2. The Emerging Importance of Regional Strategy

Investment has always been important to economic development, but it is even more critical to building competitive regions in today's economy. Through the history of economic development, the nature of these investments has shifted. We can see three distinct, overlapping eras in the past half century (Drabenstott 2005; Morrison 1986, 1987):

- *The Era of Industrial Recruiting* has its roots in the recruitment strategies that Mississippi adopted during the Great Depression and accelerated after World War II. During this period, economic development strategies emphasized financial incentives to attract factories, and focused on investments in physical infrastructure to move inputs to factories and finished goods to markets.
- *The Era of Cost Competition*, which began in the early 1980s, emphasized industry consolidation and achieving economies of scale. During this period, multinational companies began globalizing their production operations. To compete, U.S.-based economic development organizations focused on providing more aggressive, deeper incentives. The focus in this era was more diffuse and relied on creating a business and regulatory climate that encouraged private investment by reducing costs.
- *Our current Era of Regional Competitiveness*, which began in the late 1990s, emphasizes identifying each region's competitive advantages and then prioritizing public and private investments necessary to exploit those advantages. This period is seeing the blurring of lines between economic and workforce development, as innovation emerges as a key element around which economic development strategies are organizing.

The regional competitiveness approach weaves together three important findings about how regional economies work. The first has shown the importance of clusters to regional economic growth (Porter 1998). The second advocates that the clustering of economic activity gives rise to "agglomeration economies" that are critical to understanding the new economic geography of why some regions attract industrial investment and others do not (Krugman 1991). The third focuses more on the regional character of organic growth through innovation and entrepreneurship. This research notes that fresh ideas and a fertile seedbed for those ideas to take root are critical determinants to regional growth (Acs and Armington 2004).

While policy officials and economic experts increasingly agree that the competitiveness approach offers the greatest promise for sustained economic gains, in practice the first two eras still mostly guide the behavior of local practitioners. Regional leaders need new skills and tools to adopt the new paradigm of regional development. This need takes many forms, but the most pressing need is designing a strategy process and a set of analytic tools that help regional leaders reach strong consensus on sensible investment priorities.

Well-identified investment priorities carry even more urgency as our economy undergoes a fundamental transformation. Toyota's former president, Katsuaki Watanabe, characterizes the shifts this way: "The change that has hit the world economy is of a critical scale that comes once in a hundred years." In the face of these shifts, regional economies are rapidly emerging as critical factors for supporting globally competitive firms (OECD 2007).

Regions can compete globally by focusing on their unique assets. The challenge is to link and leverage these assets in new and different ways. In this general economic climate, a critical issue will be ensuring that federal and state economic development programs represent sound investments in economic growth. But what are these sound investments? A critical part of the answer must come from regions themselves. That is, the nation will reap the biggest economic dividends when each of its regions invests in those public goods that matter most to increasing and maximizing a competitive edge in global markets.

The emergence of a freshwater technology cluster in Southeast Wisconsin illustrates how regional leaders can exploit distinct assets by investing in the foundations of a more competitive regional economy. By virtue of a strong economic base in process industries that require water, such as beer making, the region has a strong slate of companies with expertise in freshwater technology. By linking these companies together in the new cluster, the region now has an opportunity to pursue a rapidly emerging opportunity as global water shortages create new markets in freshwater technology. Within the region, leaders in education, business and government are aligning their investments to support companies within the cluster.[3]

Nationally, the United States will become more competitive as regional leaders learn to link and leverage their assets in new and different ways. As they make the investments needed to support innovative, globally competitive companies, additional opportunities will emerge. Identifying and making these investments requires a new strategy process and tools to guide complex decision-making at a regional level.

To succeed, regional leaders must avoid two common traps: fragmentation and insularity. Fragmentation arises when individuals and organizations pursue their own agenda of individual projects disconnected from a broader regional strategy. Insularity arises when regional leaders pursue old strategies of recruitment and "incentive shopping" without learning that the rules guiding global competition are changing in a fundamental way.

Under a regional competitiveness approach to economic development, designing and implementing a strategy is a continuously evolving process that must adapt to the unique economic and institutional landscape of a particular region. A rich array of development experiments across the nation and around the world point to a new process that adapts well to many different types of regions (OECD 2005).

Findings from these experiments are yielding an emerging consensus that the regional development process has three key elements:

- Public and private actors who must commit to building a *collaboration* (the Who)
- The *strategic outcomes* the collaboration must achieve (the What)
- The *ongoing, strategic process* by which key outcomes are achieved (the How)

This chapter explores these critical components and outlines the key steps that lead to transformational investment decisions.

[3] See the Milwaukee 7 Water Council at www.milwaukee7-watercouncil.com.

