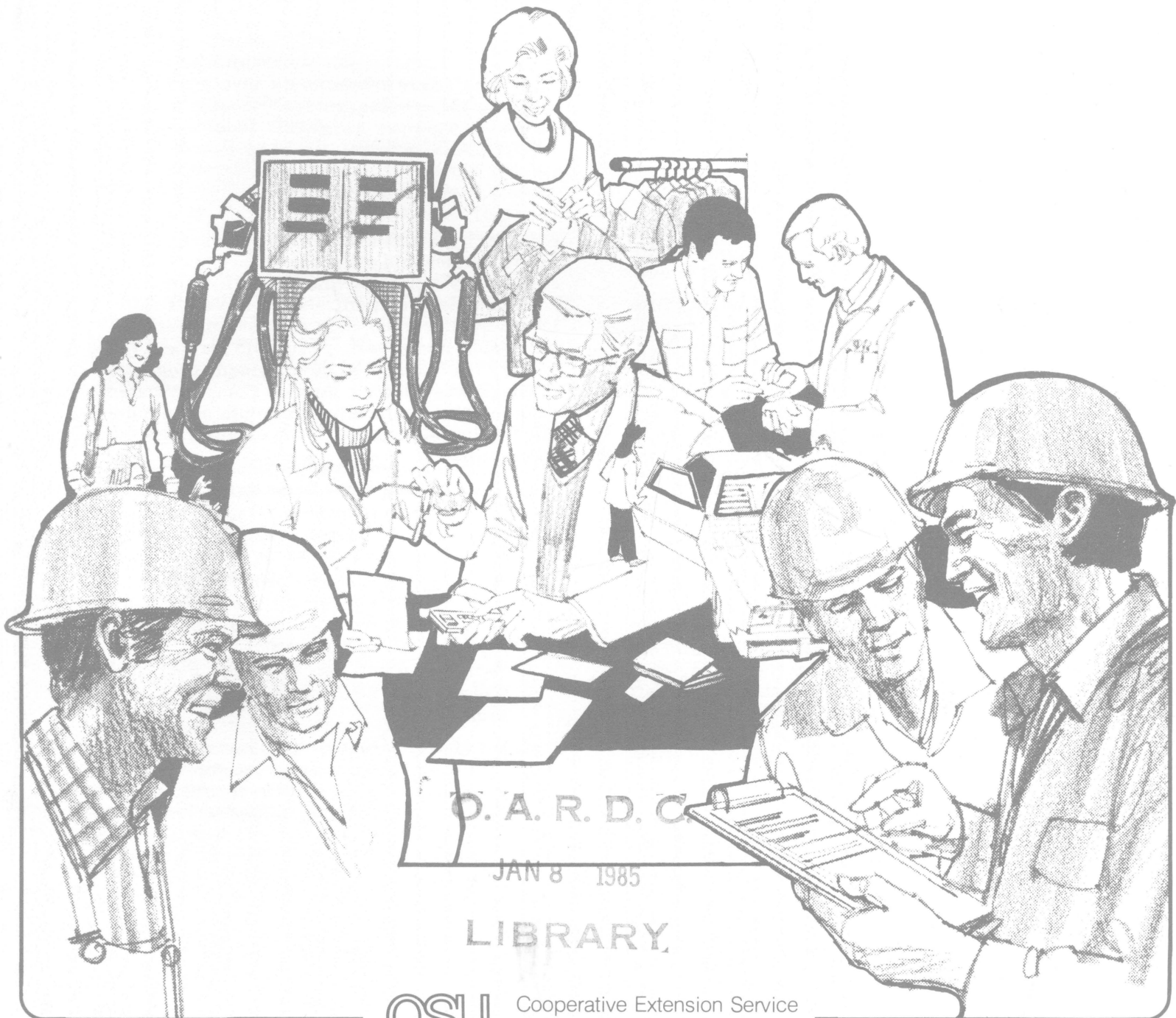


ECONOMIC DEVELOPMENT THROUGH RETENTION, EXPANSION & CREATION of LOCAL FIRMS

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Economic Development Through the Retention, Expansion and Creation of Local Firms

"Do what you can, with what you have, where you are."

Theodore Roosevelt

By Sam Crawford*

Over the years a lot of effort has been put into attracting outside industries to locate in rural areas in order to stimulate economic activities. An often overlooked area of economic development is the retention, expansion and creation of local firms. This publication was written for community members who have an interest in economic development through retention, expansion and creation of local firms. Throughout this publication we discuss "firms". This term includes industrial, commercial and service establishments.

