

Economic Development Alliances

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Introduction and historical perspective

Metropolitan and rural regions around the world compete to attract enterprises (private companies, NGOs, parastatals, and government agencies) that offer well-paying jobs. Economic globalization and new technologies make necessary, and at the same time make possible, new strategies for economic development (ED). Increasingly, these new strategies involve intra-regional and inter-regional alliances.

Three forces create the context for these alliances:

1. Information and communication technologies (ICT) make all modern strategic alliances possible. ICT facilitates the continuous and intense exchange of information that sustains a relationship, rather than a simple series of transactions, between two parties.
2. ICTs have produced an unexpected social phenomenon: Users find themselves communicating with kinds of people and organizations that they have never interacted with previously.
3. The companies that produce ICT and other technologies – computers, software, microchips, biotechnology, telecommunications – are exactly those that offer a growing number of highly remunerative jobs to an educated workforce.

Consequently, regional authorities (and individuals in the regions who see the implications of the changing economic and technological environment) are building alliances with unlikely partners to attract jobs to their locales. These partners may be on the other side of the world, or may be in a different industry or in a different social stratum in the same town.

According to Shapira, Roessner and Barke (1995), economic development via industrial innovation is “a complex problem, involving... issues of business relationships and practices, institutional linkages and inter-firm networks, and public-private cooperation.” As is fitting for responses to a complex problem, ED alliances take many forms, defined by their initiating agencies, memberships, objectives, funding, and lines of authority or communication.

This article sets forth a taxonomy of these alliances, with examples of each type of initiative. The several kinds of public-private partnerships are categorized. A reference list enables readers to pursue more details about the various kinds of initiatives.

Background

Economic development

Blakely and Bradshaw (2002) define economic development as “a process in which local governments or community-based (neighborhood) organizations engage to stimulate or maintain business activity and/or employment.”¹ The Georgia Economic Developers Association² defines ED as “a sustainable process of creating economic opportunity for all citizens, stimulating business investment, diversifying the public revenue base, and enhancing quality of life.” According to Doctor et al. (2004), ED is the “growth and diversification of business activity that creates jobs, income and wealth, and creates investment that generates municipal revenue to fund facilities and services that maintain and enhance quality of life.” ED *programs*, Doctor et al. continue, are “specific activities

¹ See also <http://www.burbankca.org/redevelopment/wied.html>

² <http://www.geda.org/misc/definition.htm>

designed to increase jobs and help businesses start, expand, move into or remain in the area.” See also Phillips, Vallejo and Mhondo (2005).

The Greater Austin (Texas) Chamber of Commerce has been very successful in the activities noted above. Yet its own definition of ED is restricted to the marketing of the Austin area, that is, attracting companies. Where other definitions would include hard infrastructure development, work force development, and creation of educational opportunities business-friendly environment as components of economic development, the Austin Chamber lists the latter activities separately from its ED programs.³

Many authorities agree (Phillips 2006) that the elements of successful economic development are:

- Physical infrastructure (including transportation).
- Recruitment of relocating businesses.
- Retention and growth of existing businesses.
- Incubation of new businesses and encouragement of entrepreneurship.
- Work force development.
- Innovative organizations and partnerships that make the above activities work better in one city than in another city, and thus make one region more attractive than another for workers, executives, and firms.

Globalization vs. localization/regionalization: Industry clusters

Peter Drucker (1997) wrote that the three great trends of the next decades are globalization, regionalization, and localization. The innovative, globalized industries that provide job growth have factories and markets worldwide. Their ties to local regions are weaker than were those of traditional industries. However, these newer industries “multi-localize” by customizing their products for local markets, and by relying on the local availability of educated, skilled workers. The latter is the leverage that metropolitan areas retain over global corporations: Build a qualified workforce that (due to local quality of life) does not want to move away, and the companies will come.

Then the companies’ suppliers and industrial customers will locate nearby, because knowledge industries depend on the transfer of skills and knowledge up and down the value chain. When enough buyers, sellers and knowledge workers cluster in one location, a *critical mass* is said to exist. This critical mass implies that more companies and workers will continue to in-migrate (even without further active ED efforts), and that the industry cluster is unlikely to be dislodged from the locality.

Malecki (1997, p.174) notes the cluster phenomenon is composed of proximity effects (e.g., lower transportation costs) and socialization effects (“collective learning, cooperation, and socialization of risks”). Regional governments and non-governmental initiatives are taking on the task of encouraging cluster development on these dimensions.

Regionalization has to do with the growing importance of metropolitan regions as economic units (see Ohmae, 1996). Regions, sometimes smaller than states or provinces and sometimes bigger, and sometimes straddling state or national borders, are eclipsing city, state and national governments in their ability to create economic change. Economic development alliances are one of the vehicles by which they do this.