2.1 The Who: A Regional Partnership

Every region has a set of public and private actors who represent potential partners in a regional strategy. An effective regional strategy process turns a diverse set of partners into a resilient, trusted network of leaders. These leaders become capable of executing and monitoring complex investment decisions by following some simple guidelines.

This transformation into an effective partnership or decision network does not happen easily or quickly. Analysts are just now beginning to adapt network theory to the issue of regional partnership. This theory can serve as a valuable framework for thinking about how regions can organize to design and implement sophisticated investment strategies (Cross and Parker 2004, Cross and Thomas 2009).

In building a regional strategy, overcoming political jurisdictions represents a major challenge. In most cases, a 21st century economic region will spill across county lines and often cross state lines. To develop a globally competitive region, therefore, the partners must reach across jurisdictional borders that have all too often been barriers to collaboration in the past. This challenge is especially difficult in rural areas of the United States where development is still largely practiced one county at a time. Work that has been done in rural regions elsewhere in the world strongly suggests, however, that building a strong partnership with a critical mass of globally competitive assets is an important prerequisite to development success (OECD 2006).

Another challenge comes in bringing a diverse set of partners together. Protecting institutional boundaries must give way to a new mindset: collaborating to compete. Underlying this shift is a change in perception. As an economic development strategy, recruitment tends to develop deep ruts in the mindset of local leaders. In the worst cases, economic development degenerates into a practice of poaching businesses from neighboring jurisdictions. Competing jurisdictions can get into costly competitions over incentive packages, in which the incentives no longer bear any reasonable relationship to the underlying investment.

With global competition, these practices have become hopelessly obsolete. Regional economic development is no longer a zero-sum game of winners and losers. Instead, regional economic development focuses on aligning, linking and leveraging assets to pursue new market opportunities. When done properly, this approach creates new avenues for mutual benefit; leaders are no longer preoccupied with fighting over a "fixed pie."

One can see this shift in perspective taking place in the Riverlands region, a 14-county region surrounding Dubuque, Iowa. Leadership in the region has coalesced around the need to build a stronger economic future. This region spans three states—eastern Iowa, northwestern Illinois, and southwestern Wisconsin. This region in the nation's Heartland evolved geographically as the regional development initiative gathered momentum.

The regional discussion started out with a working definition of 17 counties, but as more information became available about the common economic threads that united the region, three counties in Illinois dropped out of the project. The region has long relied on agriculture and manufacturing to sustain its economy, yet both are undergoing significant change and consolidation as a result of globalization and technological change.

As a result, regional leaders launched the Riverlands Economic Advantage Project to identify new economic opportunities that emerge for the region as a whole. The business services sector is one strong area of interest, spurred in part by the recent arrival of a large customer service center for IBM. The region has a significant constellation of higher education institutions that could sustain this initiative. Tourism is another area where regional collaboration may bring economic gains. The area has significant scenic and historical amenities, but the state lines have resulted in fragmented initiatives in the past. With the potential for Chicago to host the 2016 Olympic Games, leaders believe they have the potential to attract many international tourists but realize they must achieve some critical mass to do that.

In the case of the Southern Minnesota Regional Competitiveness project, 38 counties have uncovered significant new bioscience opportunities that would not have been possible had each county been locked in a development battle with neighboring counties. This region has a powerful agricultural powerhouse but is also home to the Mayo Clinic. By moving to a regional scale, the region brought together agricultural groups, researchers at Mayo, and other research organizations in a new regional bioscience business roundtable. That group is developing concrete development projects, including extracting pharmaceutical inputs from specially grown crops.

To be successful, the strategy process must continuously engage leaders across the economic spectrum from public, private, and nonprofit sectors. Public actors include local government officials (such as mayors and county commissioners), as well as representatives from state and federal governments. Private actors include business leaders, financial executives, hospital administrators, utility company executives, and agricultural leaders. Nonprofit actors include leaders from regional foundations, nonprofit development organizations, and education—spanning K-12, colleges, and universities.

Effective regional partnerships do not arise from following formulas for engaging a static list of stakeholders. True region-wide partnerships emerge when regional leaders painstakingly build new habits of collaboration within the unique institutional landscape of a given region, as shown in the following examples.

- The West Alabama-East Mississippi region used a WIRED grant to focus development initiatives around a new nonprofit organization (The Montgomery Institute) working in concert with eight community colleges scattered throughout a 37-county region.[4]

- In Southern Minnesota, the partnership is emerging around two major regional philanthropies (Southwest and Southern Minnesota Initiative Foundations), a nonprofit organization (the Center for Rural Policy and Development), and a few key private sector companies (including AgStar, a large Farm Credit System association headquartered in the region).

