

# KENAN INSTITUTE WHITE PAPER



**October 2018**

## COMMON GROUND: How to pursue a mixed strategy for economic development and come out ahead

**KI10201801**

## ABOUT MARYANN FELDMAN



Dr. Feldman teaches in the Department of Public Policy and at Kenan-Flagler Business School at the University of North Carolina at Chapel Hill. Her research and teaching focus on the geography of innovation, the commercialization of academic research and the factors that promote technological change and economic growth.

Among her honors, Dr. Feldman was awarded the 2013 Global Award for Entrepreneurship Research. She is the editor of *Research Policy*, and has written for numerous journals, including the *American Economic Review* and *The Brookings Papers on Economic Policy*. She earned a doctorate in economics and management and a master's degree in public policy analysis from Carnegie Mellon University.

## ABOUT NICHOLA LOWE



Dr. Lowe joined the Department of City and Regional Planning at the University of North Carolina at Chapel Hill in 2005. Her research focuses on the processes and practices that contribute to more equitable and inclusive forms of regional economic development and labor market adjustment. She has consulted on projects for the International Labour Organization, Inter-American Development Bank, Banco do Nordeste, the Ontario Ministry of Economic Development and Trade, the Chicagoland Workforce Funder Alliance, the North Carolina Council for Entrepreneurial Development and the North Carolina Board of Science and Technology. Dr. Lowe earned a doctorate in economic development and planning from MIT.



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Like anyone trying to get something done with limited time and resources, economic developers have a lot of options to weigh when formulating a strategy to attract and retain businesses in their local economy. Over the years, economic development researchers have espoused a succession of theories as they've learned more about the many factors that influence economic growth. Historically, practitioners have tended to respond by focusing their efforts around what they perceive as the latest and greatest thinking, often at the expense of previously favored approaches. In practice, this has led to waves in which economic developers have focused on recruiting large, established companies or on fostering home-grown start-ups—but rarely both.

In a recent paper in *Economic Development Quarterly*, Professor Maryann Feldman, with the Kenan Institute of Private Enterprise, and Professor Nichola Lowe argue that solutions to America's current economic challenges—in particular the deepening concern over the loss of quality job opportunities and innovative capacity—could be enhanced if we recast entrepreneurship and business recruitment as complementary, rather than competing, goals. The two University of North Carolina at Chapel Hill researchers posit that by employing both approaches in a strategic mix, economic developers can create an integrated development portfolio that is greater than the sum of its parts. Using this blended strategy, economic developers can harmonize and reinforce their efforts to cultivate different types of players within a local business ecosystem, more effectively leverage established areas of expertise and practice and better align their activities to long-term regional development goals.

## LOCAL MATTERS

In the public eye and often in that of the research community, economic development is seen through a national lens, with a focus on federal agencies and initiatives. In its role supporting technological innovation, the federal government in some ways already takes a portfolio management approach. While it is difficult to “pick winners,” government agencies often can increase gains through a set of related technology investments, thus buffering against any individual failure (Rodrik 2014).

However, the state and local level is where the rubber hits the road. The decentralized nature of economic development strategy in the United States (Block 2008; Schrank and Whitford 2009) puts state and local economic development agencies in the driver's seat when it comes to shepherding federally-funded technologies from inception to market. In the process, localities have the opportunity to extend and capture more of the gains from public investment in innovative technologies (Lazonick and Mazzucato 2013; Feldman and Lowe 2017).

This means that the need for policy experimentation to support economic activity is often greatest and most immediate at the local level. By considering a more integrated, multifaceted approach, state and local governments can potentially reap greater rewards for regional innovative capacity and enhance the public return from federal and state investment in technology development.

### RECIPE FOR A STRATEGY MIX

Most economic development agencies can describe ways in which they support industrial recruitment and ways in which they foster entrepreneurialism. But in practice, these two arms of the field are often treated as separate entities, and pursued with separate assumptions, goals and resources, often to the benefit of one and the detriment of the other. Having a portfolio of strategies isn't just about diversification. If done well, a portfolio approach adds value by interlacing the strategies within it. This interlacing can spark novel ways of generating growth and puts individual strategies in a better position to respond to changing conditions and opportunities. For example, a blended approach can help economic developers take practices that have been traditionally used to lure established industry and reorient them toward anchoring and supporting high-growth entrepreneurial firms. Conversely, developers could enhance a region's innovation infrastructure by using targeted recruitment to broaden the network of firms that depend on it and that, in turn, can advocate for its further development.

Of course, portfolios can also fail. How can economic developers construct an integrated portfolio that will perform well? To be effective, portfolio approaches ideally should balance a set of policy alternatives or trade-offs. Formulating the right strategy mix requires state and local economic developers to undertake a creative process of defining community objectives, sharing existing knowledge and working toward common ground. A strategy mix should capture complex interactions among multiple organizations and actors, leverage different levels of government and distribute responsibility.

Careful attention may be needed to maintain the appropriate strategy mix over time. For example, a more established strategy may tend to overpower or cannibalize another. This risk is potentially magnified for a mix that includes industrial recruitment, especially given the tendency for elected officials to overstate its power in an effort to elevate their political

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standing (Rubin 1988; Imbroscio 1997; Markusen and Neese 2007). In such cases it may be important to incorporate strategies to sustain the established development portfolio in the long run.