The “cluster” concept (Porter, 1998) focuses on one industry (and closely supporting supplier industries) at a time. Regional ED initiatives naturally wish to develop multiple industries for a balanced economy and for a healthy, wealthy populace. Cluster initiatives are therefore only one component of a total ED effort. All ED efforts, however, must recognize the cluster phenomenon.

Information and communication

Technological and social change. Economic globalization and new technologies make necessary, and at the same time make possible, new strategies for economic development (ED). Increasingly, these new strategies involve intra-regional and inter-regional alliances.

Three forces create the context for these alliances:

1. Information and communication technologies (ICT) make all modern alliances possible; without ICT, cooperation between enterprises could be achieved only through the traditional mechanisms of vendor relationships, mergers, acquisitions or joint ventures.
2. Everett Rogers (see Phillips, 2006) told the story of tension between homeowners and the homeless in Santa Monica, California, and how it was ameliorated by an online discussion board and free Internet terminals in public spaces. In the same way, innovative alliances brought together Austin, Texas’ multimedia and electronic arts communities with traditional software and electronics companies for the first time. Both instances illustrate how ICT leads

³ <http://austinchamber.com/TheChamber/AboutTheChamber/index.html>

to unexpected interaction among more kinds, and more different kinds, of people and organizations, thus opening new avenues for creative cooperation.

3. High-technology companies have provided most of the job growth in developed countries in recent years (DeVol 1999).

Social capital. Coleman (1988) first defined social capital as the propensity of a society and its members to spontaneously form organizations. Civic organizations, trade associations, professional societies, book groups and sewing circles all contribute to social capital, and Coleman noted that organizations such as these – wider than family ties, yet not initiated by the state – indicate the society's ability to form the trust-based social networks that speed innovations through the social fabric. In places where ED alliances are not initiated and dominated by governments, and sometimes even where they are, a high level of social capital significantly increases their chances of success.

Growth in high technology jobs. In 1999, the Milken Institute (DeVol, 1999) reported that two thirds of economic growth in the 1990s in U.S. metropolitan regions was due to high technology industry. As a result, today, more and more regions are attempting tech-based economic development initiatives (Phillips, 2004).

These regions' historical evolution, educational infrastructure, and social capital stock make them "virtual organization breeding environments." Galeano et al (2005) relate the latter concept to high-tech clusters around the world; see also Afsarmanesh and Camarinha-Matos (2005).

Alliances vs. transactions

ICT allows suppliers with many customers (and institutions with many constituents) to stay current on the changing needs of each stakeholder, and (with good management) to respond accordingly. See Lynch (1993) and Bensaou (1999). The transaction vs. alliance distinction is not binary, however. Different levels of inter-firm collaboration (Malecki, 1997, p.181) range from industry association membership (at the most arm's-length end of the spectrum) through industry cooperative innovation, learning collaboratives, shared resource networks, joint marketing networks, and customer-supplier networks. Finally, co-production networks represent the tightest alliance arrangement short of the total merger of two organizations. Trust is a key element in each type of alliance (Sabel 1992; Fukuyama 1995), with the progression from arm's length, market exchanges to trust-based cooperation taking about two years in the typical new relationship (Malecki op.cit., p.180).

Khisa (2005) writes,

Several studies have stressed the importance of supplier relationships and the need to create partnerships (e.g. Kerns, 2000) [in which] both vendor and suppliers stand to gain. A partnership represents a long-term relationship embedded in the strategies of each of the partners (see e.g. Koza and Lewin, 2000). Paramount are a high level of commitment, mutual dependency, trust, and long-term orientation, with sharing of vital and strategic information and risks and rewards.

All the characteristics noted by Khisa are essential for ED alliances.

Public-private partnerships

When one or more partners in an alliance is a government entity and at least one is a private organization, the alliance is called a public-private partnership, or PPP (Osborne, 2000). A PPP can be a contractual relationship in which the private entity invests in, builds, operates, or eventually owns a government facility or program (Khisa, 2005). The reverse can be true, with the government investing in or operating a program originated by the private sector.

The object of the PPP may be a bridge, a hospital, a road, or a marketing program. It may be informal (as opposed to contractual), with the government providing small amounts of money on an as-able basis and the presence of government officials at milestone events of the PPP. The Austin Technology Incubator, an important showcase for ED in Austin, Texas in the 1990s, was just this kind of informal PPP. In Pennsylvania there is a PPP between a Chamber of Commerce and OSHA, a US government agency, to expand access to information and training for worker health and safety.⁴

According to Malecki (1997), such public-private interaction "is seen as key to creating supportive local institutions" for economic development.⁵

Summary

⁴ http://www.osha.gov/dcsp/alliances/regional/reg3/greater_hazleton_final.html

⁵ See also <http://www.ippps.com>, and the *International Journal of Public-Private Partnerships*, ISSN 1463-371X.