- The Riverlands partnership was sparked by a large public utility, but has attracted strong participation from several other key regional stakeholders. These include a metropolitan development corporation, a large public university, and economic development districts.

- In 2000, the West Michigan Strategic Alliance formed across an eight-county region with a simple mission: "to serve as a catalyst for regional collaboration." The Alliance has gone on to develop a disciplined framework for thinking and acting strategically. This framework includes a document, *The Common Framework*, that explicitly outlines a framework of investment opportunities across the region.

[4] The Workforce Innovation Regional Economic Development (WIRED) program was a new initiative of the U.S. Department of Labor to encourage an alignment between workforce development and regional economic development. More information on the program is available at www.doleta.gov/wired/about/.

- In North Central Indiana, educational institutions, including Purdue University, Indiana University and Ivy Tech are taking the lead in promoting new regional investment strategies. Financed by a WIRED grant from the Department of Labor, the core partners have focused on developing new education and training opportunities for a region lagging in educational attainment.

- In the seven-county Milwaukee 7 region of Southeast Wisconsin, the public/private partnerships of the Regional Workforce Alliance, the Milwaukee 7 and the Center for Education Innovation and Regional Economic Development are guiding innovative investment strategies.

- In Northern Idaho, the Idaho Department of Labor is both promoting and supporting the emergence of new networks focused on redesigning the region's technical education to support high-growth employers. Their first initiatives include establishing a collaborative among employers to streamline and expand apprenticeship training opportunities in the region.

- In Southeast Michigan, a network of foundations has emerged to guide regional investment strategies through the New Economy Initiative. Launched in 2008, the initiative represents a commitment of $100 million by these foundations to strengthen the regional economy.

In each of these cases, a new type of regional leadership is emerging. Leadership does not fall to any one person. Rather, regional leadership entails many different roles and responsibilities that are performed by a range of actors, each with individual strengths. Leadership passes to different individuals during the strategy process. Regional leadership is distributed among a group of people with the character, skills, resources, and commitment to move the region forward. In launching a regional effort, the leadership challenge comes in assembling this core group of leaders capable of thinking and acting regionally.

2.2 The What: Strategic Outcomes

The regional strategy process aims to produce the outcomes necessary for the region to compete most effectively and sustain its growth. Three outcomes are critical:

- An open, resilient regional partnership
- A flexible strategic action plan
- A shared set of investment priorities

2.2.1 Open, Resilient Regional Partnership

The first outcome is an open, resilient regional partnership capable of thinking and acting together. Economic development always engages local actors, but it does not always yield a region-wide partnership. Thus, the strategy process should be designed to yield a regional partnership as a critical outcome.

In some regions, the focus on the partnership comes early, when leaders set forth principles to guide their deliberations going forward. Thrive, a regional group covering eight counties in southwest Wisconsin, established regional principles of collaboration that make explicit the focus of their collaboration (Thrive

2008).[5] In West Michigan, leaders have developed detailed understandings of the scope and process of regional collaboration. They have, for example, developed a glossary to define explicitly the terms they use in building regional collaboration. In addition, their document, *The Common Framework*, clearly outlines the scope of potential regional collaborations (West Michigan Strategic Alliance 2009).

In other regions, a history of limited regional collaboration or outright distrust may prevent regional leaders from addressing their partnership initially. When that is the case, leaders may need to build the partnership more slowly by identifying mutual projects on which to work. As trust builds through project successes, a regional partnership becomes more clear and explicit. This was the path chosen by North Central Indiana, a region with two dominant metro areas—Lafayette and Kokomo. After leaders successfully implemented workforce and economic development innovations across their 14-county region, they then turned their attention to launching a regional leadership institute.

2.2.2 Flexible Strategic Action Plan

The second outcome is a strategic action plan that represents a road map for development. This strategy is founded on the region's main competitive advantages. An effective strategy links and leverages the region's assets to take advantage of emerging opportunities. Through continuous evaluation and revision, the strategy maintains the leadership's focus on a handful of transformational outcomes. In short, the plan focuses effort and funding on opportunities that unlock the region's distinct potential. The WIRED process designed by the U.S. Department of Labor focuses each region on the development of a clear, concise implementation plan to identify investment priorities. Similarly, the Comprehensive Economic Development Strategy (CEDS) process designed by the Department of Commerce calls for the development of a strategic action plan that sets forth a region's investment priorities. Some examples of individual regions creating these action plans include the following:

- The Prosperity Partnership, consisting of four counties in the Puget Sound region, represents an excellent example of a region that has set forth very clear strategic priorities. The Partnership then translates these priorities into annual action plans.