## WHY NOW?

In the wake of the Great Recession and in the midst of ongoing economic restructuring, the jobs of America's economic developers have gotten harder (Stiglitz 2016). While there is great need in many communities for strategy innovation, practitioners are often expected to solve complex economic problems with fewer resources at their disposal. Strategy mixing offers a means for practitioners to do more with less by working together, transcending established professional boundaries to better coordinate and sequence economic support.

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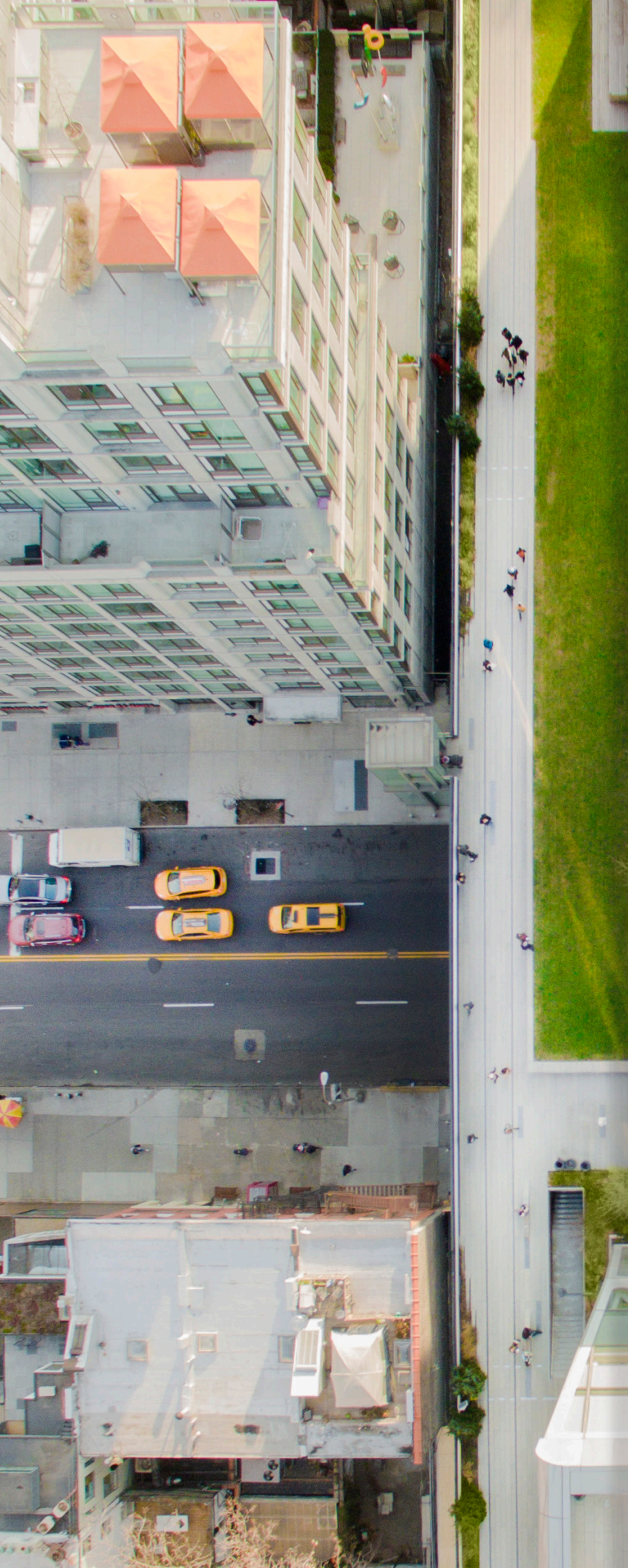
Of course, economic development strategies are not limited to industrial recruitment and entrepreneurial support. Another strength of a portfolio approach is that it offers a mechanism to address evolving objectives or to incorporate novel economic development strategies. For example, localities may have different areas of focus for their economic development efforts, such as addressing rising income inequality or adapting to climate change, which will influence their mix of strategies (Carley et. al 2011; Pender et. al 2014; Piketty 2017).

Not all strategy blends will offer automatic improvements over current practice. As these approaches are implemented, it will be important to glean lessons from practitioner-led efforts and work collaboratively to refine practices.



## NEXT

Case in point: The NC Biotechnology Center  
as a model for integrated economic development



## CASE IN POINT

# The NC Biotechnology Center as a model for integrated economic development

The North Carolina Biotechnology Center (Biotech Center), established in 1981, is the first state-funded bioscience economic development agency in the United States. Since 2011 the Biotech Center has combined expertise working with firms at opposite ends of the bioscience spectrum—early-stage entrepreneurial start-ups and recruited branch divisions of large, multinational corporations—to create novel strategies and tools for engaging, financing and assessing economic development targets. The result is more than just a simple balancing act within an established strategy portfolio. It involves mutual reinforcement whereby economic developers are jointly drawing insights and resources from separately defined strategy targets in order to support firms at all stages of technology development. The Biotech Center case therefore offers lessons for others wishing to strengthen support for innovative industry.



## ENTREPRENEURIAL SUPPORT

The Biotech Center has supported bioscience entrepreneurship by assessing risk, evaluating the commercialization potential of pre-revenue technologies and offering financing in the form of research grants (in its early years) and loans to businesses at various stages of development (now its predominant strategy). