

Regional Marketing and the Strategic Market Planning
Approach to Attract Business and Industry

Case Study: Orange County, California, USA

Table of contents

1. Introduction
 2. Definition of Regional Marketing
 3. Critical discussion of Kotler's theory
 4. Case study: Regional Marketing in Orange County, California
 5. Conclusion
 6. Sources
- Appendix

1 Introduction

Over the past three decades economic development has become entrenched as an important function for local governments in the US and Europe. Since localities receive more powers and responsibility from the State, localities try to find new ways to support growth in order to prevent fiscal trouble. In particular, the advent of highly internationalized capital and commodity markets, electronic information networks, mobile managements and production resources has decentralized labor processes and markets and created what economists call the new regional economies. Despite these rapid and consequential changes at the global level, most economic development policy is conducted at the local level. Especially in the US, pushed by historical and cultural forces, city governments succeeded to overcome bureaucratic, hierarchical and smokestack-thinking behavior. A dramatic example of shifting responsibility to city level is California's Proposition 13 of 1978. The administrations of Ronald Reagan in the 1980ies escalated those demands for leaner and cheaper government, forcing public officials to search for a new way of administration. As federal aid evaporated and the States emphasized competition, California's local governments were pushed towards corporate-centered economic development. Nowadays, places increasingly compete with other places to attract their share of business investment. The recession of the early 1990ies did nothing to weaken the sense of rivalry among Californian cities for economic development. Until now, this corporate-centered approach to economic development rather focuses on local "growth machines" and the business elite than on democratic participation, local control and social justice. The notion of public entrepreneurship, a management approach of the reinventing government movement, appeared (Cohen, Eimicke 1998; Osborne and Gaebler 1992). Here, governments act as managers, using similar techniques as private businesses are using. Management concepts, such as customer-oriented strategic planning or marketing have been applied to regional planning in many cases.

The central tenet of the regional marketing concept is that in spite of these powerful external forces regions have within their collective resources and people the capacity to navigate successfully through the cyclical fluctuations of our globalized economy. In a world of competition, cities or whole regions can be seen as complex products consisting of competitive advantages bundled together. Some competitive advantages can be altered and adapted to market situations by local governments, e.g. industrial incentives. Those incentives are designed according to the objectives pursued and to the needs of relocating companies and

to the needs of the community.

Many new and innovative techniques are emerging to stimulate local economic development in the US. All require some form of partnership with private sector, especially business attraction as a form of regional development. The number and types of incentives are still evolving and are limited only by the imagination and creativity of public officials. The only limitations that exist are the parameters established by State and federal framework. Since local governments have their own unique political environment and their decisions are subject to scrutiny by the electorate, the economic development strategy selected must be tailored to fit the needs of the community. Hence, local governments need to find strategic development approaches that stimulate the business community on one hand and serve the needs of the residents.

Regarding economic development techniques, all tasks local governments fulfill are possibly having an effect on corporate direct investment. Also, there might be too many factors that are considered in business location decisions, which are beyond the influence of local governments. There has been much contradictory literature about the impact of incentives on economic growth (Netzer 1991, Fisher and Peters 1998, Oates and Schwab 1991, Bartik 1991). Most of the literature have in common that incentive programs, if developed and executed in a strategic and well-coordinated environment, have a positive impact on local growth. This is where Kotler's idea of strategic market planning as an integrative approach of planning economic growth begins.

1.1 Delineation of the problem

Despite globalization, location still matters for corporations. Nowadays, corporations are changing the way they decide where to locate and where to relocate. These decisions have serious implications for cities and regions as they try to position themselves in a changing competitive environment. Aided by advances in telecommunication and transportation infrastructure, business executives can successfully coordinate many corporate functions in a multitude of locations. Manufacturing may take place in a developing country, where labor is cheap and electric utilities and water resources have become reliable. Back office operations may be located in a small U.S. city where real estate and labor costs are low and the labor force is well-educated and articulate. Executive management may be located in pared-down headquarters in a high-rent large city with an international airport and attractive lifestyle

amenities. Generally speaking, companies make use of particular locational advantages by splitting up their business operations. Sophisticated software enables today's location decision-maker to sort through a vast array of information about global labor markets, housing costs, transportation, specialized services, tax structures and tax subsidies when choosing a location (Cohen 2000). Over the last fifteen years, improved information and technological advances have moved the location decision-making process to the center of corporate strategic planning.

According to the National League of Cities' annual financial survey of US cities 2001, more than half of its surveyed municipalities suffer from an imbalance between expenditures and revenues, which has resulted in increased unemployment and service reductions. The reasons for their trouble are manifold. Due to internal and external circumstances some are chronically depressed, struggling with out-migration, unemployment and abandoned property. A continuous decrease of the city's tax base leads to fiscal shortages for funding schools, hospitals and other public services.

As a consequence, local governments must apply a new approach to plan economic development. As business behavior towards public services changes, local governments need to adapt and reassess themselves. The reinventing government movement sees an answer to these changes by having governments act like business. Accordingly, local governments should make use of specific business management instruments. Considering the fundamental differences, they demand to shift governments from bureaucratic behavior to more entrepreneurial behavior. Regional marketing and the strategic market planning approach provide theories and instruments to enhance the shift on this behavior continuum.

1.2 Marketing as a regional development approach

Competition for residents, inward investment and tourism revenues at various spatial scales has intensified (e.g. Kotler et al. 1993, 1999; Ward 1998; van den Berg and Braun 1999). This has led to a number of significant implications for the organization and management of urban places. Public sector administrations have had to modify their traditional modus operandi and to share responsibility for the management of the urban place with a wider range of (especially private sector) stakeholders. Another significant implication is the application of marketing principles to regions as they seek to develop some form of competitive advantage that is as sustainable as possible in order to compete more effectively in

these new conditions (Warnaby et al. 2001).

This expansion of practitioner activity has been mirrored by academic interest in the marketing of places, particularly in the disciplines of geography, political theory and sociology, where there is a consensus that marketing principles are applicable (with modification) to cities and regions (e.g. Ashworth 1993, Ashworth and Voogd 1990, Kotler *et al.* 1999). Van den Berg and Braun state that, “regions can learn from the marketing experiences of the business community, but at the same time need to find their own strategies and develop a tailor-made approach that suits their purposes” (1999, p. 998). Ashworth argues that, ‘if [place marketing] is to be attempted successfully, then a special type of marketing has to be devised’ (1993, p. 648).

The regional marketing approach is useful for places that are in crisis or want to prevent an outbreak of crisis. In general, places in trouble are subject to internal and external forces. Internal forces stem from the natural business cycle process, where a period of growth is always followed by a period of decline. Kotler calls them the decay and growth dynamics of a place (1993, p. 7ff). If a place is originally attractive (strong opportunities for industry and residents), growth dynamics produce inward migration of business and labor force, which lead to a higher tax base but also to higher real estate costs and more infrastructure expenditures due to rising social needs. The system would collapse if the local government would not increase its taxes. Then, raising taxes leads to outward migration of business.

At this point decay dynamics take over. If major companies leave the region, unemployment rises, tax base is reduced and infrastructure is not affordable. This induces outward migration of residents and other business followed by declining tourism. As a consequence, banks tighten credits, bankruptcies increase, crime rates rise and the place image deteriorates. As a result, the location finds itself in a crisis.

External forces of the economic environment are beyond control and cause imbalances in the space of localities. Major external forces according to Kotler (1993, p. 8) are rapid technological change, global competition and political power shifts. Communities need to respond effectively to these threats and they must anticipate their occurrence.

A central proposition of Kotler’s idea is that market changes occur much faster than a locality can respond and adapt to (Kotler 1993, p. 18ff). Thus, investors have a crucial advantage over local communities that seek economic growth. The challenge of place marketing is to strengthen the capacity of communities to react to the changing global economy by using strategic planning. It is based on the assumption that the future is largely uncertain and local entities need to respond in a flexible way. Strategic planning calls for

designing a community with a view to potentials investors' needs of the present and the future. Strategic planning can be used to make a region fit for opportunities and threats. Place marketing succeeds when stakeholders derive satisfaction from their locality and find their expectations met. To function properly, place marketing demands a market-oriented view of leadership. Local administrations need to act more like entrepreneurs, accumulate expertise in developing their "products", markets and customers and face place competition. Kotler tries to offer a modern bottom-up planning tool - the strategic market planning approach - that places can use to improve their competitive positions.

1.3 Methodology

In the first part, the notion of regional marketing and its implications will be presented according to Philip Kotler's literature. Then, this research paper will use the case study technique to test effectiveness of the regional marketing approach in a local environment. It will be sought to find a relationship between business attraction efforts and increasing quantity of business locations. Measuring effectiveness of an abstract construct will be based on qualitative analysis of the situation before and after. With a view to the findings of this case study it will be tried to induct general usefulness and effectiveness of the regional marketing approach to induce relocating activity into a region.

As a case study Orange County, State of California, USA is chosen. In accordance with the case study technique (see chapter 2.7.2) it will be tested if the regional marketing concept can produce a positive impact on inducing relocating businesses. To this effect, Orange County's marketing efforts to attract direct corporate investment will be presented in detail. Eight personal one-hour-interviews have been conducted with economic development decision-makers, regional planners and local politicians. The questionnaire consists of seven open-ended questions. A sample questionnaire is included in the Appendix. One additional interview is made with Lincoln/Mercury, Ford's luxury automobile division headquarters, in order to include a relocating firm's point of view on Orange County's business incentives.

Based on the answers of these interviews and US, especially California State, literature research on local economic development, conclusions about the usefulness and effectiveness of Orange County's regional marketing program to attract relocating firms will be drawn.

1.4 Objectives and structure of the master's thesis

This paper describes and evaluates how regional marketing, based on the ideas of Philip Kotler's *Marketing Places* (1993), might be a reasonable tool to attract direct corporate investments. This research paper concentrates on strategic market planning of local economic development programs. It is presented how to make use of local competitive advantages by useful bundling of incentives. The notion of marketing and governing places is combined and shall offer the reader a new perspective of meeting regional economic objectives for places.

This thesis is divided into two parts: a theoretical part (where industrial incentives are presented and Kotler's concept is explained and criticized) and an empirical part (where regional marketing is applied and tested for effectiveness). First, it will be defined what regional marketing is and what forms of incentives are considered. Then it will be presented how marketing strategies can be organized in a local environment, followed by a discussion how companies make location decisions. In the last chapter of the first part, a critical discussion of marketing strategy is presented. In the second part, an emphasis will be put on the case study; a location (Orange County, California, USA) where economic development based on marketing planning came to work. The place's business attraction program will be presented and explained in detail. With a view to the situation and implications analyzed in the case study, it will be tried to scrutinize effectiveness and usefulness of economic development programs based on regional marketing principles for this place in question and in general.

1.5 Region

The term region, as used in this paper, refers to the geographical space where regional marketing projects are applied. It does not need to be a geographical entity or a political jurisdiction: Regions can be sub-national, supra-national or trans-national (Maier/Tödting 1996). Usually, administrative borders give an orientation, but cross-border marketing projects can be useful too. The US twin cities St. Paul and Minneapolis have succeeded in establishing an economic development program based on marketing principles together (Kotler 1993, p. 97).

The marketing region is the bundled spatial structure that presents itself to the audience. A region is subject to the objectives of the marketing program set up by its regional actors. Whatever to be planned and communicated is, in the eyes of the perceiver, a region. Thus, the

viewer or the target market ultimately decides what a region is.

By looking at the region from a socio-economic point of view, it is necessary to define the region by social interaction, small-scale socio-economic networks and a specific regional identity (Jekel 1997). The term “regional identity” is to be defined as identification of regional actors with a project (the project of collective regional development), as opposed to identification with just a physical part of the landscape. In doing so, the region can easily be viewed as a larger corporation with several interacting departments that develops its own corporate culture. Inhabitants of the region and regional institutions could be seen as shareholders. They can invest in the region by taking part in decision-making and through citizen initiatives. Results of these initiatives should bring “regional share-holders” in the position of better chances of employment and income. Thus, this thesis does not take the region as given: it has to be produced if we want to be successful in regional economic development. Kotler (1993) suggests that regional marketing with an integrated planning perspective will help to reach this goal.

2 Definition of Regional Marketing

There have been numerous controversial definitions of regional marketing (or place marketing, city marketing) in recent literature (Simon 2001). Most literature tries to define regional marketing as a strategy. In this paper, another understanding of regional marketing is applied, which involves strategic market planning. Here, regional marketing is viewed as an approach for local economic development planning and not as a strategy itself. The core of marketing is originally embedded in the science of business management and applied to regional planning, so marketing must be defined in the first place.

In general, marketing is a strategic instrument to create and stimulate market exchange processes between suppliers and consumers (Kotler 2001, p. 9ff). Also, the American-Marketing-Association defines “Marketing is the performance of business activities that direct the flow of goods or services from producer to consumer”; but this is based on certain principles and viewpoints of the environment. Marketing tries to establish relationships where both, the (profit-oriented) objectives of suppliers and needs and wants of consumers are considered. Marketing focuses on satisfying needs and wants by creating value to consumers. Accordingly, marketing is not a means to sell goods or services, but to create and foster long-

term relationships in an efficient manner. The directive of marketing is free exchange under fair conditions between business partners to gain value for both sides (Kotler 2001, p. 5). In such a market environment, marketing seeks to create value by considering needs and wants of consumers. Thus, products or services are developed, shaped and communicated with regard to market needs. This shall be done more efficiently and more effectively than the competition. Profits are the result of satisfied consumers that purchase the best-fit product. Regarding the role of marketing in business units, it is a management and organization perspective. In market-oriented strategic planning, objectives and resource allocations are adjusted to market opportunities. It is a concept for businesses that guides production and organization, processes and behavior in a market environment.

To sum up, marketing seeks to create and design long-term relations with the market by creating value to consumers. Most of these relations are based on trade or barter, i.e. exchange of goods and services. But marketing can be applied to various relations and thus, be differentiated between non-profit marketing and commercial marketing. In commercial marketing, the main objective is maximizing profits in contrast to non-profit-marketing, where maximizing efficiency is targeted. Since local governments seek to satisfy certain interests and do not seek to maximize profits, regional marketing is derived from non-profit marketing. But regions are different to business units, since spatial structure is not subject to change. Simon (2001, p. 5) finds three features peculiar to regions:

- Regions are highly diverse, complex, socio-economic systems
- Regions are strongly influenced by given environment, such as landscape and climate
- Regions are strongly influenced by its residents and workforce

Thus, regions are predetermined complex systems, where regional marketing efforts can be based on and not vice versa. Regional marketing is a means to locate, bundle and present variable and non-variable features of a region that are relevant to supporting market processes.

The majority of North American literature (Lovering 1995) suggests a different approach of what marketing places imply: The North American approach articulates the overwhelming primacy of economic development as the rationale for place marketing, with localities regarded almost as businesses (while factors such as community issues are mentioned, consideration of them is often implicit rather than explicit). Above this, in the US, regional marketing refers dominantly to the recruitment of relocating companies. This refers to

promoting, acquiring and mediating between place seekers and place developers. In some literature, it includes the correction of misperceptions about the place (Fisher 1998). Correction of information is dominantly done by promotion, which includes using tools such as public relations, advertising, direct mailings and conferences. From Kotler's point of view, promotion is only one part of marketing. Philip Kotler's (Marketing Places, 1993) summarizing definition of regional marketing embraces the wider notion of regional marketing:

“The strategic market-oriented planning of a region with a view to matching stakeholders' needs and local economic objectives.”

According to this definition, regional marketing not only implies ways of selling of places. The selling of places is the last agenda on a long list of tasks. Here, regional marketing includes strategic planning based on market studies and research. Regional marketing implies a management-oriented entrepreneurial view of planning, that uses an outside-inside approach to set objectives. The outside-inside approach is based on the view that regions are placed in a competitive market environment, where conditions change constantly. Through market research on a national and global level the outside environment, future opportunities and threats of a particular region are deduced. Here, planning is based on a clear vision of what markets demand and how they behave. Then, these forces of the outside environment are brought together with the needs and wants of the community, in order to set economic objectives.

European regional planners have absorbed this wider notion of regional marketing suggested by Kotler. A European approach argues for a more holistic interpretation of place marketing, incorporating social as well as economic imperatives. As Paddison states, “This more catholic interpretation allies the economic promotion and development of the city with its physical and social planning so as to produce the ‘harmonious city’ able to satisfy the requirements of different users, its citizens, investors and visitors” (1993, p. 340). But despite this emphasis on social issues, economic imperatives remain paramount and a business orientation is becoming more overt. Also, European literature (Ashworth and Voogd 1990) emphasizes on the integrative and coordinative aspect of regional marketing. Besides, the entrepreneurial approach was new to European regional planning. Simon (2001) defines regional marketing as an instrument to control and implement development processes of a region under involvement of private and public stakeholders. According to Simon, its main

objective is to strengthen economy, image and identity of a defined region in order to create sustainable competitive advantages by using marketing instruments. Thus, regional marketing is a cooperation- and integration-based regional development instrument.

Regional marketing can be instrumental to various regional government agendas and is useful for numerous strategies. It must be noted here that this paper concentrates on attracting relocating businesses to encourage economic development. If the main objective is to increase attractiveness for business, it is usually referred to place or location marketing. Place marketing, at its core, embraces four activities (Kotler 1993, p. 18ff):

- Designing the right mix of community features and services
- Setting attractive incentives for the current and potential investors
- Delivering a place's "products" and services in an efficient and accessible way
- Promoting a place's values and images so that potential users are fully aware of the place's distinctive advantages

Place marketing uses the strategic market planning approach to plan development (see chapter 2.1). It calls for designing a community to satisfy the needs of its key constituents. Place marketing succeeds when stakeholders, such as citizens, new businesses and investors find their expectations met (Kotler 1993).