- The Metro Denver WIRED region focused on integrating education, economic development and workforce development in its key clusters: aerospace, bioscience, energy, and information technology software.

- The Southern Minnesota process will culminate in a Strategy Summit to launch a blueprint for development throughout the 38-county region, built around six strategic opportunities that were identified through extensive analysis and dialogue in the region.

- In Northern Idaho, regional leaders are accelerating the integration of education, workforce development and economic development. They are initially gearing their efforts in three focus areas: redesigning the regional system for technical education; accelerating innovation in preparing the health care workforce; and expanding the supply of sustainable, affordable housing.

[5] These principles include: competitiveness, stewardship, innovation, transparency, and servant leadership.

Strategic action plans must be flexible. Circumstances change. The core group of leaders might stumble. Setbacks are inevitable as regional leaders experiment with new ideas for coordinated action. The best strategic action plans are short and clear. They represent frameworks or maps that enable leaders to decide which way to jump when circumstances change. They are organized around a handful of focus areas (no more than seven) that represent critical transformations for the region.

Keeping focus areas limited is important for two reasons. The first is obvious. A strategy with too many focus areas cannot be focused. Equally important, strategies can only be successful if regional leaders can clearly communicate them. A strategy with too many focus areas confuses people.

Within each focus area, the regional leadership can launch a number of different initiatives. In this way, a strategy is not dependent on the success of any one initiative. With a clear framework of strategic focus series, leaders can shift resources to their most productive use.

2.2.3 Shared Investment Priorities

The third outcome is a set of priorities—a strategic investment agenda—in public goods and services that links competitive advantages to new market opportunities. The budget available to fund these economic development investments ranges widely across regions, yet every region must contend with how best to invest whatever funds are available from public, private and nonprofit sources.

Regions with shared investment priorities are in a solid position to expand their impact through leverage. Shared investment priorities encourage alignment among public, private and nonprofit investors. Very few regions currently achieve all of the opportunities that leverage provides. As a result, developing a framework for regional investment is an important focus of this research report (see Chapter 5).

2.2.4 Summary

These three outcomes provide the strongest possible regional foundation for 21st century economic development. Each reinforces the other in creating the necessary and sufficient conditions for development. Without an *open, resilient partnership*, the strategy is merely a three-ring binder, and the investment priorities are never identified. Without a *flexible strategic action plan*, the region typically devolves to the default strategy of recruiting any business it can attract, and economic development investments are not necessarily focused on what the region does best. Without *shared investment priorities*, the partnership never makes hard choices or takes focused action, and the powerful impact of leverage is lost. The strategy of regional transformation—based on a new pattern of investment—quickly falls apart.

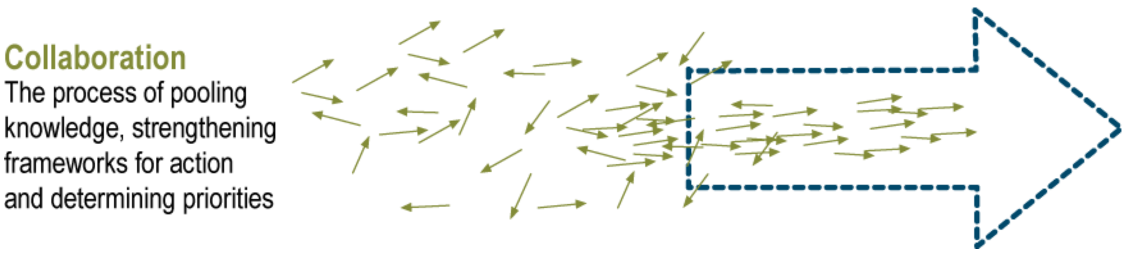
2.3 The How: Strategic Process

The three desired outcomes do not magically appear—they are the result of a regional strategy process specifically designed to achieve them. Developing an effective regional strategy requires weaving together three key component processes: collaboration, analysis and coaching. To understand how an effective strategy emerges within a region, we need to look more closely at each separate but interconnected process.

2.3.1 Collaboration

As nationally syndicated columnist Neal Pierce and urban expert Curtis Johnson have noted, "Collaboration is messy, frustrating and indispensable" (1998). Collaboration involves building the trust by which a very diverse set of regional actors become a partnership focused on the region's economic future (see Figure 1). A flexible strategic action plan emerges from purposeful conversations that build a shared framework of mutual understanding. In many regions, significant conversations do not occur. People remain "siloed" within their own organization or political jurisdiction. Without these conversations taking place on an ongoing basis, regional leaders have no opportunity to explore the diversity of perspectives, experience and assets embedded in their region. Individual organizations pursue their own mission and goals, largely disconnected from one another.

Figure 1: The Collaboration Process



Graphic developed by Drabenstott and Morrison

A sustainable economic development strategy requires regional leaders to understand and accept the legitimacy of one another's needs and goals. As this basic sense of acceptance and understanding evolves through conversation, leaders and their organizations gain new insights into how they can align themselves for their mutual benefit. Innovative ideas emerge that incorporate diverse points of view and integrate different perspectives and needs. Strategic alignments emerge. These alignments are sustained through the mutual benefits they generate.

Collaboration starts by bringing public, private, and nonprofit economic actors together in roundtable, facilitated dialogue. The dialogue should take place in a "safe" space, in which participants can feel comfortable sharing difficult issues. This sharing requires a warm and permissive atmosphere in which participants feel secure and free to air their real thoughts and feelings. Richard Lester, in his recent work on the roles universities play in regional economic development, suggests that colleges and universities are well situated to play this role of creating and maintaining the "public space" where complex conversations can take place (2005).

The first task of regional leadership is to establish this climate in which honest feelings, whether hostile or friendly, can be accepted and discussed in an objective way. The skill comes in knowing how to release the creative talents of the team drawn together (Haiman 1951). This dialogue does not take place once; it is a practice that must be ongoing, sustained, and durable; it is a process, not an event. The dialogue must be open and transparent, assuring and reminding all parties that the goal is to grow the economy of the region, not advantage one partner over another.

As habits of participation take root, the group strengthens in a number of different ways. Participants become more innovative and flexible. Individuals find themselves more willing to change and adapt to new, more inclusive perspectives. They learn how to share their early stage ideas without fear of inappropriate personal criticism. They become more skilled at listening, which enables them to discover and acknowledge diversity inherent in the group. As this basic sense of acceptance and understanding grows, people learn to "think together" more clearly. Solutions emerge that integrate everybody's perspectives and needs. These collective solutions have the best chance of being implemented and sustained. The reason is simple: people tend to have the strongest commitment to solutions that they have helped create.

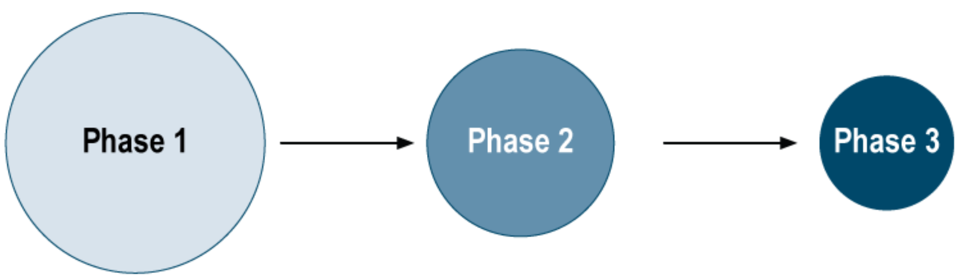
Finally, the dialogue must be focused on translating ideas into action. Collaboration, to be sustainable, should be disciplined, pragmatic, and fast. Few people have time for idle talk. The group needs, instead, to develop the habits of generating innovative ideas, defining clear outcomes, and launching experiments to learn what works. Economic development is an inductive process in which regional leaders learn by doing. The regions with established practices of experimentation, rigorous evaluation, and replication will be more competitive in the long run. They will learn faster, spot opportunities faster, and make decisions faster.

2.3.1.1 Phases of Regional Collaboration

The regional collaboration process evolves in phases, as the partners build trust and new habits of thinking together (see Figure 2).

Figure 2: Focused Regional Collaboration Builds through Three Phases

Effective regional leadership teams become tighter as they evolve toward the high level of trust and commitment needed to innovate



Leaders share interests in the region but have little history of working together on complex projects; pooling information starts the process of building an effective regional leadership team.

Leaders share information and through deeper conversation begin to develop shared mental models and shared strategic frameworks.

Leaders share goals of creating new solutions and become deeply committed to helping each other on specific projects; they share a common objective of regional transformation

Graphic developed by Drabenstott and Morrison

Phase 1: Pooling Knowledge

The first phase involves pooling knowledge by mapping regional assets. During this phase, partners share what they know; by sharing information, they create a common pool of knowledge about the region's assets. These assets take many forms: colleges and universities, unique scenery, workforce skills, local ownership of companies, a large pool of local capital that can finance start-ups, a regional history of innovation, or natural resources like soils, forests, or minerals. Local actors bring significant knowledge about the extent and quality of these local assets. This knowledge has great value both in setting strategy and prioritizing investment. This knowledge transcends secondary data and cannot be deduced from an analysis of data alone. Pooling knowledge will yield a critical map of the region's assets, and also represents the first step in crossing organizational and political boundaries (Council on Competitiveness 2007).