The paragraphs above have explained the complex of new phenomena – globalization and regionalization, online interaction, communication networks linking diverse social groups, social capital, industry clusters, high-tech employment growth, diffusion of innovation, social conservatism or innovativeness, and PPPs – that drive new kinds of cooperative civic and for-profit initiatives. We now turn attention specifically to how these phenomena drive economic development alliances.

ED Alliances

In 2006, the Province of Limburg (Netherlands) approached Maastricht School of Management about leveraging the School's expertise in Chinese industry to become both a researcher and an attractor of Chinese corporate overseas installations. This will be an alliance of the School and the Province for economic development.

Phillips (2006) emphasized adaptive business and social networks as the basis of regional competition for growth. His further emphasis on social capital, especially with cross-sectoral links and outreach and networking with distant regions, point to cooperative and alliance-based strategies as the most promising for economic development.

Malecki (1997, pp.170ff) agrees that informational and social networks are essential for success. At the firm and inter-firm level, "a functioning network of firms is an essential phenomenon for local development... Primarily through informal channels of communication... firms enhance their technological and product capabilities by learning from customers and from suppliers, by interacting with other firms, and by taking advantage of spillovers from other industries." Small firms, he says, are likely to turn for this knowledge to local information brokers and facilitators, in the employ of a city or a university, who work toward the development of the community as a whole.

Malecki (1997) and Phillips (2006) further agree that ED success is tied to local values – social attitudes toward education, change, entrepreneurship, and risk. The existence and visibility of entrepreneurial role models and investment capital networks are also key, as is the region's links to other networks in other regions. These values, at first most visibly promulgated by the social center (the "power elite," in Malecki's phrase) evolve over time as the new pathways of communication help the elite appreciate innovation and entrepreneurship, and help the fringe innovators appreciate finance, marketing, and civic engagement.

Purposes of ED alliances.

Gloor (2006) maintains that ED alliances serve to expose "creative new directions" for a region. Malecki (1997, p.178) notes three functions of the alliances: To "channel government resources in right direction," to "subsidize intermediaries," and to "directly fund ways to increase absorption capacity of firms by sharing risk." He adds they may further define their purpose as for "service and assistance," for "information and structuring, or for "entrepreneurship and product development." ED alliances may also serve goals of development assistance to lagging regions (Phillips, 2005).

Types of ED alliances

ED alliances can be bilateral or multi-lateral, and may take many forms, defined by their memberships, objectives, funding, and lines of authority. It is rather rare, especially in the United States, for such an alliance to be confined within a single sector (industry, government, education, non-profit, or press). Rather, public-private partnerships (PPPs) are coming to be the norm. Examples of ED alliances include:

- Alliances among municipalities.
- Alliances among different levels of government.
- University-driven (town and gown) initiatives.
- Alliances across industry sectors.
- Alliances driven by quasi-public entities.
- Chambers of commerce.
- Investment promotion agencies.

The alliance initiatives may be driven and funded by (public or private) utility companies, directly by governments, or via "spontaneous" non-governmental initiatives. The alliances may be directed at general or overall economic development, or may take on a specialized focus, becoming an alliance for technology development, an alliance for educational exchange and/or workforce development, or an alliance for entrepreneurship development.

Examples of ED alliances

Cooke and Morgan (1998) provide in-depth studies of how firms associate with regional agencies in four European regions: Baden-Wurtemberg and Emilia-Romagna as established regional economies, and Wales and the Basque Country as learning regions. Cooke and Morgan emphasize the

importance of decentralization, i.e., voluntary networks and alliances for industrial development. They conclude that “the associational economy may be the third way between state and market coordination of modern economies.”

One of the most-admired alliances in the USA is the Ben Franklin Partnership,⁶ which “brings together the best of Pennsylvania's people, ideas, and technology to serve as a catalyst for advancing the state's knowledge-based economy.”

The Massachusetts Alliance for Economic Development was founded in 1993, as a private-public partnership “to encourage the expansion and retention of business within the Commonwealth.” MAED, a consortium of utility and telecommunications companies, real estate associations, and the (governmental) Massachusetts Office of Business Development, is non-partisan and professionally staffed. Over the years, MAED has upgraded its offerings to encompass a wider range of decision support services for companies considering a move to Massachusetts. The alliance has expanded to include firms in law, architecture, construction, and finance.

Not all ED alliances are such paragons. Malecki (1997, p.267) criticizes the “dirigisme” of the French and Japanese technopoles (see also Gibson, Kozmetsky et al, 1993), and notes the “weak institutional environment” of southern California. This criticism may be especially cogent in the case of Orange County, where an abundance of small manufacturing companies is not complemented by cooperative organizations nor by sufficient facilities for vocational and higher education, and thereby leaves further wealth and growth on the table. See also Stuart's (1997) study of failed alliances.