According to a study conducted by the Chamber of Commerce of the U.S.,^{1/} approximately 82 percent of the economic growth of an average American community results from the creation and expansion of locally owned and operated enterprises. In 1979 another study conducted at Massachusetts^{2/} found that about half of all new jobs created between 1969 and 1976 were created by independent businesses (single establishments), while the remainder were

created by multi-establishment corporations. These studies and others seem to suggest that a community which is interested in stimulating economic development should have a balanced program. It should include a strong retention, expansion and creation program for local firms along with traditional development programs.

The Texas Electric Service Company listed a number of reasons why economic development efforts should begin with the existing firms in a community:^{3/}

1. Many of the local firms grew out of local advantages or needs.
2. Existing firms have proven their adaptability to local conditions.
3. An industrial development effort frequently will get quicker results by dealing with local firms than it would by negotiating with outside interest.
4. Satisfied firms can form the best advertisement in attracting new firms to the area.

Some of the problems and concerns of local firms are out of the control of a community. The community can do very little to influence national business trends, consumer attitudes, etc.,

^{1/} Chamber of Commerce of the U.S., Industrial Development Institute Department, *Studies in Organization Management*, U.S. Chamber of Commerce — First Year.

^{2/} *The Job Generation Process*, David L. Birch, MIT Program on Neighborhood and Regional Change, Cambridge, Massachusetts, prepared for Office of Economic Research, EDA, U.S. Department of Commerce, 1979.

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^{3/} Texas Electric Service Company, Area Development Division, *Community Guide to Expanding and Developing Local Industry*, 1970.

but there are a number of things a community can influence:

1. Sites or buildings suitable for expansion
2. Financial services
3. Locating suitable employees
4. Locating capable subcontractors
5. Securing engineering or research for improved or new products
6. Arranging for improved transportation, utilities, and safety services
7. Civic action on housing, education, recreation and government relations
8. Vocational training programs
9. Maintaining a good climate and attitude for business

In order for any economic development program to be successful, community involvement and support over an extended period of time is one of the most critical ingredients. If the majority of the local residents support economic growth, it will be much easier to achieve. Frequently, people are willing to accept certain types of growth while opposing others. A willingness to accept any type of growth is not required. But a consistent and rational policy toward new growth is essential.

If a community decides that it wants to increase the economic activity in its area, and a strong retention, expansion and creation program is an integral part of such an effort, the first questions asked will be, "Who will do it, and what will we do?"

Who Will Do It?

Many communities have formed economic development teams who work with existing and new firms and with the community. A number of approaches for forming a "team" have been tried. The key ingredient is to have respected community leaders who are willing to serve, to take an active part, and to make a long term commitment. In addition, it is important that team members know the community, its people, its potential, and its limitations. They should be the "doers", the "movers", and the "shakers". They should possess enthusiasm and patience, and be respected by other residents.

The team should have individual members who have some knowledge and/or experience with industrial sites, financing, utilities, labor, transportation, construction, insurance, local government, taxation, media, and environmental considerations. Some teams have selected people from each of these fields, while others have selected members who have access to people in these different fields. It is important that the members take an active part in the team's programs and that members are able to "tap" out-

side sources of expertise when needed.

The Chamber of Commerce should be an integral part of the team. In many communities the Chamber is the sponsor and organizer of the team. Some communities have organized non-profit corporations, such as Community Improvement Corporations, and expanded their role into active retention and expansion programs, while others have formed separate teams. Whatever approach is used, the important thing is to get the team organized and working.

Once the team members have been selected, the next step is to organize. A chairman, vice chairman, and secretary/treasurer should be selected. A regular meeting time and place should be scheduled. Regular bi-weekly or monthly meetings should be considered. If a lot of time passes between meetings, projects and activities tend to drag out and it becomes difficult to remember what transpired at the last meeting.

Meetings should follow parliamentary procedures. This approach will allow the "business at hand" to be completed without going off on tangents. (It has been said that 98 percent of the talk goes to 2 percent of the problem.) Members of the team will be busy people and their time is valuable. **Start and end each meeting on time.**

The most effective groups are the ones which involved each member. The subcommittee approach will allow each member to take an active role. Some suggested subcommittees are:

1. Sites and buildings
2. Visitation and follow-up
3. Finance and insurance
4. Utilities and transportation
5. Government, taxation, and zoning
6. Labor (relations and supply)
7. Community involvement and publicity

The use of ad hoc committees whose membership is not limited to the Economic Development Team should be considered when working on projects that need additional people or expertise. Cooperation with existing groups, organizations, and service clubs should also be considered for special projects. The idea is to involve as much of the community as possible. Let them know the team exists and needs their support. A community working together has a much better chance of success.

What Do We Do?

Now that we have an economic development team of enthusiastic, knowledgeable, and respected members, what should we do?

(1) One of the first programs should be a **community inventory**. This inventory should include

existing firms, possible sites, services (i.e., sewer and water), existing and potential labor supplies, housing, utilities, transportation, and taxes. The inventory can be used in working with existing firms as well as outside firms. When identifying existing firms, do not exclude the small firms. Some recent research suggests that these small firms could be your biggest job generators.^{4/}

When inventorying possible sites list acreage, ownership, price, utilities (i.e., gas, electric, sewer, water), and transportation (i.e., trucking firms, railroads, interstates, airports, etc.). It would help to have aerial photos or maps of each site with the above information drawn on the map. Copies of the maps and descriptions should be distributed to all team members, chambers of commerce, utility companies, state development organizations, and local real estate offices. Once again, much of the information gathered can be used with both retention and expansion efforts as well as other economic development efforts.

(2) Once all the firms have been identified in the survey, the economic development team should **establish a visitation and follow-up committee**. This committee should consist of three or four members of the team who interview each local firm to determine problems or concerns of the firm and plans or potential of the firm for expansion. Once the visits are completed, every

effort to follow up on the firm's concerns should be taken and the firm should be informed of the team's efforts. The visitation and follow-up committee should let each firm know that it is interested in the firm and its well being.

At a 1977 Industrial Development Workshop in Columbus, Ohio, George Ashton, Area Development Consultant, Buckeye Power Inc., suggested that some may feel this program is just "looking for trouble," and, in fact, it is. But it may be far better to take the initiative and seek out trouble or potential trouble while it is still of a minor nature than to let it fester and not be aware of it until the business leaves the community.

The team should place itself in a position to assist in unraveling red tape and to provide guidance and advice in such areas as zoning, traffic control, transportation, water and sewer, and utilities. Also, it should stress that these services of the team are **confidential** and without charge to the firm.

The visitation and follow-up committee should develop a survey form and cover letter such as the example in Figure 1. The cover letter should be sent to each firm along with the survey form. State in the letter that you will be calling within the week for an appointment, at which time you will pick up the completed survey, discuss problems, and make recommendations. Explain also that all information will be **strictly confidential**, and if used for publicity, it will be used in a cumulative way which will protect the identity of each firm.

^{4/} *The Job Generation Process*, David Birch, M.I.T., Cambridge, Massachusetts, 1979.

Figure 1

Mr. John C. Smith
ABC Machine Company
145 East 4th Street
Ourtown, OH 47747

Confidentially, Mr. Smith:

ABC Machine Company has been a great asset to Ourtown. In order that the relationship between your firm and our community will continue and improve, the Ourtown Economic Development Team is seeking ways in which we might be of some assistance.

Problems at ABC Machine Company, existing or potential, are as important to us as they are to you. The continued growth and success of your company has a great meaning to all citizens of Ourtown.

To that end, we will be calling you next week for an appointment, at which time we would like to pick up the enclosed survey form, and discuss, in confidence, the areas of concern and how we may help with them.

In the event there should ever be a publication of the results of this survey, the release will be a **cumulative figure** of several firms with no names mentioned.

Sincerely,

INDUSTRIAL AND COMMERCIAL SURVEY COMPANY INFORMATION

FIRM _____

ADDRESS _____

CITY _____

NAMES AND TITLES OF OFFICERS _____

NUMBER OF EMPLOYEES _____

PRINCIPLE PRODUCTS OF SERVICES _____

MARKET AREA SERVED FROM THIS LOCATION

LOCAL _____ REGIONAL _____ NATIONAL _____ INTERNATIONAL _____

COMMENTS:

Nothing works better for public relations than an obvious personal interest in another individual and his problem. Work one or two firms' visitations a month. This will give you time to follow up on the firm's concerns. At his or her convenience, go into the manager's office, listen carefully to what is being said, and then be sure to follow up.

A questionnaire should be developed for the interviewer to use as a guide when conducting the interview. An example is given in **Figure 2**, but you might want to develop your own. It has been suggested that the interviewer should not fill out the questionnaire during the interview; he should use it as a guide. As soon as the interview is over, perhaps in the car, he should fill it out. This approach might lead to a more relaxed, informal meeting. However, some feel that if the interviewer postpones filling out the questionnaire, some information would be lost. The team should decide on their approach.

During the interviews, team members should not make any statements or comments that cannot be fulfilled. This would do more to ruin credibility of the team than any other action.