This knowledge pooling provides a powerful complement to the analysis and almost always uncovers opportunities that data alone cannot, as shown in the following examples.

- Tourism barely registers as a business cluster in the WAEM region, yet local roundtables uncovered powerful tourism assets, notably the rich civil rights history of the region.

- Similarly, the business services cluster is barely visible in regional data for the Riverlands region in eastern Iowa, southwestern Wisconsin, and northwestern Illinois. Yet business leaders see strong potential in this budding sector due to an outstanding constellation of higher education institutions. That inherent knowledge of the region was recently confirmed when IBM opened a new technical assistance center in Dubuque that will employ as many as 1,300 workers.

- Connecting assets in new and different ways led leaders in Southeast Wisconsin to uncover strengths in fresh water technologies. The same process led Indiana to recognize an emerging cluster in advanced energy systems.

Phase 2: Broadening Frameworks

The second phase involves broadening frameworks for regional action. Many development actions remain largely the province of local institutions. Broader frameworks are needed to coincide with the economic geography. This step involves creating new patterns of thinking—new mental models—among the partners. Typically, partners enter into regional discussions tightly tied to promoting their organizational and political agendas. They are biased toward protecting boundaries, not expanding economic frontiers.

To reach across these boundaries, the partners need to engage in new conversations explicitly designed to identify promising, mutually beneficial opportunities. In this way, the partners gradually move away from the winner/loser mindset typical of outdated economic development strategies. In the case of both the water cluster in Southeast Wisconsin and Indiana's network in advanced energy systems, workshops and retreats helped the region's leaders explore and understand their new market opportunities.

Phase 3: Making Commitments

In the last, most advanced phase of collaboration, the partners make the commitments critical to becoming a competitive region. They agree to link and leverage their assets, set joint investment priorities, and establish protocols for making complex decisions. To take this step, the partners must draw on the trust built in the first two phases of the collaboration process. The net result of this collaboration is a powerful alignment of investment decisions in the region. With Southeast Wisconsin's water cluster, private companies quickly aligned to support a new anchor investment by the University of Wisconsin–Milwaukee in a new school of Fresh Water Science (Schmitt 2009). In the case of the Indiana Energy Systems Network, private companies, through the Central Indiana Corporate Partnership, stepped forward quickly to invest in the effort (Katzenberger 2009).

By contrast, regions that fail to align their investment actions often fail to exploit the synergies bound up in their economic assets. In fact, in many regions, investments often run at cross purposes (as illustrated by the left side of Figure 1). While each organization may be following sensible strategies, a sense of fragmentation prevails. Lack of communication leads to conflict, and these conflicts drain away time and resources. Such regions do not attain the synergies that partnership and coordinated actions bring. They cannot bring promising initiatives to scale. As a consequence, these regions cannot make or sustain the new pattern of investments needed to transform a region.

2.3.1.2 Regional Transformation

Regional economic transformation takes place through consistent, focused and coordinated short- and long-term investments by public, private and philanthropic organizations. No one organization within a region is in a position to dictate these strategies. They must emerge from focused conversations, shared insights, and coordinated actions. Two concepts are critically important to understanding this process of regional transformation:

- **Alignment:** This refers to a shared framework of thinking and acting together. When regional leaders are aligned, they share common understandings of competitive challenges and opportunities within a region. West Michigan presents the clearest case of how regional leaders create alignment by defining a common framework for thinking and acting (West Michigan Strategic Alliance 2009).

- **Linking and Leveraging**: This refers to the process of making investment commitments in a coordinated way. Linking involves a process of forming both informal and formal partnerships. Leveraging involves making investment commitments that mutually reinforce each other. Leveraged investments have the potential for higher returns than uncoordinated investments. In the case of Southeast Wisconsin, the regional leadership has adopted the phrase "linking and leveraging." To them, it emphasizes that regional transformation will take place when organizations go beyond conversation and make joint investments. So, for example, within the Southeast Wisconsin Water Council, one company operates a nationally recognized lab for cold water technology. Another company operates a similarly prominent lab for hot water technology. Both labs are not fully utilized. Through a joint commitment of the two companies, they are making these labs available to smaller companies in the region to conduct research and testing. By making these facilities available in a coordinated way, the established companies are sending a powerful signal to stimulate innovation among smaller companies.