ED alliances may also take the form of several local chambers of commerce cooperating with one another (for example, evcca.org in Arizona), or networks of university and corporate laboratories worldwide cooperating on social and infrastructure research relevant to economic development. An example of the latter is the Center for Teleinfrastructure, headquartered in Denmark.⁷

The future of ED alliances

The great variety of initiatives demonstrates that these networked organizations are in an early stage of their evolution. It is not yet clear which are most applicable in a given regional situation, which have general applicability across regions, which are highly specific to their respective regions, or which will survive as stable models for the long run.

Many commentators are skeptical about the potential for government policies to engender creative regions. Indeed, government fiat cannot create an entrepreneurial and networking culture. See Butler and Hansen (1991). Malecki (1997, p.180) concludes that “what matters most is the ‘social system’ by which packages of programs [are] defined and administered, rather than the precise definition of any single program or service.”

Testa (2006) expects ED alliances to move toward activities involving “higher mental-input” and longer-term orientation, i.e., from administering to influencing, planning, and researching; and to tasks involving greater complexity (moving from organizing events and disseminating information to marketing, restructuring, improving productivity, and enhancing labor force, infrastructure, and social climate).

Phillips (2004) notes the potential of World Trade Organization treaties to compromise the ability of ED agencies and alliances to conduct ED programs. Pending WTO actions would prohibit, for example, requiring a quid pro quo (e.g., environmental or employment guarantees) from companies in exchange for tax reductions.

Conclusions

According to Malecki (1997, p.268), creating networked learning regions is one of the great policy challenges of the early 21st century. Of the extant initiatives, Malecki (ibid, p.180) continues, “what is perhaps most striking is the diversity in the origins, histories, local contexts and purposes of the networks.”

This article has set forth a taxonomy of economic development alliances, with examples of several types of such initiatives. ED alliances arise from a complex of new social phenomena and forces. Readers interested in further details on any of these social forces or ED initiatives may utilize the reference list below.

⁶ <http://www.benfranklin.org/>

⁷ http://www.aau.dk/orgadm/kontaktraad/bilag020604/prof_ramjee_praesent_020604.ppt

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Terms and definitions

Alliance. An inter-organizational cooperative arrangement designed to advance the long-term interests of all parties. Best described in terms of relationships, as distinct from a sequence of transactions, alliances are characterized by the trust and mutual commitment, and intensive exchange of information. They may be loose, as in trade association committee work, or close, as in a co-production network. All alliances are less formal than e.g., joint ventures, as alliances are not themselves corporate entities.

Associational Economy. Relationships and exchanges in which shared interests, knowledge transfer, and mutually imparted empowerment assume importance equal to or greater than the monetary value of the transactions.

Cluster. A collection of manufacturers, suppliers and customers, usually (but not necessarily) in a high-tech or knowledge-based industry. Clusters, via their proximity economies, engender the exchange of knowledge and skills that make alliances possible. At a certain critical mass, clusters generate their own growth and make further economic development of their region self-sustaining.

Economic Development. "A process in which local governments or community-based (neighborhood) organizations engage to stimulate or maintain business activity and/or employment (Blakely and Bradshaw 2002)." Alternatively, the "growth and diversification of business activity that creates jobs, income and wealth, and creates investment that generates municipal revenue to fund facilities and services that maintain and enhance quality of life (Doctor et al. 2004)."

Globalization. The liberalization of cross-border movement of the factors of production. The term is also used to refer to the treaties and organizations that create such liberalization.

Localization. Adaptation of products and production to the varied market conditions, cultures, and landscapes of individual locales. Localization is made possible by flexible manufacturing and "mass customization."

Metropolitan Region. A city and its near hinterlands. A metro region may involve two cities and the towns in between (e.g., Austin and San Antonio, or Dallas and Fort Worth), or many cities (Silicon Valley, encompassing Mountain View, Palo Alto, San Jose, etc.). Metro regions may cross state (Philadelphia-Camden) or national (Juarez-El Paso) borders.

Public-private Partnership. An alliance in which at least one participant is a government or government agency, and at least one partner is a private enterprise.

Regionalization. The growth in the importance of metro regions and larger regions (the Pacific rim, or the Dallas-Monterrey corridor), as changing technologies and sociologies reduce the relevance of existing state and national political boundaries.

Social Capital. The added potential for economic growth that stems from a population's propensity to form societies, associations and organizations for business, civic, and recreational purposes.

Technopole. Sometimes written as *technopolis*. A metropolitan region whose economic growth has stemmed principally from new wealth generated by technological innovation, via technology entrepreneurship and growth in knowledge-intensive employment.

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