After the appointment, an informal report should be compiled, noting any personal observations such as attitude of the executive, evasiveness, if any, and other features that throw

light on the visit. Both the questionnaire and informal report should be put into files because they give a composite picture of existing firms in the community and serve as a ready reference.

A review and follow-up should start immediately. If the firm has a problem or concern that can be addressed locally, make every effort, as a team, to help the firm. Let the firm know you are working on its problem and keep it informed of your progress.

(3) After conducting a community inventory and determining local firms' needs and attitudes, the Economic Development Team should **develop a plan of action**. The following recommendations are examples of actions to be included in the plan which will help a community to develop a better economic development environment.

- a. Identification of good industrial sites
- b. Evaluation of the need for new buildings of various types for existing firms and alternative ways of financing building construction and expansions
- c. Examination of alternative ways to enlarge or remodel existing structures
- d. Review of the need for vocational training and retraining programs
- e. Establishment of a labor/management organization

Figure 2

QUESTIONNAIRE

COMPANY _____
Date _____ Telephone _____
NAME OF INDIVIDUAL INTERVIEWED _____
POSITION _____

1. DO YOU HAVE ANY PROBLEMS AFFECTING YOUR OPERATION?

- () Labor _____
- () Utilities _____
- () Financing _____
- () Transportation _____
- () Taxes _____
- () Zoning _____
- () Pollution _____
- () Education or Training _____
- () Other (explain) _____

2. WILL ANY OF THESE PROBLEMS AFFECT YOUR FUTURE OPERATIONS OR EXPANSION HERE? _____

WHICH ONE? _____

WHY? _____

3. DO YOU HAVE ANY EXISTING COMPLAINTS THAT HAVE NOT BEEN SOLVED?
EXPLAIN _____

4. DO YOU HAVE ROOM FOR YOUR EXISTING OPERATIONS AT YOUR PRESENT LOCATION? _____

5. DO YOU HAVE ROOM TO EXPAND AT YOUR PRESENT LOCATION? _____

6. DO YOU HAVE ANY PLANS TO EXPAND OR CHANGE THE LOCATION OF YOUR PLANT?

WHERE? _____
WHY? _____
WHEN? _____

7. DO YOU HAVE ANY SPECIFIC PROBLEMS IN WHICH THE COMMUNITY MAY BE OF ASSISTANCE? _____

8. ARE YOU PRESENTLY RECEIVING THE SERVICES FROM THE COMMUNITY YOU FEEL YOU SHOULD? IF NOT, WHAT AREAS DO YOU FEEL COULD BE EXPANDED OR IMPROVED? _____

GENERAL COMMENTS:

The involvement of labor leaders in the team's activities should be considered. The highly competitive national and world markets leave little room for the traditional adversary roles. Communications and cooperation between labor and management should be encouraged. This can be accomplished by establishing labor/management organizations.

(4) To further assist existing firms, the economic development team should be available to **meet with company officials** to discuss their plans and problems and to offer local solutions when possible. Some communities have regularly scheduled meetings to encourage this type of two-way communication. One approach is to invite company officials to an informal unstructured session with the team. A meeting where everyone can get to know each other and share problems and concerns in an informal setting could uncover some potential new ideas and concerns.

Other communities have taken a more organized approach where they have regularly scheduled meetings at the facilities of a different firm each month. This approach allows company officials to "show off" their operations. It will also help others, including team members, know what the firm's operations are all about. Whatever approach is used, the objective is to show your interest and willingness to help whenever you can.

Still other communities have an "appreciation day" for local firms, or programs with the local media where a series of stories about local firms are printed. A few communities have encouraged service clubs to invite company officials to speak at their meetings. The possibilities are endless, but the objective is the same, i.e., to let local firms know the community appreciates having their firm in the community.

(5) No strict guidelines or specific steps universally apply to economic development strategies. Each problem area and project has its own characteristics. While much can be learned from the experiences of other communities, a great deal depends on the flexibility and leadership abilities of individuals involved in a project. Among the important items to remember in this context are:

- In almost all instances, money is less important than developing good plans for the use of money.
- Retaining existing firms and helping them expand is at least as important to a successful economic development strategy as the search for new enterprises to move into a community.
- Small firms create most of the nation's new jobs, and they often are in the greatest need of assistance. Yet knowledge about how best

to help small firms start up and expand is scarce.

The process of economic development does not begin spontaneously at the first signs of economic distress. **Action must be initiated.** There must be an individual or group available and prepared to exert continuing leadership in formulating economic development strategies and seeing that they are carried through.^{5/} Some general guidelines for working with small firms, new firms and service firms are offered in the following sections.