2.3.2 Analysis

Beyond collaboration, analysis represents a second, parallel process that must support effective regional strategy. Analysis is the process by which the wide range of *the possible* becomes a focused strategy of *the most promising*. An unfortunate legacy of the recruitment era of economic development is that economic development often descends simply to "trolling"—putting out lots of financial enticements and seeing who strikes the bait. Such incentives pay diminishing returns in a globalizing economy where cheap labor and land can be found in literally thousands of locations. The practice of strategy is reduced to "targeting," which simply means compiling a list of promising candidates for relocation or expansion.

New approaches to regional strategy require a more balanced, disciplined approach. The overriding objective is focus—identifying economic niches. Within these niches, the region has a competitive edge to withstand the pressures from global markets. So, for example, rural communities may have an advantage in providing an onshore platform for technology development (Information Technology Association of America 2007).

These are four different, and at times overlapping, approaches to analysis: mapping assets, structural analysis and industry clusters, occupation clusters, and measuring innovation.

2.3.2.1 Mapping Assets

Productive regional conversations often start with an understanding of the region's economic assets. Successful strategies for community development have long focused on the importance of building communities from the "inside out" by building from the base of a community's assets (Kretzman and McKnight 1993). The same is true for regions. Competitive strategy begins with mapping regional assets. (Council on Competitiveness 2007)

Listing regional assets represent an important first step in developing a strategy, but valuable strategic insights emerge when the participants start to explore linkages among these assets. The participants begin to explore the important question, "What could we do together?" Exploring this question gives rise to more inclusive opportunities, as participants learn more about each other's assets, perspectives, and goals. As participants learn to trust each other, they become more productive at generating new ideas. They share early stage thinking, suspend judgments, and acknowledge diverse contributions.

Generating innovative ideas represents the first step in designing a regional strategy. Progressively, the participants must begin to narrow their choices. The conversation moves from "What could we do together?" to "What should we do together?" Effective regional strategies emerge from a disciplined process of comparing alternatives.

Ultimately, economic development investment decisions must face a market test. Analysis shows how investment alternatives will connect to and influence the risks and returns of a market. Each alternative will have a profile of risk and return. Without this analysis, the process of economic development can quickly degenerate into horse-trading, self-dealing or corruption. Fortunately, many emerging tools can be brought to bear on this difficult task (see Table 1).

Table 1: A Toolkit for Regional Development Analysis

Tool	Outputs	Inputs	Benefits	Limitations
Structural Economic Analysis	Industries that are specialized or concentrated in the region ("competitive advantage")	Employment data	Identifies areas of economic strength compared with the nation	Ignores income effects and which opportunities will enhance income.
Industry Cluster Analysis	Key constellations of business firms in the region	Government business data	Shows patterns of established and emerging business strength	Looks backward, not forward. More static than dynamic.

Tool	Outputs	Inputs	Benefits	Limitations
Occupation Cluster Analysis	Key constellations of workforce skills in the region	Occupational Information Network (O*NET), U.S. Department of Labor	Shows patterns of labor skills, especially valuable in charting economic transformations	Looks backward, not forward. More static than dynamic.
Innovation Indices	Measures of innovation for the region	Economic and demographic data	Benchmarks the region's ability to innovate against the nation and other regions	These are proxies for the factors that are believed to drive innovation. Innovation is difficult to capture.

2.3.2.2 Structural Analysis and Industry Clusters

Structural analysis assesses the existing industry mix in the region and notes areas of distinct specialization. Industry cluster analysis provides a picture of established and emerging constellations of businesses. These clusters represent the concentration of firms where the regional economy is currently generating its wealth. They point to market niches where business firms are signaling either established or potential areas of excellence. Development of a cluster identification and evaluation tool was the major focus of the EDA-funded Rural Competitiveness project, which is available online at www.statsamerica.org/innovation/report_role_of_regional_clusters_2007.html.

2.3.2.3 Occupation Clusters

Occupation clusters provide a similar picture, but through the lens of the skills, abilities and know-how of workers instead of businesses. This perspective is especially valuable in a region that must undergo a major economic renewal due to the dislocation of one its major industries or natural disaster. In a global economy, any region's unique strength starts with its brainpower, the skills, education and experience of its residents. Until recently, economic developers have had very limited tools to understand the brainpower embedded in their region. Occupation cluster analysis provides a powerful, promising new tool for measuring these assets, and it is an important focus of the present research report (see Chapter 3).