2.1 Regional marketing and regional economic development

First, one must understand that what is referred to "economic development policy" in the US literature can be seen as "regional policy" in Europe. Regional policy is government acting to influence economic processes on a local level (Maier and Tödtling 1996, p. 169). Its main objective is to adjust the spatial allocation forces of markets. Since open markets do not always function efficient, the outcome is to be corrected by government action. In Europe, major actors are central governments (chambers and ministries) and provinces (Bundesländer), but also the EU on a supranational level. It should be noted that EU regional policy is generally funded and directed by central government, whereas in the US State and local government usually manages it. As a result, central control of incentives and restriction on that competition, are clear with most regional policy instruments, but less so with US economic

development policies.

Regarding regional policy, a general goal of local administration is to spur economic growth by attracting outside business activity. The first question is what strategies local governments can use to influence companies' location behavior. Strategies are a combination of instruments used to meet local economic objectives that are based on certain theories of economic development. In order to ensure efficient local policy, local governments combine their instruments in a consistent and logical manner (Maier and Tödting 1996, p. 179). Capellin and Molle (1988) differentiate between two broad strategies: exogenous and endogenous development strategies. Exogenous strategies rely on economic impulses from the outside of the region and put the mobility of capital and labor in the fore. Here, incentives and infrastructure development are viewed as a measure to increase business activity. Endogenous strategies concentrate on the local capacity and competitiveness. These strategies aim at local resources and the efficient allocation of them. Regional marketing is a planning standpoint that can be used for both strategies. It is an approach to integrate instruments in an efficient manner. It is based on an entrepreneurial view of managing localities that emphasizes on inside and outside communication. Thus, it can be applied to develop regional capacities or to enhance the inward flow of capital. Regional marketing programs often combine both strategy elements, but it fits better for designing exogenous strategies. In practice, the marketing planning viewpoint is more frequently used to design tourism or business attraction programs by local governments.

Regional marketing uses strategic market planning to guide the economic development planning. According to Kotler (1993, p. 76ff), strategic market planning is a planning approach that passed through three stages (see table 1).

	Objectives	Methodology	Underlying Marketing Rationale
First Generation (Smokestack Chasing)	Manufacturing jobs	Luring facilities from other locations	Low operating costs Government subsidies
Second Generation (Target Marketing)	Manufacturing and service jobs Profitable Growth	Luring facilities from other locations Retention and expansion of existing firms Improving physical infrastructure Improving vocational training Public-private partnerships	Competitive operating costs Suitability of community for target industries Quality of life (emphasis on recreation and climate)
Third Generation (Product Development)	Preparing the community for future jobs Manufacturing and high quality service jobs in target industries expected to enjoy continuing growth	Retention and expansion of existing firms Spurring local entrepreneurship Selective recruitment of facilities from other locations More intense public-private partnerships Developing technology resources Improving technical education	Prepared for growth in the contemporary world-wide economy Competitive operating costs Human and intellectual resources adaptable to future change Quality of life (added emphasis on cultural and intellectual development)

Table 1, Stages of strategic market planning. Source: Marketing Places, Kotler et al., 1993, p. 77

In the first stage, strategic market planning was dominantly used for attracting large manufacturing companies in order to generate employment. It had its origins in the 1930, where US Southern provinces tried to lure plants from northern States with aggressive efforts. Places tried to reach buyers by promoting competitive deals. Incentive-bidding wars escalated and came to an end in the 1970ies during the recession years.

In the second stage (1970ies and 80ies), places became more selective. Conventional business recruitment programs built on financial incentives were often publicly criticized, since incentive benefits not always exceeded incentive costs. Consequently, instead of pursuing a single goal, that of business attraction, local governments moved towards numerous goals: business retention, business start-up support, tourism, export, promotion and foreign investment. Strategies, now based on competitive analysis and market segmenting, became more refined. In segmented markets, products and services of a place are tailored to specific customer groups. Besides, places put more emphasis on maintaining and supporting internal markets and resources (Kotler 1993, p.78).

In the third stage that started in the 1990ies, places moved to the stage of competitive niches and product development. Now, places are seeking to perceive themselves as distinctive places with specific competitive advantages for selected industries. Location factors are seen as a bundle of products and services that create value to investors. Places are investing in a diversified portfolio of target industries while pursuing some clusters of related businesses. Places are more and more investing in educating human resources (Kotler 1993, p.78).

These three historical stages give an overview of how regional economic development activities change as a result of external forces and internal pressure. Places become more market-oriented and efficient in economic planning. After the 1970ies, place development was no longer a policy enclave of the national governments and no longer an activity limited to the public sector. As development responsibilities moved downward the government systems, resources and support shifted from public to more private involvement. Endogenous strategies came to the fore and places focused internally on resources and leadership to build competitive capabilities (Kotler 1993, p. 79). Regarding this dynamic change, place marketing emerged as the integrating process that links a place's potential to overall economic development objectives.

2.2 Major elements of a regional marketing program

To Kotler, a regional marketing program is conducted by using strategic market planning. The major elements in strategic planning are planning groups, marketing factors and target markets (see figure 1).

First, a planning group must be organized, made up of citizens, business people and local

government officials. As implied here, collaboration between public and private sector is preconditioned. Kotler mentions that unlike purely commercial product marketing, the active support of public and private agencies, interest groups and citizens are crucial to the fortune of the place development program (Kotler 1993, p.19). In such planning group meetings three tasks must be fulfilled. Task one: A detailed diagnosis of the place's condition must be set up through market research (i.e. place audit – see chapter 2.3.1). In a place audit, strengths and weaknesses of a region must be worked out and assessed. This implies interpreting forces of the broader environment and understanding the needs and behavior choices of decision-makers. To gather information, surveys and regional studies must be conducted. Task two: Places must develop a long-term vision based on a realistic assessment of the community's values, resources and opportunities. Objectives of the development plan are clearly stated here. It is framed by the place's authority to shape and design incentives with a view to their limited legislative powers. Task three: The action plan, including implementation and control mechanisms, that complements the vision must be developed. The action plan embraces several intermediate stages of investment, transformation and building up an effective organization.

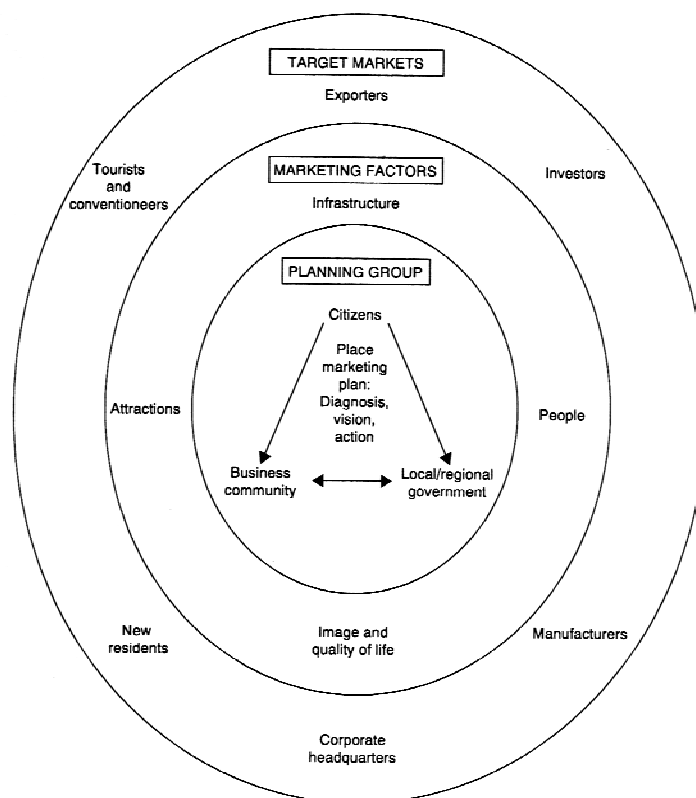


Figure 1, Major elements of a regional marketing program. Source: Kotler 1993, p. 19

Second, four marketing factors that improve the local development must be considered. Factor one: Basic services and infrastructure must be provided and maintained to the satisfaction of its businesses. Factor two: Attractions are needed to differentiate the place from others, in order to sustain current business, enhance migration of high-educated workers and attract new investment. Factor three: The locality needs to communicate its improved quality of life through a vigorous image and communication program. Various promotion techniques can be used to disseminate information about the place to the audience. Factor four: The place must generate support from its citizens, leaders and institutions for creating goodwill and enthusiasm.

Third, based on the previous results, potential target markets must be selected to where the efforts are directed. As Kotler suggests (1993, p. 229), places should not seek growth at any cost. Finally, selecting a target market after the segmentation process also implies a cost-benefit analysis.

2.3 Strategic market planning process

Strategic market planning is a planning approach that starts from the assumption that the future is largely uncertain. The place's challenge is to design itself as a functioning system that can absorb shocks and adapt quickly and effectively to new developments and opportunities. Thus, regional marketing implies establishing information and control mechanisms to monitor the changing environment and respond constructively to new opportunities and threats. The aim is to prepare plans that integrate the place's objectives and resources with its changing opportunities. Through the strategic planning process a place decides which industries, markets and services should be encouraged, maintained or deemphasized.

Establishing a marketing plan is a sequential process and moves through five stages: Conducting the place audit, describing the vision, formulating the strategy, setting up the operative plan, implementation and control (Kotler, 1993, p. 81ff).

2.3.1 Conducting the place audit

First task of the planning group is the systematic examination of a place's demographic and economic characteristics, potential competitors and relevant major trends. This is followed by a SWOT analysis (strengths, weaknesses, opportunities and threats) in order to abstract

competitive advantages.

Characteristics should include quantitative and qualitative information about the locality, such as data on population, income, education, housing market, industry structure, labor market, community health system, transportation facilities, public safety, research institutions, cultural, natural and recreational resources. Doing this, information about main competitors and major trends emerging from the greater economy is needed here as well. Conducting research and surveys on a regional and national level can identify main competitors of a specific locality. Also, for the next step - the SWOT analysis - profile information gathered must be carefully preselected. Not all attributes of a region are equally meaningful to target groups that it wants to attract. Thus, for effective profile research, a general idea of what types of companies should be addressed in the future could be helpful.

The SWOT analysis permits strategic planners to carry out issue management. It confronts characteristics of a place (internal condition) with outside trends and developments (external condition). Strengths and weaknesses are identified and assessed with a view to potential investors' needs and wants. Kotler (1993, p. 86) notes here that strengths are defined by the relative competitive advantage to other places, such as lower manufacturing costs. The concept of strength must be carefully interpreted. Although a place finds a major strength (i.e. a distinctive competence), it does not necessarily constitute a competitive advantage. What becomes important is the relativity of strength compared to peer regions. After strength and weaknesses are identified, opportunities and threats are derived. Kotler defines an opportunity as "...an arena for action in which a place has fairly good chance to achieve a competitive advantage" (1993, p. 86). Thus, opportunities must be assessed according to their attractiveness and success probability. Threats are a challenge posed by a negative trend of the external environment that would lead to the erosion of the place's condition in the absence of purposeful action (Kotler 1993, p. 87). Threats are classified by seriousness and probability of occurrence. By assembling opportunities and threats facing a place, it is possible to characterize the place's general attractiveness: An ideal place is high in opportunities and low in threats, a speculative place is high in both, opportunities and threats, a mature place is low in opportunities and threats, a troubled place is low in opportunities and high in threats.

The SWOT analysis permits strategic planners to identify important key issues. Most of these issues involve sizable investment and commitment. Kotler suggests in this phase to appoint committees who research each issue and gather recommendations from outside. These committees should allow for community participation and public hearings. After examining the resulting recommendations, the next step for strategic market planning is to describe

visions and objectives for the future.

2.3.2 Describing the vision and objectives

Based on the current place's situation, numerous projects a place can undertake come to the surface. In order to streamline and coordinate potential projects, a coherent vision must be set up that embraces the whole development plan. The vision lays down a scenario of how the place should look like in the future in the eyes of the residents. It provides clear direction to development officials and becomes the basis for resource allocation. Thus, goals, objectives and a time frame must be included. According to Kotler, round tables or public hearings should be organized where community representatives, interest groups and decision makers explore the possible visions together (1993, p. 91). To find an agreement, a vision can be broadened or more than one complementary visions can be chosen. Alternative visions can be put to a public referendum.

2.3.3 Formulating the strategy

The strategy defines the methods of how the objectives should be achieved. The strategy paper provides a long-term guideline. Various projects are chosen that are eligible and affordable considering a community's budget constraint. Kotler states that the strategy should answer the questions "...what advantages do we possess that suggest we can succeed with that strategy? Do we have the resources required for the implementation of the strategy?" (1993, p. 95).

2.3.4 Operative plan

The operative or action plan lays down how the strategies are carried out in detail. Here, competencies are established, time schedules are determined and financial resources are distributed. Each action formulated is followed by responsibility, way of implementation, cost and expected completion date. This last planning level of the sequential process must be carried out in a very detailed manner to avoid competence conflicts and to ensure financial control. One of the major planning challenges is to allocate the budget equitably to the areas within the boundaries. Thus, the action plan should set targets for each area rather than

deriving broad measures for the entire region. Kotler suggests dividing the locality into inhomogeneous regions to this effect (1993, p. 97).

2.3.5 Implementation and control

The last stage is the implementation and control of the program. The implementation process should be regularly checked for efficiency and success. In case of inadequacy the planners need to take action and adapt the plan. For this purpose, the planning group needs to convene at stipulated intervals to reconsider the objectives and the action plan when needed. Kotler suggests issuing annual reports that highlight achievements and point out failures (1993, p. 98). Several statistical indicators should be selected that are able to reflect the development progress. Annual reports are to be distributed to the broad public to enable discussion and put local officials under pressure to sustain to the long-run objectives.

To monitor economic development annual economic indicators must be calculated. Indicators should be efficient, flexible and adequate in order to reveal whether the development process improves or stagnates. For instance, the Orange County Business Council selects community indicators that meet the following criteria (Orange County Indicators Report, 2001):

- Reflect the fundamental factors which determine long-term regional health
- Can be easily understood and accepted by the community
- Are statistically measurable on a frequent basis
- Measure outcomes, rather than inputs
- Illustrate countywide interests and impacts as defined by impacting a significant percentage of the population
- Include the categories of economic development, technology, education, health and human services, public safety, environment, and civic engagement
- Reflect data that is both reliable and available over the long-term

2.4 Organization of regional marketing programs

Regional marketing should be embedded in a management-oriented local government structure. Here, local decisions should be made under involvement of non-public stakeholders

and encourage citizen participation. Simon (2001, p. 8) defines regional management as an integrative overall approach to implement marketing objectives. Characteristics of regional management are:

- Dynamic and process-oriented conceptualization
- Assignment-oriented behavior
- Action-based project planning
- Technical problem-solving
- Empowerment instead of regulation
- Supporting regional strengths
- Citizen and interest groups involvement
- Integrative and coordinative leadership

In order to organize a regional marketing program, local governments usually set up or take part in economic development agencies, business councils or independent non-profit institutions that aim at inducing corporate investment into the region. Those agencies vary in terms of their forms of incorporation, tasks, powers, independence and political responsibility (Kemp et al. 1995, p. 37ff). Some can only be seen as promotion agencies that distribute information to prospect investors, in contrast to others that have full planning and implementing powers.

2.4.1 Forms of economic development organizations in the USA

Before the 1960ies, economic development used to be primarily the issue of the local chamber of commerce. In some cases, a small economic development office within the municipal planning office supplied facts and figures. Retaining and attracting big industrial job producers was more often a State than a local responsibility. Nowadays, those patterns have changed and a wide spectrum of organizing economic development agencies has emerged.

At the one extreme there are non-profit economic development committees that are only partly funded by federal or national governments. They can act rather independently at the cost of a loose relationship to local public officials. Still, many of those non-profit quasi-public

corporations have an extremely close relationship with the local government, such as the Baltimore Economic Development Corporation BEDCO (Kemp 1995, p. 39). Some other agencies are governed by boards, which are completely consisting of private sector representatives. A mixture is rather typical, where half of the members are appointed by the city hall and the other half by the local business community.

At the opposite end of the spectrum are those economic development departments that remain an integral part of the local government. Here, members are public officials and thus strongly influenced by the local government. The model in this case is Portland, Oregon, which in 1973 merged five offices and commissions into one umbrella agency (Kemp 1995, p.40).

Both types have their strengths and limitations. The form that works best in a particular jurisdiction is a function of many local factors, including community size, economic circumstances, development objectives and the level of commitment of public and private sectors to economic improvement. According to the National Council for Urban Economic Development (CUED, Washington D.C.) the public approach works well in cities where the local government has given a high priority to economic development and the private sector is already actively involved - as it is in St. Paul, Minnesota for example. In contrast, a quasi-governmental corporation is more effective in communities where economic development issues compete with other public agendas for scarce public dollars. It is also more often used in those localities where the private sector is uneasy about working together with the local government directly, as usually the case in many Californian cities.

More and more US jurisdictions choose the quasi-public approach, as Orange County does. This structure provides more flexibility and freedom when it comes to implementation of incentives. Powers are less restrained by legal procedures of the city charter than a public department's would be. Also, those corporations are not required to accept the lowest-bid, which makes it easier to outsource activities. A quasi-governmental institution takes less time to gain the trust of private business than public counterparts and they are not directly affected by political changes. Response to projects or problems can be done without administrative delay, such as official approvals, when time is crucial. Another advantage is that a separate corporation is not subject to the local civil service recruitment system. Thus, it is easier to hire experienced well-trained people without restrictions and offer salaries that are competitive to the private sector. In the US public employment is usually much less paid than private for the price of more job security.

However institutionalized, those agencies need to target, visit and solicit outside industries

or entrepreneurs to invest resources in their location by using strategic planning (Kotler 1993, p.30). The more integrative and coordinative powers such an agency possesses the better the results, thus a quasi-governmental public-private partnership organization must be preferred here. The closer the agency is located to the local government, the more limitations must be taken into account, but strategic planning cannot work without government. Kotler argues that strategic planning has proven more useful for organizational business units with a unified sense of mission rather than a highly diversified and fragmented municipality (1993, p. 320). But these differences between private and public organizations are obvious. Public agencies are funded by legislative bodies and boards made up of elected officials. Public officials struggle for re-election and political support from interest groups, who seek immediate action. Consequently continuity in leadership is not given, because places are democratic institutions where succession is sporadic, unpredictable and unexpected (Kotler 1993, p. 341). This fact narrows the broader strategic perspective of a place and fosters short-term-planning and quick fixing. Kotler points out that places need to assign higher importance to the strategic planning process that moves beyond meeting electoral needs of an official period. Strategic market planning requires patience and persistence. To Kotler, quick-fix measures do not exist that can maintain sustainable place development. The danger is that impatient citizens become discouraged and vote for a change of political leadership. To sustain interest and approval, the public must be convinced that investments are producing results and progress will be achieved. Thus, the challenge of political leaders is to keep the vision foremost in the public's minds and to provide a constant flow of information.

To sum up, a local economic development agency that fits to regional marketing planning must bring some political independence, acceptance by the private sector, transparency and certain political powers.

2.4.2 Participants of a regional marketing program

As mentioned above, regional marketing is subject to involvement of all stakeholders of a region. Integration is a substantial part of regional marketing programs. Thus, regional marketing programs are not only carried by local government institutions, but also by private interest groups or public private partnerships. The Bottom-Top approach of planning opens a wide range of potential participants (Simon 2001):

- Representatives of the local administration and government
- Representatives of the chamber of commerce
- Regional planners
- Representatives of financial institutions
- Representatives of regional associations (e.g. “Fremdenverkehrsverband”)
- Representatives of educational institutions
- Multipliers (teachers, club members)
- Representatives of citizens' action committees
- External consultants
- Business chief officers

2.5 Objectives of regional marketing programs

The question here is which local issues a regional marketing program can address. In general, a regional marketing program addresses local economic shortcomings that cause social and financial problems. Here, a categorization of possible local objectives is arranged to provide an overview. Most of these goals are interactive and depend on each other (Kotler 1993, Paddison 1983). It is noted here that the empirical part of this paper concentrates on increasing the attractiveness of the city as a place of business activity (see objective 2.5.4) and regards other objectives either as sub-goals or separate independent objectives. What a regional marketing program dedicated to support attractiveness for business and industry implies, is further lined out in chapter 2.6. If regional marketing targets at attracting relocating businesses, most literature refers to place marketing (Young and Lever 1996).

2.5.1 Increasing the attractiveness of a city as a place of work

Nowadays, economic development in industrialized countries is subject to a shift in employment from the primary and the secondary sector to the tertiary sector. Financial incentives, tax cuts or an efficient labor market administration fosters the attractiveness of a city as business location and as a place of work. If skilled workers find an attractive place to live, business will follow. However, the marketing activities should include operational strategies, as well as communication strategies.

2.5.2 Increasing the attractiveness of a city as place of residence

To improve the local living moral and to prevent the migration into neighboring regions, marketing can increase the attractiveness of the city as recreation and leisure area. Regions may have an interest in expanding infrastructure and developing residential zones, or just to raise their tax base. Another reason why cities want to attract residents is the wish for the settling of persons with special knowledge and characteristics (e.g. doctors, specified professional groups, pensioners) to improve the demographic features or the financial potential of the city.

2.5.3 Increasing the attractiveness as recreation and leisure area

As we can see from the example of Glasgow (Paddison 1993), the fostering of culture and art can increase the attractiveness of a city or region. Building recreation facilities, theme parks or restaurant areas increases tourism and hospitality business in the first place. In the long run, perception of the city as recreation and leisure area leads to an upswing of complementary industries and thereby increases the financial resources of the city.

2.5.4 Increasing the attractiveness of the city as place of economy

This is probably the most challenging objective, since business capital moves spontaneously nowadays and is very sensitive to problems. Business needs a healthy economic environment to flourish, which touches all the other goals mentioned here. Depending on industry and size, they seek skilled workers (thus, a good place to live), efficient infrastructure, low taxes, low property costs, flexible government administration and a low level of labor unionization. Economic factors must be competitive to the ones other cities can offer in order to attract additional capital. Marketing programs can concentrate on attracting, retaining or expanding business.

2.5.5 Expanding exports of regional goods

For many places, trade not only serve to pay for imports, but it is also a major source for a place's power and prosperity. Promoting exports of regionally produced goods are crucial to

the local economy. Since buyers make distinct evaluations of brands based on their image of the place of origin, objective 2.5.7 comes hand in hand (the so-called country-of-origin effect, Schweiger 1995, p.181)

2.5.6 Acquisition of capital and stimulating foreign investment

All five objectives mentioned above are aimed at the acquisition of capital. The increased spatial mobility of capital and its internationalization intensify the competition of cities concerning the efforts to attract this capital (Paddison 1993).

2.5.7 Improving the image

Most cities could build up their present image conforming to historical events and their spatial factors (Jekel 1997). Due to economic recessions, increased immigration or the emergence of slums, many cities urgently need to refurbish their image. An alteration of the main stress and the emphasis of other positive tendencies of development (culture, recreation etc.) can lead to such an improvement. Communication, public relations and advertising are one of the main elements of this measure.

2.5.8 Social welfare

A regional marketing program dedicated to improvement of social welfare may produce higher attractiveness as a place of residence on the one hand and on the other hand criminality may be lowered. A high standard of social welfare may also attract high-skilled workers to a region, which has a positive impact on relocating research- and technology-intensive facilities. The overall effect is the increase of quality of life, which is a good basis for all other objectives of city marketing.

2.5.9. Demarketing places

Environmental concerns, employment opportunities and immigration are interacting trends that push governments to attract certain business and avoid others. Nowadays, many cities and regions seek clean industries that employ skilled workers, due to these trends. Consequently,

in the course of the segmentation and selection process, targeting certain groups can involve demarketing of other groups.

2.6 Attracting business and industry

Since this paper concentrates on attracting corporate investment as a method of improving economic development, this objective will be looked at in detail. Targeting at new business and industries is a more interminable and long-term task in comparison to the other potential markets, due to the complex and shifting location decision behavior of settlers. Location seekers rate potential sites in terms of regulatory environment and general business climate, quality of labor force, availability of infrastructure, quality of education institutions and quality of life. Seekers also respond to prices and relocation incentives, such as tax deferrals or subsidies (Kotler 1993, p. 27, see chapter 2.8). However, the impact of financial incentives is widely scrutinized; but in general, these incentives are seen as short-term tiebreakers between essentially similar locations (Fisher and Peters 1998, p. 13).

As mentioned before, not all types of industry are worth attracting for a specific region. The market planning process should clarify what industries fit best to the region. Nowadays, most local governments prefer clean industries (such as service or high-tech industries, Kotler 1993, p. 27) that can bring future expansion, low pollution, higher working standards and financial stability into the region.

Kotler differentiates between four different forms of marketing strategies to attract business and industries (based on his marketing factors, see chapter 2.2):

Image strategy

Under an image strategy, the place hires an advertising agency or public relation agency to identify, develop, and disseminate a strong positive image for the place according to its development plan (Kotler 1993, p. 33). Communication and promotion should lead to a better presentation of available and valuable features or wipe out misperceptions in the eyes of potential locators. The cost and effectiveness of such a strategy depends on the place's current image and real attributes (Kotler 1993, p. 35). Creating an effective image requires research into how outside business perceive the place, identifying true and untrue elements and consensus with residents about the adequacy of the chosen image (residents must truly express

the consensual image, Kotler 1993, p. 37).

Attraction strategy

A place needs special features to attract and satisfy outside business. Most dominant features are given and cannot be altered, such as climate, geography or history. Still, cities can search for new attractions to add (such as sport stadiums, convention centers, shopping malls or museums, see Kotler 1993, p. 39). Building new attractions asks for a strong financial condition, and cooperation of the residents.

Infrastructure strategy

A place needs to provide adequate fundamental service to attract business. Kotler refers here to a good standard of transportation, energy supply, education, safety, clean environment and entertainment (Kotler 1993, p. 39). Kotler suggests that these fundamentals should be fixed first, but he submits that places that lack funds in the first place are locked up in a dilemma (Kotler 1993, p. 40).

People strategy

The fourth strategy aims at marketing its residents' attitude to work, education, skills or specific behavior patterns. Local governments should raise the level of their citizens' skills in order to meet the needs of markets targeted. Kotler points out that "...places must consider the perceived character of their people, since the image of their people affects the interest of potential markets" (1993, p. 40).

2.7 Regional marketing and incentive competition

There is no doubt that regional marketing fosters competition among local governments since its goal is to uncover competitive advantages. Territorial competition and an open market economy is an imperative for regional marketing (Cheshire and Gordon, 1998), but it has to be considered that regional marketing is a growth concept that does only deal with creating incentives up to a certain extent. Regional marketing is a bottom-up planning process that seeks growth within collective resources and local capacities. Kotler (1993, p. 258)

suggests that incentives should be seen as a limited technique to encourage economic development and are subject to a precise evaluation of their merits. Short-term incentives imbalance marketing strategies and distort long-term goals. To him, incentives are costs to the provider and benefits to the receiver. In most cases the costs of subsidization of capital and credit to the government exceed the benefits to the firm. A narrow focus on incentive policies without strategy could yield beneficial consequences for a specific industry, but have detrimental consequences on existing business and household decisions. From an economic point of view incentive competition ends up in a zero-sum game. Thus, incentives are used in a regional marketing program only if they fit into the whole strategic framework and do not blur the overall development vision.

It is assumed that a major goal of local governments is economic growth. Economic development is crucial to maintain fiscal health of a locality in order to provide public services. In order to achieve growth, new capital inflow is necessary, since new investments lead to rising public revenue through the tax system as well as to increasing employment. Investment incentives of localities can influence a company's spatial investment decisions, since they reduce cost of doing business. Thus, there is a positive economic relationship between incentives and local economic growth, at least from a short-term perspective.

A number of criticisms have been leveled at incentive competition (Fisher and Peters, 1998). State and local competition for new investment has been widely criticized for being a zero-sum game, or even worse a negative-sum game. The effects on the ability of governments to provide more important social services are claimed to be severe. If incentives are not planned and administered carefully they may become overly generous which results in a lowered government's revenue base. Numerous examples of this can be found during the bidding wars in the US between State or local governments and companies in the 70ies and 80ies. Places were being played off against each other over jobs and tax base improvements.

Cheshire and Gordon (1998) analyzed the impact of territorial competition on local policy making in Europe. They point out that there are three types of competitive policies: There are those that are pure waste; they have no impact on diverting activity to the region, but they cost resources. Second, there are other policies that may have a positive impact on economic welfare viewed from the region's perspective but are a zero-sum-game from a wider perspective. Here only mobile investment is captured which moves as soon as another place offers better incentives. Third, there are policies that are economically efficient and produce welfare from both, local and wider perspective.

A number of economists have argued that interjurisdictional competition for investment is

economically efficient. For example, Bartik (1991) explains that incentive-induced growth might have positive long-term effects on a locality's labor force participation and unemployment rates. Based on his findings of a cost-benefit-analysis, Bartik states that incentives are more likely to be cost-effective in places where unemployment is very high. Fisher and Peters (1998) claim that, historically, States experiencing economic distress tend to be the ones adopting new investment policies more likely. Also Eisinger (1988) outlines that the expansion in incentive policies in the Northeast and the Midwest of the US during the 80ies was a direct result of deindustrialization trends in those regions. Netzer (1991) has a different understanding of the problem: He opposes the zero-sum nature of incentives, since it rests on an implausible assumption: a closed economy. Foreign direct investment has become increasingly important for some US municipalities. Thus, incentives do not move a set of number of jobs around the nation; they may also attract investments from abroad.

From an economic point of view the usefulness of incentives is a controversial question. Still, if they were planned on a strategic long-term basis, there are many positive examples where industrial incentives and a well-administered regional marketing program increased the inflow of corporate direct investment into a region (see chapter 4.7).

2.7.1 Business incentives

To go further, this chapter will define what kinds of business incentives are considered. Business incentives are concerned with promoting the territory as a competitive place to do business and are directed at improving the environment for existing local firms and fostering new business formation. In its archetypical form it involves the establishment of a leading agency to co-ordinate efforts and actions developed on the basis of strategic analysis of the region's competitive position compared to other areas (Cheshire and Gordon 1998).

As mentioned above, nearly everything a local government does, has at least an indirect effect on location decisions of firms. Infrastructure, which provides services used directly by businesses, obviously supports production of the private sector and attracts further investment, while certain taxes directly reduce profits of a firm's balance sheet. So, it is useful to identify a subset of local policies with the explicit objective to attract new business investment from outside the region. Those regional marketing programs would in all likelihood not exist but for the public concern with attracting investments. They are aimed at mobile relocating firms, national or international.

Only those incentives come into question the region has legislative authority for. Incentives must be financed and administered by the locality (public or private institutions), which excludes some Small Business Administration programs or Jobs Training Partnership Act (JTPA) funds. Quasi-governmental institution's efforts to package offers are included here (e.g. Destination Irvine, OCBC Economic Development Program).

Also, incentives must be of a competitive nature, thus, excluding standard format incentives offered by most localities across the US. E.g. the industrial revenue bond IRB and the federal Community Development Block Grant (CDBG) must be excluded, since they are offered almost nation-wide.

Since this paper deals only with competitive incentive programs, "new wave" or "demand-side" incentives (Fisher and Peters 1998) are excluded if they are aimed at stimulating the generation of new indigenous technologies or to open new markets (e.g. small business incubation programs, venture capital funds).

Tax- and non-tax-incentives

This paper distinguishes between tax and non-tax incentives as well as between discretionary and non-discretionary incentives. Tax incentives are credits or exemptions that represent departures from the normal tax base and that are aimed at stimulating investment. Three kinds of incentives fall into this category: investment and job creation credits against the corporate income tax, sales tax exemptions provided only to firms locating within special enterprise zones, and property tax abatements for new business development (Fisher and Peters 1998, p. 34). In many cases tax credits or exemptions are fiscal entitlements, they are provided automatically to any firm meeting the qualifications in the law required. E.g. the firm will receive tax abatement or grant if it makes an investment of a specified sort, which should enable them to relocate. Thus, they are non-discretionary, since they are based on a general law and are applied uniformly. In contrast to discretionary or ad-hoc incentives, which are provided from case to case and in a particular form and quantity, usually depending on industry and size of the company.

Most local governments concentrate on non-discretionary tax incentives. There are three different categories of tax incentives that will be considered in this paper.

Corporate Income Tax incentives:

- Tax deductibility of income taxes paid to other government units
- Deductibility of property tax
- Rules for apportionment of income
- Depreciation methods
- Rules for carrying net operating losses
- Treatment of non-business income
- Tax credits
- Treatment of foreign income

Sales Tax incentives:

- Sales tax exemptions for purchases on fuel, electricity, machinery or equipment

Property Tax incentives:

- Tax abatements, depreciation scheduling
- Tax exemptions

Non-tax incentives can be discretionary, (i.e. they are negotiated between governmental units and prospective firms), or non-discretionary (i.e. they apply uniformly). If they are discretionary, firms must compete with other prospects for incentives. Discretionary incentives are usually granted in the course of negotiations. Competitive non-tax incentive programs fall into 4 broad categories (NASDA 1991, Fisher and Peters 1998).

- *General-Purpose Financing Programs*

Localities provide grants, loans, loan guarantees or subsidies directly or indirectly in order to ease large (one-time) expenditures (e.g. acquisition of land) of businesses. They lower the costs of doing business by reducing cost raising capital. The sole purpose of these programs must be the attraction of new capital.

- *Job Training and Wage Subsidies*

Local job training programs (often run through community colleges and universities, see Orange County case study) are customized to the needs of a particular firm opening new facilities. Here the government subsidizes labor costs of a firm by training workers for the positions being created. It must be noted that only customized training programs are considered here, general educational community programs are excluded. The majority of job training programs are not wholly financed by the county or city governments but subsidized by the State. For that reason I make an exception of the above stated criteria of full local financial responsibility of incentives, provided that job-training programs in question are not mandatory or state-funded by more than 50%.

- *Infrastructure Subsidies*

Here, ad hoc and non-discretionary explicit infrastructure improvement incentives of local governments are considered. They must be wholly financed from local infrastructure funds. The only purpose of those local expenditures must be attracting business investments.

- *One-stop permit processing*

Many local governments have implemented a permitting process that facilitates processing development applications. Applications are issued at one central location, which saves the private sector both time and money when seeking approval of development plans.

2.7.2 Measurement of incentives and development programs

Due to the complexity of this topic, there exists lots of controversial literature about the economic impact of business incentives. The most challenging problem is the method of measurement of the economic impact. Fisher and Peters (1998) outline five basic methods. As mentioned in chapter 1.3, this paper uses the case study technique as a method to evaluate effectiveness.

- *The Survey Technique*

Here, researchers seek to determine what role incentives and other locational factors play in a firm's relocation decision. Surveys distinguish between "must have" location factors and "desirable" factors. There is evidence that the location choice of large companies tend to be based on a sequential evaluation of factors at successively narrower spatial scales. Therefore, some surveys have attempted to distinguish the impact of incentives at different spatial scales (e.g. city level).

- *The Case Study Technique*

The focus here is on one region, which is examined in detail, mostly in a descriptive and evaluative manner. Incentive instruments used by a particular locality are described and analyzed. Then conclusions about effectiveness are drawn. There are some major problems with this approach. In the first place, incentive programs are often very small relative to the local economy in which they operate. Even where subsidies are effective, measuring their impact on local economy is rendered difficult by economic white noise. A comparative control economy would be necessary to measure precisely the effects on the economy.

- *The Econometric Technique*

Here, econometric models are used to measure impact. Econometric models have been developed for various spatial scales and for a number of different local taxes. It must be noted here that nearly all models concern taxes and little work is done about non-tax incentives.

- *The General Equilibrium Technique*

This measurement strategy uses applied general equilibrium models to measure the impact of tax policy on the location of economic activity. Those models are quite similar to econometric models, but here it is accounted for interactions between economic variables.

- *The Hypothetical Firm Technique*

A totally different approach to the problem of incentives and growth has been developed in the 1990ies. This approach examines the impact of taxes and incentives from a firm's point of view. The impact of incentives on a firm's actual income is

measured by building a model of a hypothetical firm. Most of the findings of this strategy have shown that incentives do have an important influence on the returns of investment of the firm (Fisher and Peters 1998).

2.8 Incentives and business location decisions

Business incentives are offered to influence the decision-making process of expanding or relocating corporations. Simply speaking, local governments try to lure corporations into their jurisdiction and away from competing jurisdictions. Unfortunately, measuring the impact of incentives on economic growth is extremely complex. Not only economic factors or incentives play an important role when examining business location decisions. It is very difficult to evaluate the achievements of incentive policies, because it is hard to know what industrial investment would have occurred in its absence (Diamond and Spence 1983). Moreover, measuring the effects of incentives is often circumscribed by significant time lags between the introduction of a development policy and the investment decision of a firm and its contribution to local economy.

In a place market characterized by few buyers and many sellers, the main thing sellers can do is compete on place inducements. Not all places can offer a variety of place inducements. Their competitive advantage shifts to firm-specific niche factors, especially non-cost factors. Places that have broad advantages, such as research parks, university and good quality of-life factor can target a wider range of businesses (Kotler 1993, p. 234).

Regions once focused on attracting manufacturing industries to create jobs (see chapter 2.1). Today light industries, also called clean industries, are preferred to old industries that emit pollution, create toxic waste or whose products require special handling. In the 1970ies high tech business attraction became a main objective in the majority of US localities (Kotler 1993, p. 234), which supported the emergence of the most prominent example Silicon Valley in California. Kotler argues that the hunt for high-tech firms has been based on some fundamental assumptions that proved to be wrong nowadays. One important fact is that local determinants for high tech firms are far different in comparison to the ones for traditional manufacturing firms, insofar as operating costs are negligible, while non-financial factors such as quality of research facilities at universities, physical environment and community attractiveness to scientists became major variables in location decisions (Duerksen 1985). Further, not all places have an equal chance to provide high-tech locational factors. Those

places that are in the competitive position to attract high-tech industry should provide labor force information with prospective firms (Kotler 1993, p. 235).

2.8.1 Business location selection process according to Kotler

If a place plans to attract new business it must understand how the selection process of corporations works. There has been exhausting discussion about how mobile businesses make location decisions. This chapter will introduce only Kotler's idea of business location decision-making, which is leaned on Schmenner's (1982) literature about that topic.

Kotler sees a sequential two-stage decision-making process. The first stage involves information gathering and selecting potential regions by predefined economic criteria. These economic criteria are influenced by the factors of production. Six main criteria are important for businesses: labor costs, labor unionization, proximity to markets, proximity to resources, proximity to other companies and quality of life. The relative importance of each criterion depends on type of industry, stage in the business life cycle and specific needs (Kotler 1993, p. 232ff).

The second stage involves choosing a site within the reselected regions, after narrowing the number of potential regions down to two or three. Kotler points out that in this stage, non-economic factors and short-term incentives come into the site selection process. Consultants and real estate experts usually assist the company at negotiations with local administrators. At this point, subjective incentives can be more important.

3. Critical discussion of Kotler's regional marketing theory

The idea of marketing places by using systematic strategic market planning provoked much critical discussion from regional planners and economic developers. Especially, the entrepreneurial approach of governing localities found much positive feedback from US regional developers. During the era of entrepreneurialism, where local governments were demanded to use management principles to plan and control economic development, the regional marketing concept was welcomed as a source for new ideas. The implementation and organization of the whole strategic planning process remained criticized, since it is based on entrepreneurial imperatives that undermine the democratic structure in public decision-

making. As a consequence, there were not many comprehensive case studies bringing the complete strategic marketing planning process to practice, also due to the fact that place marketers concentrate only on promotion programs. The impact of promotion programs with regard to local authority budget cuts is heavily discussed and remains vague (Page and Hardyman 1996). So, evaluation of the comprehensive regional marketing theory regarding effectiveness and usefulness often remains a theoretical framework. Even Kotler is only able to provide empirical examples limited to specific points of the marketing process that eventually found application in practice (Brennan 1994). Loveridge (1994) argues that tools and concepts are explained and developed in a more theoretical manner, which causes problems when it comes to implementation of the complete theory. Nevertheless, Loveridge states that the strategic planning process as a new approach of designing business attraction programs is an essential contribution to regional development and planning.

Much regional development literature views place promotion and image as the most important element of the regional marketing theory (Ashworth and Voogd 1993, Kearns and Philo 1993, Gold and Ward 1994). Place promotion and image as an approach to attracting business has been extensively applied by local governments from the beginning of the 1990ies. The main goal of place promotion programs was to influence location decision-makers by designing and presenting an image of the locality. Young and Lever (1996) mention that 93 percent of UK local authorities engaged in some form of promotional activity in 1995-96, with an average annual budget of £280.000. Lovering (1995, p. 117) notes "Place promotion is now virtually the core activity in local economic development". As mentioned before (see chapter 2), this is not in the meaning of Kotler's concept. Young and Lever (1996) point out that place promotion is only one part of regional marketing and should not be applied without a clear strategy and vision.

Regarding the underlying entrepreneurial approach of strategy building, regional developers were moved by the fact to act as if the locality were a product. Smyth (1994, p. 15) notes that the region is not exactly to be treated like a product, "...as another methodological issue occurs on the demand side. Those being 'sold' to are in fact 'buying' something else [...] although the city or location in one sense is intrinsic to any of these purchases it is not the product. It is not even strictly analogous to the packaging because it is not discarded for use. In fact, it becomes more important during product usage. It is the context for other activities and one that is assuming greater importance."

Osborne and Gaebler (1992, p. 20ff) agree that local governments cannot be run like a business. There is a fundamental difference between these two institutions. First, business

leaders are driven by the profit-oriented motive, where governments are driven by the desire to get reelected. Thus, governments are democratic and open; their objective is fulfillment of demand. Funds are received from taxpayers, who do not get a specific product or service in exchange regarding general taxes. In contrast to businesses that receive their funds from customers that buy products and services of their own free will. Second, in a business environment prevails competition, in comparison to governments that are monopolies. These fundamental differences have several distinctive implications. Government officials need to please elected politicians, who are driven by interest groups. Thus, public officials must factor interest groups in every equation, unlike their private counterparts. These factors combined produce an environment in which public employees view risks and rewards differently than do privates. Often, standard business methods to motivate public officials do not work. Also, governments must serve every citizen equally, regardless of their ability to pay or demand. Hence, governments cannot achieve market efficiency as businesses can. Regarding those differences and implications, the conclusion must be that many marketing principles cannot be applied to governments because they are unable to cover social and democratic needs of a locality. Marketing management is mission-oriented and designed for a competition environment (Osbourne and Gaebler 1992, p. 22). The authors argue that governments can never be run like businesses, but they can become more entrepreneurial. Here, any institution can become entrepreneurial, such as every institution can act bureaucratic, both public and private. For them, there is a vast continuum between acting entrepreneurial and bureaucratic. Marketing management moves governments along that spectrum towards more entrepreneurial behavior. The authors view marketing in government structures as a measure to create efficiency.

Kotler continues the discussion and acknowledges that strategic market planning functions better in a business environment. (1993, p. 80). He points out that companies have a clear line of authority, act profit-oriented and progress is easier to measure through yearly financial statements. Local communities are based on interest groups and each pushes different strategies and agendas. Thus, strategies can be diluted by multiple elections and the vagaries of the ballot box. But strategies are based on long-term thinking and they are market-oriented. The author clears out that strategic market planning is highly unlikely to succeed in sharply divided communities where consensus and efficient decision-making mechanisms fail to work. The reason is that regional marketing is a cooperation- and integration-based regional development concept (Simon 2001). Without the conjoint support of the business community, local government and the public, regional marketing is deemed to fail. Further, Simon states

that the success of marketing planning rises and falls with the organization of the processes, but she gives no detailed remedy to overcome that problem.

All in all, regarding the discussions about the entrepreneurial imperative, which is crucial for the marketing concept used for regional economic development, one can never find a solution to overcome the differences between business and government. Strategic market planning causes problems when it comes to organization and implementation in a local political environment. The notion of this paper is that the complete strategic marketing concept will never fit every government agenda to the same extent, but it is a very helpful approach to plan business attraction programs. So, if a locality decides to pursue the objective of economic development through attracting businesses, the strategic planning concept helps to segment, target and position localities in order to attract business relocations. Local governments that emphasize on attracting business from outside, act in a competitive environment and are forced to think market-oriented. Thus, competition among local governments for attracting relocating businesses provides an adequate environment for marketing principles. The following case study will examine effectiveness and usefulness of strategic market planning used for attracting business.

4. Case study: Regional marketing in Orange County, California

4.1 Orange County

Orange County (abbreviation: OC), located between Los Angeles to the north, San Diego to the south, Riverside and San Bernardino County to the east, is a typical suburban region of the US sunbelt (see figure 2). Once, a scarcely populated agricultural county with large ranches and farms in the 1950ies, it has changed within few decades to a rapidly growing residential-commercial suburban high-tech region. Its local government is confronted with one of the largest and fastest growing population in the United States. The still growing foreign immigration from Asia and Latin America changed its ethnic and social composition significantly. Today, OC is the fifth largest county of the US in terms of population and is ranked 97th place in terms of per capita income in 2001. Considering high housing and living costs on Californian coastal area, per capita income can be seen as US average (Baldassare 1998, p. 40). Also, in most of the other social and economic indicators Orange County ranks,

compared to all other US counties, in the average middle field. As Baldassare suggests (1998, p. 15), Orange County is often viewed as an affluent, white and conservative community, but recent surveys and indicators show that this image is untrue. In fact, Orange County is one of the most typical average localities of the United States regarding its economic and social situation.

Due to its central location, OC is a major transportation hub for the Southern Californian area. OC provides a dense grid of highways and motorways, since the automobile is the main means of transportation for transit and commuters (see figure 2).

In year 2000, more than three quarters of the population were employed in the service sector with the majority in the computer and electronics cluster. Major private employers are the Walt Disney Company (13300 employees), the Boeing Company (12000) and the St. Joseph Health System (8150). The positive business climate produces high patent grant growth rates, lower- than-US-average unemployment rates and increasing business migration.

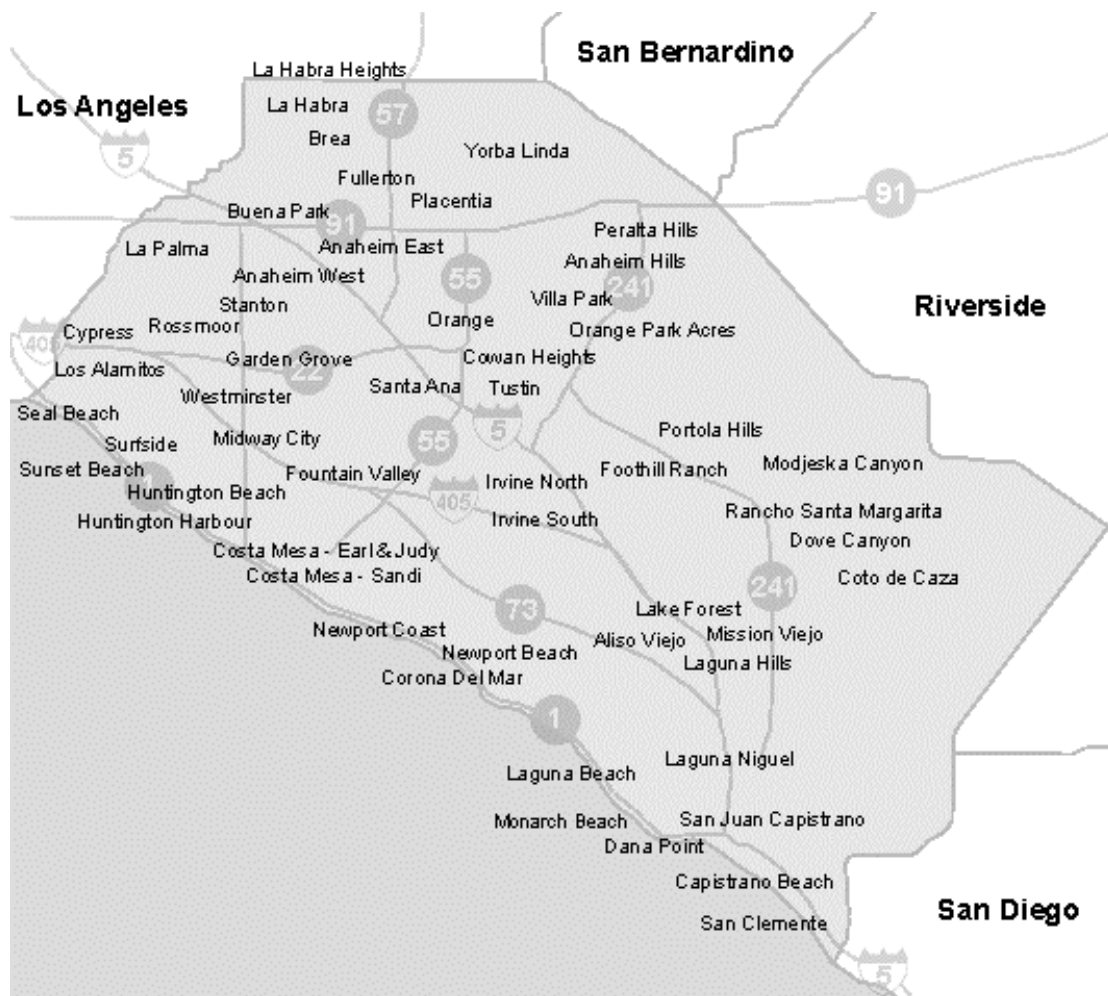


Figure 2, Map of Orange County and major highway corridors. Source: County of Orange, 2000

OC consists of 34 Cities and unincorporated area (governed by the Santa Ana County Seat). Cities or Municipalities are highly diverse in terms of size and population composition but none of them is representative for a central city. Ten of those cities pursue their own economic development programs (e.g. City of Irvine: Destination Irvine). Local economic development agencies are usually public private partnerships and non-profit organizations. Eight of those ten cities and the unincorporated area participate in the countywide Orange County Business Council's (OCBC) economic development program.

4.2 Legislative system in Orange County

The county, one of fifty-eight in California, is a general law county divided into five supervisory districts on the basis of registered voters and population. A five-member Board of supervisors who serve four-year terms governs the county. The board of supervisors and the Treasurer are elected by popular vote. Competences, duties and agendas of the Board members are laid down in a "general" charter of the Californian State government. The Chairman and the Vice Chairman are elected by and from the members of the Board (California State Association of Counties, August 2002).

As soon as a city is incorporated, the county seat sheds a variety of instrumental rights and responsibilities to the city hall. A municipality administers its assigned budget and casts its own elected mayor and city council members. Also, the agendas of economic development and business retention are passed over to the city government. As a consequence, economic development efforts become rather fragmented, which complicates coordinated regional policy-making. For this purpose the Orange County Business Council (since 1998) has been established to act as a mediator between county government, municipal economic development agencies and the private sector.

Among the City and county government there are many single-function official agencies (such as the powerful Orange County Transportation Authority), school districts and special districts involved in local governance. Baldassare (1998, p. 52) mentions that a full portrait of the politically fragmented suburban region would include at least 186 local government entities.

The role of California State in regional economic development is in many ways complex. In the course of the Reagan era of the 1980ies, federal government delivered fewer financial aids to state and local governments. Thus, States got under fiscal pressure and their funding

has been severely limited at a time in which suburban regions have grown in size and economic complexity. Due to the fiscal austerity imposed by the Federal, California government searched for new ways to keep its budget in balance. With the legacy of Proposition 13, State and local government relations were redefined and local fiscal flexibility was limited. Responsibilities were pushed to the local government level and tax receipts were reallocated through general county funds. Nowadays, there is a strong dependence of Orange County local government on State funds.

Regarding tax-incentives, the State government administers the majority of those incentives. Counties retain powers upon the sales tax and, to a certain degree, property tax, but the State provides a base line. Those base lines for certain taxes can only be loosened in one direction by county governments, implying that State tax laws are not allowed to be constricted. Since State Proposition 218 of 1996, counties cannot raise taxes without voters' approval.

Sales tax and property tax are the main sources of income for local governments. Those two types of taxes offer space for counties and cities to compete, limited by state-dictated obligatory expenses and rigorous fiscal directives. Nevertheless, Orange County uses this space rather seldom. In a statewide "cost-of-doing-business" study, it has been found out that Orange County is surprisingly less taxing on businesses in comparison to peer Counties (Apodaca 1998). Thus, it is a relatively affordable place to do business when it comes to local taxes (Property, Electricity, Telephone, and Business Tax). Orange County's city of Irvine is ranked third and Garden Grove is ranked fifth on the list of the lowest cost places in California. When it comes to non-tax incentives the role of the State becomes weaker. Non-tax incentives are left to the discretion of the Counties. This leaves wide and open space for competition among counties.