Working with Small Firms

Retention and expansion programs are often used only with the larger firms of a community. However, some of the potentially largest job generators are the small firms.^{6/} It is important that the team be aware of the small firms in the community and offer them the same services as they offer the larger firms. The development team might even want to develop some special programs for small firms. The needs and concerns of the small firm may be different from those of the larger firm. The resources, knowledge, and experience are different. The Small Business Administration has many programs other than just financial services to offer that the team should become familiar with. The idea to keep in mind is that you could have a "sleeping giant" in your community. You probably do not want to let them move to another community to expand their operations or let them go out of business when your team might have the expertise or contacts that could help them stay, grow and prosper.

Working with New Firms

A related area that the team needs to be aware of is the opportunity to establish new firms. Almost every community has a number of entrepreneurs who have ideas for business opportunities. With help, these "idea people" could be the source of a new firm in your community. It is important that team members be alert and attempt to identify these people. Here, too, the team should offer whatever assistance it can. The goal is the same as with small existing firms. You, probably, do not want these entrepreneurs taking their ideas elsewhere and developing them, or worse yet, not doing anything with their ideas.

The team might want to co-sponsor a series of "Pre Business Workshops" with the Small Busi-

^{5/} *Guide to Federal Resources for Economic Development*, Northeast-Midwest Institute, Washington, D.C., April 1980.

^{6/} Birch, 1979.

ness Administration (SBA). If there is a college or university close, the team could contact their business school to investigate some possible ways they could jointly conduct educational meetings for the potential entrepreneurs.

Young or new firms often have problems in raising venture capital. The team should become familiar with the different funding sources. Contacts should be made with SBA, the Farmers Home Administration and other federal agencies, state development agencies and local bankers.

Team members should be aware that many, if not most, entrepreneurs will be independent, will try to finance their firm by personal means and probably will not seek community assistance. They will also be hard to identify. Many will only have ideas for a product or service and have not thought out the management, financing, or marketing aspects of operating a business.

Once the entrepreneur has been identified, a team member might help the entrepreneur in a number of ways. The team member and the entrepreneur might visit a local loan officer, a Certified Public Accountant or lawyer, and some established successful firms which might help him or her plan the venture in a systematic way. The reason for this approach is that a high percentage of new firms that start will fail in a relatively short time. Often these failures are due to poor record keeping, lack of financial planning, or poor management. Assistance in the early stages might help to assure that the new firm will grow and prosper in the community. The SBA also has programs to assist the potential company originator with management skills.

The team could also help the entrepreneur find the proper facilities for the new firm. Some thought should be given to develop a "match-makers" service where the team could arrange to have the "idea person" meet and possibly join up with someone who has some experience that fits the proposed venture.

A team that decides to work with the potential company originator, the entrepreneur, should be prepared to work with innovative, creative, and independent people. The team should likewise be prepared to be innovative and creative when working with this group of people.

Working with Service Firms

Most economic development programs concentrate on manufacturing firms and miss the service and commercial firms. Yet, in recent years the service industries have been the fastest

growing industries. A recent article in *U.S. News & World Report*⁷ stated ". . . services are expected to provide 53 percent of the nation's total output of goods and services by the end of the 1980's, compared with about 45 percent in 1979." The same article went on to say that services employ more than twice as many people as do the goods producers.

Some examples of service industries include health care, recreation, banking, retailing, government, education, and utilities. The Economic Development Team should be aware of the increasing growth in the service sector and offer them the same assistance as they do the industrial sector.

Summary

Most of a community's economic expansion is likely to come from existing or new firms. Therefore, the community which desires economic expansion needs a strong, active, and organized retention, expansion and creation program. The chances for success are greatly increased if the total community is involved and committed for an extended period of time. An enthusiastic development team which is knowledgeable and respected is almost a necessity.

The economic development team will need to form sub-committees to carry out their programs in visitations and follow-ups, labor, sites and buildings, government, media, and new firm creation.

Young and small firms could possibly be a community's largest job generators and should be included in retention and expansion programs. To quote from "The Job Generation Process,"⁸ "The job generating firm tends to be small. It tends to be young. It tends to be dynamic (or unstable, depending on your viewpoint). It is the kind of firm that makes banks feel very uncomfortable. In short, the firms that can and do generate the most jobs are the most difficult to reach through conventional policy initiatives." The team should develop innovative programs to work with these firms.

The service industries are growing in importance in economic development and should be included in the retention, expansion, and creation programs.

The objective of retention, expansion, and creation programs is to establish an environment where business, labor, and the community can work together on economic development.

⁷/ *U.S. News & World Report*, March 17, 1980.

⁸/ Birch, 1979.