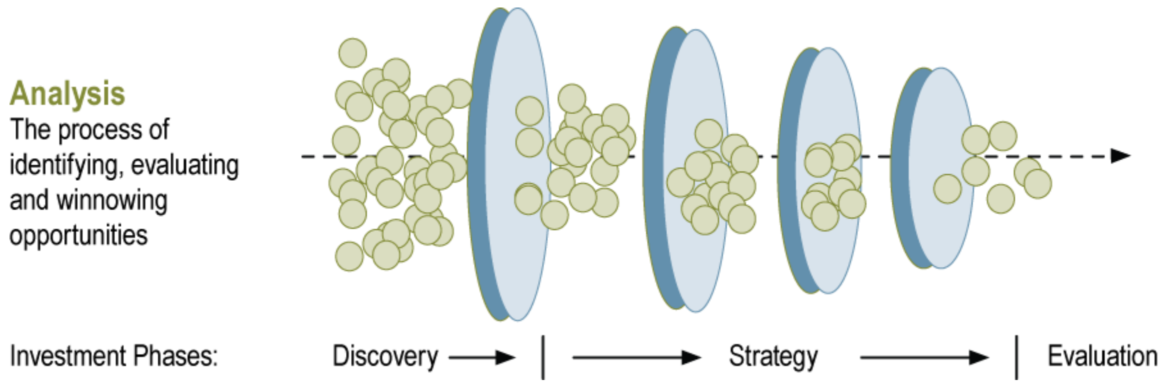
2.3.2.4 Measuring Innovation

Finally, innovation indices provide an overall picture of a region's capacity to innovate and transform its economy. Such information is especially useful in gauging how adept the region may be in exploiting new and emerging industries. Regional innovation indices are another important focus of this report (see Chapter 4).

2.3.2.5 Summary

Regional analysis is essentially a "winnowing" process (see Figure 3). A region has many economic opportunities. Analysis first identifies those opportunities that seem to match up with the region's competitive advantage. It then evaluates the potential impact of these alternatives, the critical information that allows the partnership to winnow the field to those holding the greatest promise.

Figure 3: The Analysis Process



Graphic developed by Drabenstott and Morrison

2.3.3 Coaching

Bringing a region's many public and private actors together to act in a coordinated way presents a challenge. Collaboration and analysis take a practice to master. Within most regions, they are disciplines that are not widely shared. Furthermore, few regions have an established process to forge a unified leadership team with these new habits of collaboration and analysis.

To overcome their inexperience, regions often rely on a third component of a strategic process: coaching. In the end, trust is the ultimate currency of regional action. A neutral leader (a coach) can build new bonds of trust by communicating effectively with all parties—public, private, and nonprofit alike—as the strategy process unfolds. An effective coach is also a good umpire. The coach helps mediate differences and ensures that basic rules of civility guide conversations. Effective coaches are masters of balance: promoting transparency while respecting confidences; seeing the larger patterns while focusing on next steps; accepting ambiguity while insisting on specifics; and respecting process while demanding outcomes.

The coach guides the design of an entirely new regional strategy process, coordinates that process, and connects collaboration to analysis in complementary ways. In Europe, a new metaphor has emerged of "triple helix innovation." This insight captures the process of weaving together the interests of business, government and education to promote innovation. Connecting these interests involves a continuous, dynamic process, and regions often rely on coaches to guide them.

Put another way, the coach must be comfortable with both promoting regional dialogue and conducting (or at least understanding) regional economic analysis. Effective coaches understand the power of conversation to build collaboration and the power of analytics to build understanding. To be effective, the new regional team must be capable of designing a clear strategy and implementing a complex investment action plan. In most regions, this collaboration emerges from a new process of coming together to think and act in the best interests of a newly defined region.

Coaching involves more than facilitation. The process identifies, clarifies and promotes intersections of mutual interest among the parties. The coach enables the parties to see their interests in a new frame and to see larger patterns. The task is tricky because it entails both an analytic mind and an intuitive feel. The coach represents a new type of civic entrepreneur focused on designing this process and building the habits needed to sustain it (James Irvine Foundation 1998, 2005).[6]

As regions experiment with new forms of collaboration, the role of regional coach is emerging as a clear and distinct role—although such coaches currently seem in short supply in regions across the United States. Consultants, university groups, and public agencies are all working to fill this gap. There is no one right answer to who should be the regional coach, but the role seems critical to success in most regions.

2.3.4 Summary

The regional strategy process represents an intertwined combination of three interconnected processes: collaboration, analysis, and coaching. Today's regional development demands weaving these strands together. It is not enough to forge partners into a vibrant partnership. Without analysis, the partnership will not know which economic opportunities offer the best chance of success with the highest returns. At the same time, it is not enough to conduct analysis without developing the capability among the partners to make complex decisions. If regional leaders do not have the skills to think and act together, no amount of data can overcome this weakness. Any regional analysis will suffer if it does not tap the pooled knowledge of regional actors, and any analysis—no matter how compelling—will only be a three-ring binder without a region-wide collaboration and partnership to implement it.

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[6] For more on the steps needed to build collaboration, see David Straus, *How to Make Collaboration Work* (2002).

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