4.3 The Orange County government bankruptcy

Throughout 1994, the Orange County government backed into a massive financial crisis in an unusual manner, which ended up in a file for bankruptcy in December 1994. Before that incident, Orange County was supposed to be a wealthy suburb, and the predominance of affluent residents was supposed to beware its county government from fiscal problems. The reasons for this incident were manifold. Today, economists are of the opinion that the financial crisis has been caused by the irresponsible performance of the County Treasurer in the first

place (Baldassare 1998, p. 218). The County Treasurer, elected by the board of government, Bob Citron was in charge of the county's investment pool. Citron had a track record of providing high-interest income to his local government investors. He did this by borrowing money and investing it in derivatives (such as stock options and futures) and long-term bonds that paid high yields. Citron borrowed \$2 for every \$1 on deposit, thus during his mandate the size of the county pool ballooned up to \$20.6 billion. Financial markets evolved adversely to Citron's assumptions and as a result the county pool suffered losses of about \$1.64 billion by November 1994. The banks that had lent Citron the money threatened to seize the securities from the county pool that they held as collateral. The local government declared bankruptcy after the banks took this action. The bankruptcy also stopped the fund withdrawals by local government depositors, including cities, school districts, transportation, water and sanitation agencies all over Orange County. After a few false starts, the local government with the support of the local business community shaped a recovery plan in 1995. The State legislature passed the bills that were needed to divert local sales tax income to recovery funds. The Orange County bankruptcy officially ended in June 1996. Nevertheless, the county government is still short of almost \$1 billion, which are needed by local depositors. Also, Orange County bonds are still rated speculative, which means higher costs for raising funds. The consequences of the fiscal crisis still limit the abilities of the government to set up stable fiscal budgets.

Baldassare (1998, p. 16) mentions three conditions that enabled the fiscal collapse and encouraged the County Treasurer's risky investment behavior: Political fragmentation of governance, voter distrust and fiscal austerity of the State government.

The political fragmentation of Orange County government implies lack of central political authority, overlapping jurisdictions and elected officials who are only locally oriented. Politically fragmented government is typical for sprawling areas in the US and it is a significant source for suburban problems. In OC the lack of central authority allowed the County Treasurer to act autonomously, encouraged by Board members who focused their attention on the local districts that elected them. Baldassare argues that there was a lack of communication about fiscal decisions before the bankruptcy, followed by difficulties in coordinating the bureaucracy to the fiscal emergency (1998, p. 20).

Voter distrust was another critical condition that influenced the fiscal collapse. In OC, voters who are very reluctant to have their local taxes raised, dominate elections and politics. In general, voters favor liberalism on social issues and conservatism on fiscal issues. This suburban anti-tax sentiment can be found across all political parties and ideologies. This

political attitude emerged at a time when the public was expressing distrust and less confidence towards public officials and bureaucracy in the 1980ies. At that time, voters have received the power to approve tax increases at the ballot box in California and in other States. Then, local elected officials face a dilemma while trying to meet the increasing demands for public service maintenance and assuring a low tax level. As a result, suburbs are lacking the fiscal resources they need to provide public services, even though affluent middle class residents dominate the population. This may have led to the reliance on the interest income of government deposits that was generated by taking risks with the county pool (Baldassare 1998, p. 25).

A third critical dimension is the impact of large budget deficits of the Federal and in turn of State governments on local government support. In the 1980ies and 1990ies, when suburban regions have grown dramatically in size and complexity, financial aids from the State were cut. Especially California has limited resources to share with Counties due to voter-imposed limitations on balancing the State budget and on increasing taxes (State Proposition 13 of June 1978). Another matter of fact is, that the State government suffered from growing expenses and declining revenues due to serious economic recessions and rapid population growth caused by continuing foreign immigration. Thus, Counties could no longer turn to the State for help and also they could not raise taxes on their own, since the State Constitution now rules for voter approval. In addition, in the 1990ies many responsibilities were shifted to local level and expenditures and allocation performance were partly dictated by the State (Baldassare 1998, p. 28). This was perhaps the event that led local treasuries to the search for other revenues, in the form of risky investments with using the county pool to compensate losses.

The Orange County fiscal crisis had a noteworthy influence on political attitudes towards regional development. Since the local business community played an important role in the county bailout and a strong need for financial coordination of funds emerged, the formation of the Orange County Business Council was welcomed by many public officials. After the overcoming of the bankruptcy, the agendas of business development and attraction were passed over to this countywide agency in order to encourage integration and centralization of public efforts.

4.4 Economic development in California State and Orange County

In the 1990ies, the approach to economic development changed in ways that affected States and companies in the USA. This change involves States viewing their role vis-à-vis private firms as a partner, rather than an enticer of investors. In fact, business retention has risen in prominence as State goals, reaching parity on an aggregate basis with investment attraction. In California, fostering the growth of existing and new firms takes precedence over drawing new prospects to the State (Economic Development Administration 1999). The change in orientation is both, cause and effect to the evolution in incentives offered to companies. From tax breaks, subsidized land and other welcome subsidies has evolved a complex array of incentive programs, administered by the California Department of Commerce. In general, California is nowadays more readily equipped to address a wide range of company needs, from finance to labor force. E.g., California increased its capacity for assisting joint ventures, licensing agreements and other co-venture activities. Thus, California has expanded its capabilities to assist private firms, but simultaneously its government has been scrutinizing the expenses of the public sector for those development efforts. Today, California is considerably more selective in what they will subsidize and what not for a given company. The State pays increasingly more attention to the performance of the investors they attract than in the 1980ies. California State regularly monitors and assesses their attraction efforts by looking at cost per job ratios, ratio of private investment to public expenditure, tax revenues generated, retail sales generated and impact studies of local economies.

The Californian government offers various loans, loan guaranteed, bonds, designated enterprise zone areas, employment training subsidies and tax reductions. They mainly target under-developed areas (Counties that exceed 150 percent of the national unemployment rate and other poverty criteria). Direct financial incentives offered are either used for environmental protection or business development purposes. For instance, some bonds are used for pollution control. They are usually granted to any company that adheres to certain environmental specifications. E.g., the so-called Industrial Development Bond is granted to companies for financing the entire cost of pollution control projects that involve air and water regulation, disposal of solid and liquid wastes. Other bonds are used for industrial development and business attraction purposes, especially those issued on a local level. The State authorizes Cities and Counties to offer locally issued bonds for both purposes. The State co-finances the locality to administer this bond issue program. An eligible bond project can be the construction of a new plant, replacement or expansion of an existing plant. These tax-

exempted local bonds imply effective interest rates as low as 65-70% of the prime rate in the financial market. Since the inception of this State program in 1993, 185 local bonds have been issued in Orange County worth \$675 million.

The California Department of Commerce also provides capital through its Infrastructure Program to assist rural municipalities in financing off-site public infrastructure improvements necessary for retention, expansion or attraction of private industrial and commercial businesses.

Tax exemptions, deductions, credits and special tax treatment are granted by the State mainly for job creation purposes in distressed areas. E.g., tax credits are allowed to business in an economic development area that hires employees who have been unemployed for more than six months. Some of the State tax incentives can be regarded as business development measures. Such as a tax base reduction that is allowed for amounts paid or incurred for qualified research conducted in California. The amount of the tax base credit is equal to eight percent of the incremental expenses for research and development.

Regarding relocation assistance to Counties, Californian government provides a statewide office (Major Corporate Projects Office, MCPO) that coordinates large relocating projects. This office acts as a site selection agent for multi-regional site searches on behalf of large and medium-sized domestic clients. This public office coordinates incentive programs, business development missions to major markets and sub-markets, assists parent companies with operations and facilitates discussion between high-level administration officials and corporations on key issues affecting business divisions and subsidiaries. Another task of the Major Corporate Projects Office is to promote California as a business location, mainly to corporate real estate executives and site location consultants (California Trade, Technology and Commerce Agency, 2002).

All in all, California State's financial assistance to Counties for local business development is provided rather scarcely. Consequently, Orange County more and more focuses on qualitative non-tax incentives. The State emphasizes more on two broad themes: Building on Californian natural strengths and fostering competition (Neiman et al 2000). The first theme reaffirmed the State's role in providing necessary infrastructure and the second encouraged localities to fashion their own development strategies. In many cases, Orange County is not eligible for State assistance programs, because they do not meet certain underdevelopment criteria. If incentive assistance is granted to Orange County they do not have a very competitive nature. As a result, funds for business tax incentives are less available. Regarding local tax levels, Orange County is situated in the Californian average. Table 2 gives

an overview of the most important business taxes, which the local government is empowered to regulate.

Corporate Income Net Income	8.84%
Sales & Use Receipts from sales or lease of taxable items	7.75%
Unemployment Insurance on first \$7,000 of employees wages	3-5.4%
Employment Training on first \$7,000 of employees wages	0.1%

Table 2, Orange County business tax levels. Source: County of Orange, 2001

Regarding these changes, during the 1990ies, Orange County adapted a more corporate-centered approach, pushed by the State’s local development policies. This involves a focus on “growth machines” and the business elite rather than on democratic and social issues. Thus, the majority of the policies enacted target at improving the local business climate. Marketing programs were established that sharpened the sense of rivalry with other Californian Counties.

Those Orange County and Cities’ local development policies that encourage business attraction can be clustered into three broad groups: Streamlining (e.g., one-stop-permit processing), redevelopment policies (zoning, land assembly, and tax increment financing) and intergovernmental assistance, (Neiman et al 2000).

The first group of development policies was more or less part of a internal bureaucracy reform, that targets user-friendliness of the regulatory environment. These policies enabled the establishment of property site referrals, streamlining license or permit application process and the provision of consistent development rules. Property site referrals management is used in order to coordinate efficiently the site allocation among Orange County’s Cities. The Orange County Business Council (see chapter 4.5) plays an important role here. A countywide management of vacant sites provides a better overview of which site fits best to prospects and assures a faster selection process. Public department offices have been restructured to reduce permit and license processing time and efforts. Many bureaucratic processes have been outsourced and have been made available on the government’s worldwide-web homepage (www.oc.ca.gov), which supports the application process for businesses. Consistent development rules have been established countywide, in order to facilitate plant building applications.

The second group summarizes “classical” development policies, such as policies on

efficient management of land use, infrastructure subsidies for business areas, and the issuance of industrial development bonds.

The third group embraces policies that are co-administered and co-financed by the Californian State government. These are policies on the establishment of enterprise zones; job training programs and loan packaging for start-ups. They mainly target declining areas within Orange County.

4.5 The Orange County Business Council - OCBC

The OCBC emerged as a public-private coordination pool right after the Orange County financial collapse, in the first place to help overcoming the bankruptcy. Business leaders gathered together to shape the OCBC, since private interest groups saw a crucial need to coordinate financial efforts. In 1995, the Orange County Chamber of Commerce & Industry, the influential Industrial League of Orange County and other business groups merged to form the Orange County Business Council. They succeeded to bring together elected officials, lawyers, accountants, and representatives of almost 200 government agencies who were arguing over ways to move county government out of bankruptcy. OCBC's main tasks of the following years were dedicated to keeping an eye on the financial recovery process of the local government and stimulating a positive investment climate. Later, the county seat and cities showed vital interest in building a countywide economic development institution. The OCBC, designed as a fiscal emergency council by private stakeholders, changed its agendas and objectives. The board was reorganized and more responsibilities were shifted to the council to become an integrative strategic economic development agency for both, public and private. The Business Council launched its first detailed strategic planning process in late 1998 to sharpen efforts to improve Orange County's economic competitive situation. Today, a group of eight neighboring cities and their business community gather together to form the OCBC. Although funded and organized by only eight out of 34 cities it sees itself as an umbrella organization for the whole Orange County economic area.

The OCBC is a non-profit, regional, private-sector alliance of companies, half publicly and half privately funded. The county seat itself established a 3-year-contract with the OCBC, funding it with \$2,500,000 each year. The relationship between the county seat, the municipalities and the OCBC can be seen as a partnership for economic affairs. To some extent the OCBC fulfills public assignments for the local business community, such as

consulting and workforce preparation. Public funds are granted for business community projects and promotion programs.

Organized as a non-electoral council, membership is subject to a yearly financial subsidy. It consists of 11 executive board members, each responsible for specific agendas and projects. The executives elect their Chairman, CEO and treasurer among themselves. The executive board members then appoint department heads, which are responsible for their assigned agendas and day-to-day management. In contrast to the board of directors that has a supervisory and consulting function consisting of almost 30 private sector top-level managers from the finance, media, automobile, health, computer and aerospace industry.

The Business Council is concentrating on attracting and retaining business and jobs to Orange County. A five-year strategic business plan has been created that focuses on economic development, workforce development and a pro-business legislative agenda (advocacy). Three separate departments administer these three strategic initiatives. The economic development department is in charge of business site selection assistance, attraction, expansion and retention. The advocacy department seeks to represent its stakeholders in local as well as in national and international matters. The workforce preparation department's main task is to aid employers' immediate recruitment efforts, to support initiatives that prepare students for the workplace and to promote OC's diverse workforce and career opportunities.

To sum up, the OCBC establishes a countywide umbrella agency with strong relations to the local governments but with limited powers of political implementation. A strong emphasis is put on public-private partnerships and communication. Seeing over its political weakness, the agency works accurately for the advantage of both, public and private stakeholders (Kelly Pijl Interview, 2000).

4.5.1 OCBC and Regional Marketing efforts

The question here is whether the regional body Orange County Business Council and its Economic Development Division is an appropriate institution to plan and implement regional marketing efforts. As derived in chapter 2.4, a local government agency needs political independence, acceptance by the private sector, transparency and certain powers to succeed in market planning. After examining the OCBC in detail (see chapter 4.5), it can be asserted that the council fulfills these requirements to an adequate extent. Three points confirm this assumption, based on interviews with Bill Carney, Vice President of the Economic

Development Department.

The first point is the close affiliation of the Board to the private sector, by virtue to the fact that the OCBC is designed as a private partnership. As mentioned above, OCBC's executive and supervisory management mainly consists of private sector stakeholders. This fact gives the crucial distance to public sector "smokestack" thinking and creates a better communication environment with the business community. Still, contacts to the county and city officials are vital. To the local government, the OCBC appears not only as representative unit of the private sector but also as consultants on economic affairs. It is viewed as an umbrella organization where city, county and private officials meet. Whereas, the council is partnering with governments for long-term planning for the region, including upgrading the existing infrastructure.

Second, OCBC's organizational structure and behavior reveals a business-oriented entrepreneurial spirit that is instrumental for the strategic market planning approach, as required by Kotler. Marketing principles are used in day-to-day management.

The third point is transparency and communication to the public. The OCBC issues project reports on a quarterly basis and annual economic indicator reports, which are accessible to both, the business and the general public. Since many stakeholders participate actively in the agendas of the OCBC, financial transparency to the business public is predetermined. Furthermore, stringent transparency directives for non-profit organizations are determined by the State legislative counsel (California Corporation Code). Still, financial responsibility to the general public is not really a matter in question, because the relationship between the government and the OCBC is on a contractual basis and not on a legislative basis.

4.6 Orange County's Regional Marketing Program

This chapter will provide a systematic overview of the regional marketing program established by the OCBC and Orange County government. In 1999 a full five-year strategic regional marketing program to attract relocating international and national business has been elaborated. Regarding the complexity and the diversity of the economic development programs the OCBC has elaborated, this paper will emphasize on the business attraction program in the first place. The OCBC's business attraction program is a substantial part of the comprehensive economic development program. As it will be laid out in detail, the business attraction program is dominated by communication, image building and promotion efforts.

Here, the presentation of the program work is structured in accordance with Kotler's theory.

4.6.1 Place Audit - Image Survey

In the first phase of the strategic planning approach, a place audit must be conducted to estimate what resources and advantages are available, how business leaders perceive Orange County as a place to locate, what businesses are looking for and how the existing business community is composed. Based on the interviews with the OCBC Economic Development Department, a summary of the outcome of the place audit is presented here.

In 1998 and 1999 the current economic situation was surveyed, in order to assess availability of resources and existing business activity that may influence the selection process of potentially relocating companies. The key findings gathered by the OCBC and the county government are structured into four topics: economy and markets, population and employment, education and quality of life, housing and infrastructure (numbers are selected from OCBC annual reports 1999 and 2000 and OC community indicators issues 1999 and 2000).

- *Economy and markets*

Orange County's per capita income level is higher than the U.S. and California averages, and higher than that of economic peers (Austin, Texas and Research Triangle, North Carolina). In 1998, real per capita income reached \$32,541. However, Orange County's annual per capita income growth rate from 1993 through 1997 (i.e. 4%) lagged behind the national growth rate.

OC's main economic characteristic is diversity, trailing only Boston in high-tech cluster concentration diversity. World's electronic appliance industry leaders, biomedical device companies and multimedia firms are located within the boundaries of OC. In the past, such diversity helped to counterbalance fluctuations of business cycles and to maintain constant economic growth.

In 1998, 65% of the existing firms had corporate or regional headquarters in Orange County. Among the firms 33% are publicly held, 67% are privately held and 10% are foreign owned. The firms are located throughout the county, with the highest percentages in Irvine (22%) and Santa Ana (15%).

Because of its strategic location, international trading partners purchase exports

worth \$8 billion. Nationwide, OC ranks 13th place in terms of total export value. Real growth in exports is expected to increase more than 10% annually. Imports are projected to increase over 7% annually. Largest export destination is Europe (25% of total export dollar value) with a 14.8% increase from 1993 to 1998. Most products exported are electric equipment, computers and scientific measuring instruments (69% of total export dollar value).

The retail trade market is a major source of economic activity. OC provides 10 shopping mall areas within its boundaries. OC ranks second in the nation in total retail sales per household with over \$30,000 in 1999. In total department store sales OC ranks 16th in the nation.

Wages per hour through all industries amount \$17.53 and are in the upper quarter in comparison to other Californian counties, but lower than the State average of \$17.94. Regarding OC's most important peer counties (such as Los Angeles and San Diego,), average annual wages are almost on the same level. By type of employment, white-collar workers averaged \$23.63 per hour and account for 58% of the workers in the area. Blue-collar employees averaged \$13.92 per hour and represented 22% of the workforce, while 17% worked in service occupations and earned \$12.88 per hour.

Tourism is a major source of income: Following a statewide trend, visitor spending in Orange County has increased steadily over the past seven years, amounting an average of 6.2% yearly since 1999. Compared to all California counties, Orange County has the fourth largest total dollar amount of annual travel spending, trailing only Los Angeles, San Francisco, and San Diego counties. Regarding economic impact of tourism on the region, research indicates that each one percent (1%) increase in visitor spending equates to \$131 million for the Orange County economy, and creates \$33 million in earned income for residents. The County of Orange spends almost \$750,000 per year on tourism-related marketing projects (Kelly Pijl Interview, 2000).

- *Population and employment*

Orange County's total population is estimated to be 2,828,400 in 2000, which equates to an average annual increase in the last decade of about 2% per year. While the current percentage of annual growth appears small, it amounts to the addition of over 40,000 new residents a year. This steady population growth is expected to continue, with population projections of over three million by 2005 and over 3.3

million by 2020. Thus, OC represents 8% of California's population, despite its modest size. In terms of population density, OC ranks 3rd with 3,504 inhabitants per square mile. Within the County, densities vary by location, from a low of 874 persons per square mile in unincorporated areas to 2,942 in San Clemente to 6,252 in Anaheim, to 13,462 in Santa Ana. In year 1999, 18% of the population was between 20 and 34 years old and 29% of the population was between 35 and 54 years old, with a strong trend towards a young population, due to increasing birth rates and immigration (State of California Department of Finance, 1999).

Also, Orange County is becoming more ethnically diverse. In 1998, Whites comprised 57% of the total population, Hispanics were 28%, Asians & Pacific Islanders comprised 12%, African-Americans constituted not more than 2%, and all other races totaled less than one percent.

In percentage of households with income over \$50,000 per year, OC ranks 4th in the nation. Also, median household income amounts to \$67,000 and ranks 4th in the nation. Located in a suburban area, OC ranks 4th nationally in terms of vehicle ownership with 64% of all households owning two or more vehicles.

With a labor force of approximately 1.3 million (out of total population of 2.6 million), average unemployment rate accounts 2.9% (lower than the California rate of 5.5% and national rate of 4.2%) in 1999. In terms of employment, the top three industry sectors are service, trade and manufacturing. The service industry sector (here reduced to tourism, finance and health) leads all other sectors with over 34,000 companies providing jobs for over 380,000 employees. Trade-related jobs total 320,000 by 22,000 companies. The manufacturing sector (mainly aerospace, medical instrumentation, computer and communication equipment) produces over 200,000 jobs distributed over 6600 firms. OC has the largest concentration of computer programmers in California. The fastest growing sector is finance, insurance and real estate with over 8% employment growth rates (1998). In total the tertiary sector accounts for 78% of employment and the secondary sector accounts for the residual of 22%. There has been considerable change in the composition of Orange County's high-tech employment during the 1990ies. Large reductions in defense and aerospace employment due to Federal budget cuts were more than counterbalanced by strong growth in telecommunications and computer software. Computer software employment, for example, grew by 130% from 1991 to 1999. These changes illustrate that technology employment has kept pace with changes in the economy. The county is

less dependent on aerospace and computer hardware employment in 1999 than in the past. Instead, clusters that are strongly linked to evolving Internet and communications technologies play now an important part of Orange County's high-tech economy. The clusters with the highest average wages – computer software and telecommunications – also have the fastest employment growth rates. Mobile skilled labor force is dominantly available in the technical fields of computer software and hardware, aerospace, medical devices and telecommunications.

Small businesses flourish in Orange County's entrepreneurial climate, with only 20% of residents working in companies employing more than 500 people, compared with the State average of 25%. Small businesses have accounted for the bulk of job creation in the past few years (Center for Demographic Research, California State University, Fullerton, 1999).

- *Education and quality of life*

Most Orange County's elementary schools performed well both in terms of Academic Performance Index¹ and Similar School Rank². Irvine had the highest average API score in the county, with Los Alamitos and Saddleback close behind. Santa Ana one of the largest districts had the lowest average API score in the county. However, when compared to schools throughout the State with similar characteristics, The La Habra City and Savanna Elementary school districts received the highest similar school ranks with a district average of nine out of ten.

All county universities, The University of California at Irvine, Chapman University, Concordia University and the California State Fullerton University have formed close partnerships with the business community, with the UCI spending approximately 20% of their budget for practice-related research. Various work-force training and preparation contracts have been established with local governments and the OCBC.

According to the California Attorney General, between 1988 and 1998, violent crime against seniors (including murder, non-negligent manslaughter, rape, robbery, and assault) declined more sharply in Orange County than in neighboring and peer

¹ The API - ranging from a low of 200 to a high of 1000 – is calculated for each school based on the annual Stanford Achievement Test (California Department of Education 2002)

² The Similar School Rank - ranging from a low of 1 to a high of 10 - measures how the school fared compared to other schools with similar characteristics (California Department of Education 2002)

counties (42.9% decline). Both the violent and property crime rates continue to decline in Orange County and throughout the State. OC has the lowest overall crime rate among neighboring counties, and has only slightly higher crime rates than economic peer, Santa Clara County. The Orange County indicator issue 2000 mentions, "Demographic and economic circumstances may account for the statewide decline in crime rates".

Orange County is dependent on surrounding counties to meet its housing and employment needs, which directly impacts traffic congestion. The average commuting time has remained relatively stable between 1992 and 1998 at 67 minutes each day. Orange County compares favorably to neighboring Riverside County and San Bernardino County, where residents commute 79 minutes. In Los Angeles, the average commute is 70 minutes. In general, OC residents are consistently more likely to drive alone than commuters from other Southern California Counties. Over 80% drive alone as their primary mode of transportation in 1998. Only 12% are involved in carpooling, which represents an all-time-low percentage in the 90ies.

The percentage of Orange County's non-senior residents who have health insurance has dropped from 81% in 1996 to 77% in 1998, according to the Orange County Health Needs Assessment Survey (OCHNA 1998). This downward trend is occurring statewide, due to increasing medical insurance costs in California. The OCHNA Study revealed that only 83% of total residents (18 and older) and 87% of all children under 18 were covered by health insurance in 1998.

The environment is still intact with coastal wetlands under California Environmental Act protection, but the Orange County indicator issue 2000 mentions, "Continued ocean water access closures will negatively impact Orange County's quality of life, affecting natural resources and business competitiveness. Also, OC's environment faces severe capacity constraints due to suburban sprawl and immigration. However, the county performs very well in the areas of air quality, landfill waste diversion, natural habitat preservation and parkland dedication.

A quality-of-life indicator based on a countywide telephone survey has been measuring residents' perception of well-being in Orange County since 1999. To the question: "Thinking about the quality of life in Orange County, how do you think things are going - very well, somewhat well, somewhat badly, or very badly?" 91% of Orange County residents replied things are going well in 1999. 38% of the 91% felt things were going "very well" in 1999.

- *Housing and infrastructure*

The residential real estate market is one of the vibrant sectors of the local economy, with substantial portions of the county devoted to residential housing of various types (28% of total county area). Still, there is not enough housing developed in Orange County to match the growing population of either residents or employees. The Housing Demand Indicator³ reached 4.41 in 1999, i.e. more than four new jobs per housing permit issued. In that year, OC ranked 5th worst place among metro areas in the U.S. Demand for housing in Orange County was more than twice the national average. Thus, most peer counties have much lower housing demand indices. As a result of the pressing demand for housing, prices increase and supply of available land for development tightens. The median sales price for a two-story home reached \$251,000 (US average: \$154,000, OCBC Annual Report 2000) and rose by 8.7% in 1999. In the 90ies, the costs of living in Orange County were rising faster than income.

Commercial, industrial, and public institutional uses account for less than 12% of the total county area. The county's office market is characterized by corporate expansion and new construction. Due to the persistent demand, Orange County added 2.2 million square feet of new office space in 1999. In this year, 10.1% of office space remained vacant, because of the strong construction activity in Irvine.

20% of the land is dedicated to open space and recreation. The County of Orange maintains nine beaches, three harbors and more than 35,000 acres of regional parks.

OC provides one international airport and a dense grid of highways, since the automobile is the main means of transportation for commuters. Recently, many privatized toll roads have been opened in order to shift maintenance costs to automobile users. Bus transit service is scarce and expensive, but a new rail commuter transit system is under construction (e.g. the Center Line rail commuter project between Irvine and Anaheim).

The place audit included a business climate and image survey. The business climate survey was based on two studies: a survey of how business executives in Orange County feel about doing business in Orange County (Business Sentiment, Orange County Executive Survey), and

³ This inverse indicator measures how much new housing is being constructed (housing starts, permits) relative to new jobs being provided by the local economy (Orange County Indicator 2000)

a ranking of the best regions in the nation for entrepreneurship (Best Cities, Dun & Bradstreet and Entrepreneur Magazine). The OCBC states that the business climate indicator is important, because "... a region's business climate reflects its attractiveness as a location, the availability of business support and resources, opportunities for growth, and barriers of doing business" (Orange County Executive Survey, OCBC 1999).

The image survey was prepared by a local information agency (Information Design Associates LLC) on behalf of the OCBC in 1999. Information was gathered through interviews with national CEO's and relocation decision-makers along with focus groups with the participation of Orange County business and community leaders. Personal interviews were conducted using numerous open-ended questions, such as "What comes to your mind when you think of Orange County?". The goal of this survey was to identify weak points in the image of Orange County concerning economic issues, which might have an impact on location decisions. The marketing program should address the resulting points in the future.

Followed are the key findings of the surveys:

- How the local business community perceives Orange County (Most often stated responses to an open-ended question):
 - OC is amorphous, in a state of evolution
 - OC wants to be identified with high-tech, biomedical research and clean industries
 - OC is political rather conservative
 - OC is a high-quality place for living, offers lots of recreational facilities
 - Good workforce availability and few labor unions
 - High living costs, affordable housing is a problem
 - Traffic congestion, toll roads
- 40% of the local business executives surveyed stated that Orange County was becoming a more attractive place to do business. However, many points were mentioned that are perceived as disadvantages of doing business in OC, such as high cost of labor, high cost of housing, unfavorable litigation liability, difficulty in hiring skilled employees, high State and local taxes.
- Awareness of Orange County as a place for doing business among national CEO's (of

selected industries): 87%

- How CEO's of selected industries perceive Orange County (open-ended question):
 - Proximity to Los Angeles and San Diego markets (83% of respondents)
 - Availability of High-Tech business parks (68% of respondents)
 - Coastal access (66% of respondents)
 - Ethnic diversity (65% of respondents)
 - Good climate (62% of respondents)
 - Research and Developments business (61% of respondents)
 - Availability of Universities, UC Irvine (48% of respondents)
 - Overcrowded, slow, boring and sleepy
 - Superficial
 - Neighborhood aloofness
 - Police brutality

- 87% of outside business CEO's have visited Orange County for personal reasons and 70% have visited OC for professional reasons.

The survey included an analysis of the situation for existing clean industries. To identify priorities and relative position within the industries a growth-share matrix has been elaborated (see figure 3). The location quotient analysis⁴ uncovers basic industries existing in OC (see y-axis) and the average annual employment growth in relation to the US average shows a cluster's growth potential (see x-axis). The size of the areas refers to the share of total employment. The figure indicates that the industry clusters Microelectronics, Advanced instruments, Biomedical and Telecommunication are the strongest growth-inducing technology industries within Orange County.

⁴ The Location quotient (LQ) is a calculated ratio between the local economy and the economy of some reference unit that. This ratio is calculated for all industries to determine whether or not the local economy has a greater share of that industry than expected. If an industry has a greater share than expected of a given industry, then that "extra" industry employment is assumed to be Basic because those jobs are above what a local economy should have to serve local needs (Maier/Tödting 1996)

Orange County Technology Cluster Growth Share Matrix, 1999

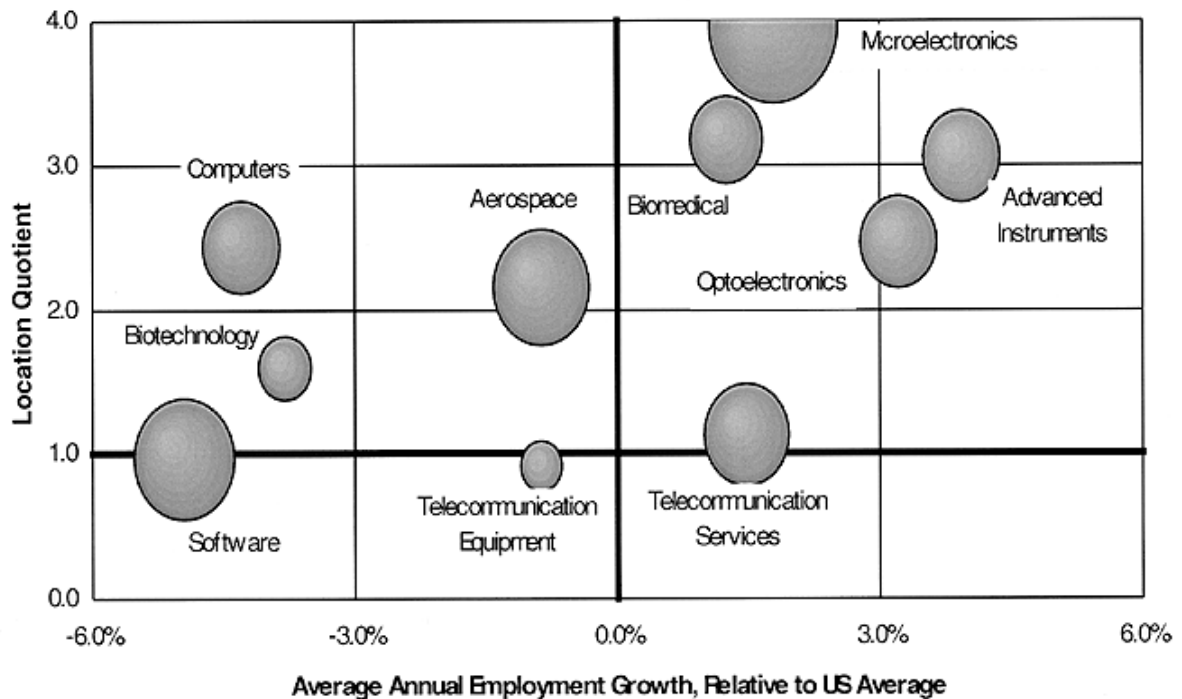


Figure 3, Growth-share matrix. Source: Orange County Image Survey 1999, IDEA LLC

Based on the findings of the place audit, the OCBC conducted a so-called SWOT-analysis (Strengths, Weaknesses, Opportunities and Challenges). The SWOT-Analysis is a common tool for marketing decision-makers to move from the place profile to the place analysis (see chapter 2.3.1).

- The OCBC identified the following strengths of OC:
 - Recreation, Parks, Entertainment (High quality of life)
 - Climate, Nature
 - Concentration of microelectronic, advanced instruments and software industry companies and specialized suppliers (advantages of agglomeration)
 - Good infrastructure
 - Proximity to major markets
 - Low taxes compared to competitor locations
 - Business-friendly government

- Racial and ethnical diversity
 - Economic and industrial diversity
- The OCBC identified the following weaknesses:
- Traffic congestion
 - Lack of skilled workforce availability and loyalty
 - Lack of affordable land or housing
 - Poor Elementary and High Schools
 - Environmental pollution
 - Fragmented government and planning
 - Poor sense of community-thinking

The OCBC identified a major opportunity in the still prevailing trend of technology- and research-intensive new economy industries to move into the sunbelt region. There is a strong opportunity for attracting cutting-edge clean industries into the region, encouraged by existing advantages of agglomeration (Bill Carney, Interview 2000). High-tech parks and incubators could attract companies of the future and foster diversity. The good quality of life may attract educated and skilled workers from the outside and keep graduates in the county. Overall, stimulating employment growth should be a means to support local economic development.

The OCBC saw a threat in rising housing costs and shortage of office space, which could encourage mobile companies to dislocate. Another threat was that a rising number of unskilled and disloyal workers would distract potential relocating companies. Traffic congestions and commuting may cause migration of mobile educated workers. The OCBC saw an economic threat in the fragmented and uncoordinated local political system, which has a negative impact on future economic development efforts.

4.6.2 Orange County's vision

The next step of the strategic planning process was to set visions and objectives, based on the SWOT analysis.

Orange County's business attraction program objectives are to become a leading economic

region for the industries of the 21st century (new economy, clean technology-driven industries). Bill Carney (Interview, 2000) stated that OC seeks to become a better and more diverse silicon valley within the following 20 years. Orange County should become an employment powerhouse with growing employment creation rates of 7-8% per year. Further, the OCBC seeks to maintain and expand the county's diverse structure of industries. The OCBC looks for a more regulated and central government structure. OCBC's vision of the future is to create a government structure that encourages the creation of harmonized countywide economic development programs.

4.6.3 Orange County's strategy

Orange County chose a promotion and image strategy to attract its targeted industries. In order to ensure diversity of the economic structure, five industries are targeted at. OC dominantly welcomes clean and service-oriented industries, not only because of economic reasons. Environmental awareness is an important factor in all Californian coast areas. This objective is outlined in many General Plans of Orange County Cities (Irvine General Economic Plan 1998). The segmentation of the preferred industries should ensure efficiency and effectiveness of the communication program. Based on the findings of the OCBC study 1999, five clusters are identified and targeted at.

- The microelectronics industry (i.e. printed circuit boards, semiconductor and related devices, integrated circuits, electron tubes, electronic capacitors, resistors, coils, transformers and connectors)
- The biomedical industry (i.e. surgical and medical instruments and apparatus, orthopedic, prosthetic and surgical appliances and supplies, dental equipment and supplies, X-ray equipment and related irradiation apparatus, electromedical and electrotherapeutic apparatus and ophthalmic goods)
- The advanced instruments industry (i.e. electrical signal testing equipment, testing-equipment for electrical radio and other communication circuits and engines, analytical laboratory instruments)

- The software/IT industry (i.e. computer programming, software development, system analysis and design, application programming, network system integration, office automation, CAD/CAM systems services, computer leasing)
- The design industry (i.e. automobile, aerospace, fashion and graphic designers)

The OCBC communication program is based on a detailed analysis of the five industry clusters. Communication to each target industry is highly selective and varies with regard to the industry's current perception of OC, needs, potential regional competitors and working style. The following industry analysis (OCBC 2000) should uncover these characteristics. The analysis is structured into cluster image of OC (in the eyes of cluster respondents), cluster main location competitors (based on cluster responses), cluster location priorities (based on cluster responses), cluster styles (based on psycho-social analysis of a qualitative questionnaire).

- *The microelectronics industry*

The microelectronics cluster already has a strong and positive relationship to southern Californian regions, because of recent expansion movements of Silicon Valley businesses. The image survey confirmed this. Advantages of OC perceived are: Close proximity to Los Angeles and San Diego, high quality of life, beautiful coastline and the attractive climate. More than half of the solicited respondents have a positive image of the existing research & development businesses and the high-tech business parks in OC. Negative image points were high costs of living, crowded, and few entertainment facilities.

Based on the responses, the following main competitors can be identified: Dallas, Portland/Vancouver, Silicon Valley, Long Beach (L.A.) and Phoenix.

Relocating companies of the microelectronics industry base their location decision on the following priorities: Industry-friendly business climate; availability of technological resources, such as tech parks or universities; highly skilled, plentiful labor pool; suppliers in close proximity; reliable communications infrastructure; low tax levels; variety of recreation facilities and culture. All in all, the microelectronics industry prefers to locate dominantly in regions with high labor-force education standards and good quality of life.

Microelectronics industry managers exhibit a specific life style, corporate culture and attitude towards work life: Based on a qualitative analysis, managers express a stronger pride in their mental ability than others do. Their thinking style is rather analytical, logical and rational. In addition they sense themselves as having a discriminating taste of certain consumption goods.

- *The biomedical industry*

The image of OC in the eyes of biomedical industry decision makers is rather unfavorable. A reason mentioned is the lack of knowledge about Orange County's characteristics prevailing in the biomedical industry (Bill Carney Interview, 2000). Image responses were: poor quality schools, less available skilled workforce, lack of affordable housing and traffic congestion. OC is a planned community, but has a beautiful coastline, lots of recreation facilities and an attractive climate. OC is perceived as crowded, ethnically diverse and rather conservative.

Based on the questionnaire the following regional competitors can be identified: Chicago, Minneapolis/St. Paul, and Silicon Valley.

The biomedical cluster exhibits the following location priorities: Places must provide a plentiful, diverse, talented labor pool; a concentration of supporting industry (ground distribution, testing services); efficient transportation facilities, access to risk capital, and recreational opportunities for their employees.

Prevailing life style and work attitude characteristics in the biomedical industry are the following points: They are rather pragmatic, introverted, and they have a significant orientation towards real life problems. Managers are drawn to images and products of strength and reliability, they put thoughts and things over feelings and they are focused on problem-solving matters.

- *The advanced instruments industry*

The image of OC perceived by this cluster is rather vague. Image responses vary from negative to very favorable. Image points mentioned are: OC has attractive entertainment and recreation possibilities, suffers from traffic problems and pollution, neighborhoods are crowded and unfriendly. Also mentioned were the fiscal trouble of the County government in the 1990ies and the emergence of earthquakes. The existing OC advanced instruments industry is dominated by suppliers of aerospace companies, such as the Boeing Corporation.

Main metropolitan location competitors for this industry are identified to be Boston, Minneapolis, Portland/Vancouver, Silicon Valley and St. Louis.

Location seekers emphasize on the following priorities: Suppliers ought to be in close proximity, skilled high school graduates must be available, high education standards are required, and access to public transportation (international and regional airports, railway) is required. Other important cluster-specific demands are public safety, low crime rates and a prevailing healthy environment, which is important for their employees.

Cluster style characteristics for the advanced instruments industry are analyzed to be the following points: Managers prefer a process-oriented and systematic approach of working issues, they focus on problem-solving matters, they are rather civic-minded and conscientious, and they are deemed to be pragmatic and family-focused.

- *The software/information technology industry*

The software and IT industry image responses of OC are more positive compared to other industries' responses. Favorable image points mentioned are: OC has large entertainment and recreation facilities, a very attractive climate and good job opportunities. More than a third of the respondents mentioned that they already had pleasant working experiences in OC. Concerns about OC mentioned are traffic congestions, pollution, overpopulation and lack of concentration of technology services. Respondents addressed OC's good reputation for healthcare services and praised availability of wireless Internet services.

Location competitors of that industry are identified to be Austin, Seattle, Silicon Valley, San Francisco and Utah State in general (mainly because of more affordable living costs).

The software and IT industry exhibits the following location priorities: Places require a certain concentration of ISP services, wire and wireless services, distribution facilities and an adequate proximity to community services. This industry prefers places that provide certain standards of recreation and culture and places that have a tolerant and open-minded public. Places in question must address environmental issues and should have low crime rates.

Life style characteristics identified are the following points: Managers are proud of their problem-solving ability, they have a significant urge to demonstrate their attitudes and habits, they sense themselves as being part of an elite industry and they appreciate

humor and social commentary.

- *The design industry*

The design industry is a market segment that is rather new to Orange County. This industry exhibits the following image points of OC as a place to locate: OC is mentioned to be rich of entertainment, culture and recreation facilities and OC has attractive nature and open space resources. Negative points referred to OC are: Police brutality and the government's fiscal problems. Bill Carney (Interview, 2000) argues that respondents who bring police brutality together with Orange County are based on the inability to separate Orange County from Los Angeles County, which suffered under severe police behavior problems at that time.

Main metropolitan competitors identified based on the responses are Atlanta, Chicago and Los Angeles County.

Location preferences for the design industry are mainly based on financial concerns. The following place characteristics are mentioned: Affordable housing, suppliers in close proximity, tax rate levels, ease of transactions for business operations, availability of business partners for strategic alliance and availability of skilled workers. Other important location issues mentioned refer to variety of recreation and entertainment facilities and sound climate.

Life style characteristics of the design industry differ from other industries significantly. Designers are deemed to be sensitive to and aware of physical environment and show an interest in new art and culture. They perceive their work environment rather fast-paced, intense and dynamic.

The analysis uncovers how potential locators view OC, what their location preferences are, how they make decisions and which metropolitan regions OC has to compete with. The data about each target industry facilitates tailor-made communication. Thus, each target industry receives specific treatment. Favorable image points must be intensified and negative points must be addressed and handled with care. Image problems mentioned that are based on confusion or misapprehension can be corrected with communication measures. The business attraction program includes the following overall objectives:

- Improving knowledge and perception of OC by location decision makers and their advisors.
- Increasing investment and employment in targeted industries
- Increasing qualified lead flow from targeted industries and site consultants
- Creating a productive working relationship with local economic development professionals, brokers and other influencers of the commercial development process
- Creating strong relationship with County's and City's economic development stakeholders
- Better understanding of the OCBC business attraction efforts by investors, members and the public.

These objectives provide a guideline for OCBC agendas and should accommodate Orange County future visions. In order to achieve these goals an operative plan has been elaborated.

4.6.4 Orange County's operative plan

The following tools are used to convey Orange County's message: conferences, trade shows, a site location package of brochures, a marketing video, OCBC website, Direct mailings, Public Relation and Events. The operative program will be managed by OCBC's Department for Economic Development. Based on the information gathered about the five clusters, the communication distributed is adapted to the target audience.

A worldwide-web homepage that conveys the core messages and objectives will be created. This homepage is dedicated to future prospects and the local business community. Each cluster identified receives its own link, where industry-related issues are addressed

The OCBC will act as the main portal for relocating business and establish so-called red-teams⁵. The California Technology, Trade & Commerce Agency, introduced this process as a

⁵ The term "red team" was first applied to an approach implemented by the aerospace industry, where decision makers worked together to solve technological problems or write large complex proposals (OCBC 2000)

tool for economic development. A red team is a task force made up of experts and senior decision makers from public and private sector organizations. Its general task is to solve a business problem or collaborate on such important business development efforts as convincing a company to expand, putting together business incentive proposals to convince a company to locate in OC, addressing issues such as permit streamlining and improving telecommunications by developing a strategy for laying fiber optic cable into a region, for instance. The OCBC and the State's Technology, Trade & Commerce Agency serve as a resource and, often as the facilitator, for economic development officials. The Office of Major Corporate Projects often leads or participates in red teams when statewide interests are affected. In a negotiation, Agency officials provide information on State programs and services and work to tailor incentives or assistance to meet individual company needs, needs of specific business sectors, or economic development issues for California as a whole. The Agency also facilitates mutually acceptable solutions with other State, local and federal government entities in order to assist businesses and promote economic development in OC.

These red teams act independently, direct and prospect-oriented. Red teams manage the relationship with locating companies from the first contact of interest to the settlement. Members vary according to type and size of the business prospect. Red teams played a substantial part during the location process of Lincoln/Mercury to Irvine (Gary Lessuise Interview, 2000).

4.6.5 Implementation and control process

The business attraction program has been launched in autumn 1999. Goals are to be achieved within 5 years. The triangle (see figure 4) illustrates the staged cascade of activities. The first stage is the involvement of local spokespeople in meetings, where the plan will be presented and discussed. The next step is the preparing and bundling of a site location package (brochures and booklets) for each target industry and the creation of an Internet portal for Orange County prospects and a marketing video. Then, the messages will be distributed over print media and direct mailings. With support of external public relation consultants, national and international road shows and regional events are scheduled. The communication efforts are escorted by participation in relevant conferences and in national or international trade shows. The OCBC indicates that the total costs for such a program will mount up to \$400,000, all years considered (OCBC 2000).

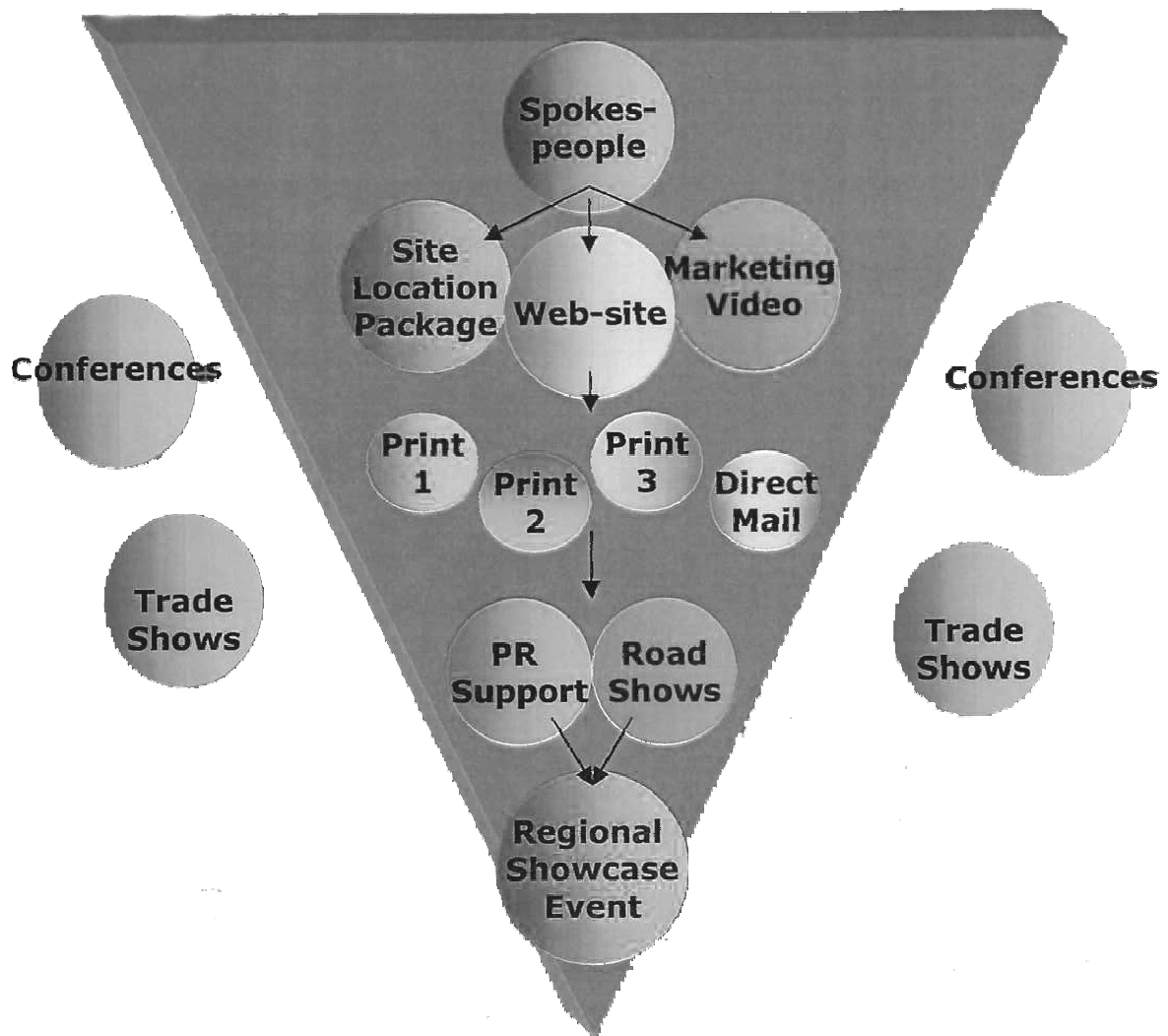


Figure 4, The staging of the implementation process. Source: Orange County Image survey 1999, IDEA LLC

The OCBC and the local government found various ways to measure success or failure of the business attraction program. To this effect, it defines what a good indicator is to measure local development progress (see chapter 2.3.5). A detailed annual study (The Orange County Community Indicator Report) is a strong collaborative partnership between the Business Council, the County of Orange, and the Children and Families (Prop. 10) Commission. The report leverages ongoing data collection efforts by condensing data into a user-friendly format, thus, ensuring transparency. The California Trade, Technology and Commerce Agency (2002) states that, “The OC Indicator report has matured to a credible, unbiased, factual foundation to discuss issues of importance in Orange County. This commitment to objectivity has allowed subsequent reports to grow to include some benchmark and goal.”

The comprehensive report includes business climate surveys, economic impact modeling

that calculates changes in wages, job creation and purchasing power to measure catalytic effects on Orange County's economy (Bill Carney Interview, 2000). Basically, this annual study includes all indicators and data considered at the place audit of 1999.

The ultimate measuring instrument is the amount of new companies located within the boundaries of Orange County during one year, also compared to similar neighboring Counties. Only those relocating companies are considered that produce a substantial impact on the local economy. New facilities and expansions included in this indicator must meet at least one of three criteria: (a) involve a capital investment of at least US\$1 million, (b) create at least 50 new jobs or (c) add at least 20,000 sq. ft of new floor area. This indicator is compared to other metropolitan locations inside the nation, in order to measure competitiveness.

A qualitative indicator is chosen by the OCBC to measure the confidence of consumers in their present and future personal income situations (Consumer Confidence Index, shortly CCI, based on a survey conducted nationally by the University of Michigan and locally by the University of California, Irvine). The CCI is a leading indicator of the future spending habits of consumers. The OCBC annual report 1999 explains, "The CCI is important because it measures the willingness of Orange County consumers to make major purchases such as a new home or new automobile, invest in new business endeavors, or take a risk with their career such as starting a new business or pursuing additional education. A high CCI indicates that consumers feel generally optimistic about the state of the economy and their well-being". In 1999, Orange County's Consumer Confidence Index stood at 111 points. This represents the highest score for Orange County since the Orange County Annual Survey began asking these questions in 1986. Nationwide, the Consumer Confidence Index stood at 105, according to the University of Michigan. For the national index, a score of 100 or more is considered very good, since a score of 85 is the average for the 50-year history of the national survey.

4.7 Analysis of the OCBC business attraction program 1999

This chapter will provide an overview of the prevailing economic condition of Orange County in 2001 and 2002. Afterwards, a conclusion will be drawn in how far the regional marketing program of 1999 had an impact on the current situation. The indicators and arguments taken for this conclusion are based on the control instruments chosen by the OCBC (see chapter 4.6.5).

4.7.1 Economic situation in 2001

After almost three years of marketing efforts, the county begins the 21st century in a good shape. The Orange County development program is running successfully, in spite of the global economic downturn. California State is still the first destination for sunbelt movers in the U.S., especially for clean, new economy industries. This trend helps the State and its Counties to overcome the recession. Still, Orange County is a dominant player in the hunt for relocating companies and owns a substantial part of total inward California movers (Site Selection Magazine 2002). The reasons for the ongoing success are manifold. According to the OCBC (2002), one main reason is that Orange County's economic diversity is a major source for business attraction and growth.

Regarding the OCBC and County indicators set up in year 1999, most of them grew steadily in a positive direction; some even reached all time highs. In 2001, 229 multi-nationally or nationally operating companies (that have a substantial impact on the local economy, see chapter 4.6.5) relocated to Orange County or expanded there. According to this, Orange County ranked eighth in the U.S. top metropolitan spots for amount of new and expanded plants in total. Main location competitors, such as Los Angeles County ranked fourth with 312 plants and Minneapolis/St-Paul ranked third with 365 new or expanded plants. Regarding new facilities only, Orange County finished in the sixth position on that list with 169 new facilities located. In the year before, in 2000, Orange County ranked fourth on this list, with 175 new companies located (number of new and expanded companies: 348). In year 1999, 479 companies expanded or relocated to OC, thereof 151 new facilities located (OCBC Annual Reports, Site Selection Magazine, issues 2000, 2001, and 2002). Successful settlement projects in 2001 were the following companies:

- HiTex Development Tools, which moved their west coast office from San Jose to Irvine. This company operates in the electronic engineering industry with headquarters in Karlsruhe, Germany and has 130 employees in the new site.
- Motoman, Inc., based in Ohio, designs and manufactures robotics. They have relocated their Southern California facility to Irvine, with 15 relocated employees and 3 new hires.
- Nevada Vacuum is a manufacturer of high-vacuum technology equipment for the

high technology, R&D and aerospace industries. This inland company relocated to a new facility in San Clemente in order to be more strategically located to their client base in both Orange and San Diego counties.

- Northwest EMC, Inc., is an electronics compliance testing company based in Oregon. Their new Orange County location is their first in California. The build-to-suit facility in the Irvine area is due for completion by the end of the year 2002. Northwest will be hiring approximately 20 new employees, all local hires.

Bill Carney mentions, (OCBC Annual Report 2001) "There's a great deal of space planned in office and R&D and some in standard industrial. A lot of that is taking place in Irvine, and there's also a lot of activity along the [Hwy.] 91 corridor in Anaheim and Fullerton." Another popular Orange County location is the airport area, adjacent to John Wayne Airport. The area has the highest concentration of high-rise and low-rise, class-A office buildings with 21 million square feet of inventory. Companies that have recently located or expanded there include Coca Cola Fountain, Toyota Materials Handling and Microsoft.

The Orange County Community Indicator 2001 includes the annual business climate survey for Orange County. In 2001, 44% of the local business executives surveyed stated that Orange County was becoming a more attractive place to do business (1999: 40%, see chapter 4.6.1). The most often cited reasons for the county's attractiveness as a business location were: Orange County is a desirable place to live, it is centrally located, and the particular business' customers are here. The most cited problems with Orange County's business climate were traffic and the high cost of housing and wages.

Regarding quality of life indicators, in 2001 Orange County succeeded to lead on a national location indicator: The Places Rated Almanac 2001, which ranked 351 North American metropolitan areas on nine variables, ranked Orange County as the best place to live in the nation.

Real per capita income rose to \$35,020 in year 2001. This is a 7.6% increase from year 1998 (\$32,541). Orange County's per capita income level is higher than the U.S. and California averages, and higher than that of economic peers Austin, Texas, and the Research Triangle, North Carolina.

Population rose up to 2,916,480 at end of year 2001, which represents a 3.4% population growth from year 2000. This exceeds the average annual growth rate of the 90ies (i.e. 2.0%).

Thus, also density rose up to 3,678 residents per square mile in 2001.

Also ethnical diversity in terms of share of total population increased: In 2001, Hispanics comprise 31.7% and Asians comprise 16.3% of total county population.

Orange County's 2001 CCI score (see chapter 4.6.5) of 112 represents a slightly higher score than last year's index of 111. Nationwide, the CCI is 109, according to the University of Michigan (www.umich.edu, July 2002).

Average unemployment fell to a rate of 2.6% in year 2001. This is considerably lower than the national average unemployment rate (2001: 5.6%). It is argued that Orange County's diverse economy and controlled commercial real estate development, have somewhat protected it. White-collar occupations increased, representing a share of 65% in 2001 (1998: 58%), while shares of blue-collar occupations decreased and service occupations remained fairly stable. According to the Chapman University, the county added an estimated 40,000 new jobs in 2001 and is expected to add another 15,700 in 2002.

The OC Indicator Report 2001 opens with the vindicating message, that "Orange County is one of the strongest regional economies in the country. Orange County's current prosperity offers a unique opportunity to address structural deficiencies that could threaten the long-term economic growth of the region". Thus, Orange County's diverse economy appears to be the driving force behind the latest business development success. Nevertheless, the surrounding socio-economic problems that have been uncovered during the place audit of the year 1999 were not yet solved. The critical report states that measures of consumer and business confidence are currently high but can change very quickly if perceived problems are not addressed. The following problems and its consequences are identified and should be targeted in the future:

- *There is not enough housing being developed in Orange County to match the growing population of either residents or employee.*

OCBC research states that in Orange County, more than three new jobs were created for every house built during the year 1998. This indicates that housing supply is not keeping pace with the growth of the county's economy. Orange County's housing demand index (see chapter 4.6.1), ranked 3rd out of major U.S. metro areas (1999: 5th rank), indicating that the county's imbalance of housing availability relative to new jobs is among the most severe in the country and still aggravating. Most similar regions, with the exception of Los Angeles County, have a better balance of housing permits relative to job growth.

- *Orange County is more and more dependent on surrounding counties to meet its housing and employment needs, which correlates unfavorably with traffic congestion.*

The average daily two-way commute time for Orange County residents increased from 67 minutes in 1998 to 74 minutes in 1999. From 1998 to 1999, Orange County had the largest increase in commute times in the Los Angeles metropolitan area. The OC Indicator 2001 mentions, "That increase could be partly due to statistical fluctuations, but rapid employment and population growth and a strong economy are also contributors to increased traffic." However, OC's notorious traffic troubles are expected to ease in 2002 when the \$2.43 billion, 20-mile Alameda Corridor is opened. Developed under joint powers involving the cities and ports of Los Angeles and Long Beach, the corridor includes a 10-mile, trenched rail-cargo expressway to link the ports to transcontinental rail yards just east of downtown Los Angeles. When completed, there will be about a 77 percent reduction in track miles as the rail expressway offers straight in, straight out services. Additionally, passenger rail lines will be separated from cargo traffic, and 29 bridges will carry street traffic.

- *The costs of living in Orange County are rising faster than income.*

Between July 1999 and July 2000, the median home price in Orange County rose by about \$28,000, to reach \$315,730 according to the California Association of Realtors. In 2000, only 27% of households in Orange County could afford the median priced home, decreasing from 37% in 1999 and far below the United States average of 53%. Orange County's Housing Affordability Index (Number of renter households unable to afford – measured by median household income - fair market rent on averaged priced rental units) lags behind all of its neighbors except San Diego. In 2000, 41.3% of homes sold were affordable to a family earning the median income, down from 53.9% in 1999. (National Association of Realtors and the United States Census Bureau, 2001). However, the report mentions that "Orange County's ability to maintain its diverse high-tech clusters of activity will directly correlate to its ability to attract and retain the best and brightest graduates. This in turn is dependent upon the quality of life and the perceived ability to acquire reasonable housing."

All in all, the chosen key indicators to measure success of the business attraction program allow drawing a positive interim report. The efforts of the past three years were successful. In 1999, 151 new companies relocated into the boundaries of Orange County, in 2000: 171 and

in 2001: 169. The data for preliminary years was not available.

4.7.2 Impact and effectiveness of the business attraction program

The question raised here is, whether Orange County's economic development efforts and in particular the business attraction program had a significant impact on the region's economic upswing. Further, in how far the program outlined before was effective. Here, effectiveness means whether the operative and strategic measures chosen and implemented lead effectively to the vision and objectives set. Thus, regarding the outcome or the current development and comparing them to the goals set can answer the question of effectiveness.

The current economic situation analysis allows to make the following statement: Orange County is a highly competitive, sophisticated, powerful and diverse location to do business, despite the structural and social problems mentioned in chapter 4.7.1. However, the cultural and social implications are not to be examined in detail here. From an economic point of view, Orange County can be seen as a suburban powerhouse that succeeds to attract a diverse business community and that creates jobs for a skilled workforce. If the statistical data provided above is considered to be an appropriate measurement for economic growth, the struggle for local development was successful. Investments into the diverse local economy, relocations and workforce migration must have played a critical part in the recent positive development.

It can be argued here that the favorable economic conditions in California reinforced the OCBC business attraction program efforts. Thus, the reasons for the success do not stem from the marketing program. Also, Bill Carney (Site Selection Magazine 2002) says, many manufacturers are moving out of the more congested Los Angeles market to the Anaheim and Fullerton areas to be closer to the commuter labor force in the Inland Empire region. "This is being driven by the 'just in time' delivery arrangements these companies have with their suppliers", Carney adds. Further, "As the economy increases and activity increases, the congestion becomes more of an issue, so they're shifting to maintain those relationships with suppliers." Thus, it is assumed that companies would have relocated into Orange County also in absence of the business attraction program. As Diamond and Spence (1983) mention, it is difficult to evaluate what would have happened if the program were not established. However, it is argued here, the business attraction program has not influenced the greater economic trend towards relocating into Southern Californian areas, but it has definitely influenced type and

numbers of companies. Thus, the business attraction program has shaped the inward flow of investments. It coordinated and bundled relocation activities that stem from other economic forces. Regarding the complete program, from creating a local mission to implementing the communication tools, it cannot be denied that OCBC's efforts tamed the economic forces pressing on Orange County. As a consequence, in absence of the coordinative program efforts, different types of industries and a lower number of targeted companies would have located into the region that do not fit into the local development concept.

As outlined in chapter 4.6, the main goal of Orange County was to attract the "industries of the future", i.e. clean, service-oriented technology-driven industries. OCBC's business attraction program focused on more than one industry (i.e. microelectronics, biomedical, advanced instruments, software/IT and design) in order to improve the diverse economic structure. This goal has been reached as well. In year 2001, Orange County can offer one of the most diverse high-tech economies in the United States, regarding location quotients. 11 distinct high-technology employment concentrations have been identified (Year 1999: 10, year 2000: 10). This is the largest number within the U.S., tied with Boulder, Colorado. The OC Community Indicator 2001 underlines the importance of a diversified technology structure and states, "The diversity of Orange County's technology industries is partly responsible for the county's relatively strong economic performance during the technology slowdown of the past year. Because Orange County's technology employment is diversified across several sectors, the county was less susceptible to the downturn in Internet-related businesses that began in the middle of 2000." Thus, the segmentation into five broad clusters and the selective communication efforts was effective and reasonable.

Further, the business attraction program had obviously little impact on Orange County's reputation and image nation-wide. As the business climate survey 2001 indicated, 44% of location decision makers think that Orange County is an attractive place to do business, while in 1999 a slightly lower percentage of 40% did. Regarding the resources invested and the outcome, the image campaign was ineffective and cannot be reasonably justified.

Another question to be answered here is, whether there is a relationship between the successful overcoming of the bankruptcy and Orange County's regional marketing program. This can be denied, because of two reasons. First, the regional marketing programs emerged after the bankruptcy, when the local economy already improved significantly (Bill Carney Interview, 2000). Second, Orange County succeeded to overcome the local fiscal crisis, because of an efficient and informal partnership between the local business community and the county government. County officials and business executives convinced their pool investors to

postpone their claims against the county government, in the first place (Baldassare 1998). The County government was able to emerge from municipal bankruptcy in June 1996 (see chapter 4.3).

5. Conclusion

Localities face new developments in the global marketplace, on the technological frontier and in the political environment. In the struggle for economic development they act in a highly complex and fragile setting. Due to dynamic advances in communication, transportation, and information systems, businesses are becoming more mobile. Places must be ready to abandon shrinking or noncompetitive industries and replace them with new and value-adding ones. These trends necessitate that places must overcome their bureaucratic and inflexible structure and make use of business management philosophies, such as marketing concepts. However, these trends also necessitate places to reassess whether they are meeting the needs of their citizens with their economic development programs.

Regions need to have a clear idea of what product(s) they have to offer and how their assets meet the needs of specific business industries and niches. Does it provide relatively low cost real estate? Does it offer a sizable, well-educated entry-level work force? Does it have diversity and concentration of sophisticated cultural and entertainment facilities? Are there universities or other untapped assets at hand? What sectors of the economy need such resources? All those questions should be embraced in a long-term regional marketing program. The main lessons learned from this case study follow here.

- Local leaders must dedicate public investment to improving the market assets of their region. This may include investment in education and training, improving the permitting process, or enhancing the information on a region's competitive assets.
- Regions need to broadcast their vision to the business community at large. Engaging corporate executives in community activities proves to be an important factor in business attraction. Local leaders and business executives should be brought into the process at each step.

- Regions need to work closely together with the local community at each planning step in order to include residential and socio-economic aspects when establishing business attraction programs.

Thus, policy-makers need to identify what they can offer best on the location market and concentrate on their competitive locational advantage. This advantage should be critically analyzed if it brings value to the community's wants and needs. The Orange County study uncovers that these community wants and needs were not fully integrated into the business attraction program. As mentioned in chapter 4.7.1, increasing housing costs and traffic congestion grew to a persistent problem of the region, caused by its aggressive business attraction. Potential "customers" must be selectively chosen since not all businesses bring value to the community. It is argued here that Orange County has succeeded in this particular point. Then, regions must communicate their goals and visions in an effective manner to the public, as its best with the support of the existing local business community. Orange County established a successful selective communication program, however, Orange County may not justify costs incurred.

Putting all the criticism on local incentive-making aside, regions have it in their hands to bundle a competitive package of locational, tax and non-tax advantages. Regions can make use of the market-oriented strategic planning process to conceptualize local economic development. Strategic planning should help to shape basic directions, objectives and multiyear resource allocation plans. However, strategic planning is more effective for organizational units with a unified sense of mission than for a highly diversified and fragmented regional jurisdiction, as Orange County is. As Osbourne and Gaebler (1992, p. 167) note, "Public agencies don't get their funds from customers, businesses do." It is a matter of fact that local governments are funded by legislative bodies and elected officials are influenced by their constituents. This works against long-term planning and disable broader vision-making. The strategic planning process assigns higher importance on long-term goals and package-bundling for the future and pushes electoral needs of the moment aside. Places need to defend themselves against constantly reacting to changes and incorporate broader proactive place planning perspectives. Kotler states here that, "this is not to ignore the reality of politics but rather to balance political needs and market forces" (1993, p. 321). How local governments can succeed to manage this act of balance remains uncertain. Thus, it is argued here that the strategic planning concept might provide a theoretical guideline of shaping a

place's future, but it lacks practical adequacy for implementation.

Nevertheless, the theoretical framework can serve as a basis for new and innovative perspectives and adds fresh ideas and principles to former regional planning routine. As Simon (2001) adds, one important contribution of the regional marketing concept is its strong orientation towards communication. Regional marketing requires at all its planning stages direct involvement of citizens or business groups and external communication during and after implementation. Simon (2001) argues, because political competencies for regional marketing implementation are rather flexible, new levels for communication are laid open. These new levels of communication can lead to innovative solutions for local problems.

5.2 Outlook and future research implications

Regarding recent developments in the globalization process and the accelerating pace of technological change, the pressure on localities will grow more and more in future. If the development towards collapsing economic borders among nations continues, regions and places will transcend political boundaries. In a borderless economy, localities will gain importance and emerge as new actors on the international stage. Challenged by these forces, many local governments try to adopt regional marketing concepts as a means to answer this global pressure. However, this entrepreneurial and market-oriented approach to economic development planning has not been scrutinized in its full size.

There has been much qualitative literature on the socio-economic implications of the regional marketing concept, but few on implementation and effectiveness. Since the practical part of the strategic market planning concept has not been evaluated much, it is necessary to create platforms that exchange experiences with regional-marketing initiatives on a national or European basis. Such institutions can develop practical concepts and tools to facilitate implementation of regional marketing projects. Also, control and measurement concepts of regional marketing initiatives can be worked out by concentrating research on the empirical level. Recent empirical studies and surveys (Simon 2001, EDA 1999) on regional marketing programs reveal that most programs do not yet have well-defined monitoring and evaluation systems in place. Often, data are collected for programs and reported to stakeholders without any analysis. In the cases in which regional managers analyze the data, few use optimal techniques for estimating economic effectiveness. This suggests that the analysis being done for marketing projects is not very sophisticated yet, providing results that do not stand up to criticism.

Another point of interest is the financial imperative, which has not been evaluated much in detail. Especially, many regional business attraction programs fail to justify financial considerations. Cost and efficiency impacts critically on the ability of government agencies to plan and implement marketing programs. Investigation of these implications is an area that has been unduly neglected by academics, yet the potential scope for research is huge, and is set to grow as place marketing continues to become an increasingly important activity for many regions.

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Appendix

Sample of questionnaire, general interview guideline

- What techniques are used to attract direct investments (influence location decision)?
Current projects?
- What objectives are pursued (creating jobs, raise tax income)? Target market (Clusters)? Are there any types of industry that are not welcome; which type of industry is favored?
- Who are the most important players in promoting OC to corporations? What are the roles of Irvine Company and California State?
- How is the local government involved in this, what are the connections? Is regional marketing part of local policy (Context to regional policy)?
- How much competencies/bargaining power does the Orange County/City have in a negotiation round (Grants, Exemptions)?
- How are outcome and impact of regional marketing projects measured and controlled?
- Case Study: Lincoln/Mercury decided to locate in OC recently. What do you think were the most crucial reasons for that? How was the local government involved in the process?
- In how far helped regional marketing to overcome the OC bankruptcy in 1994?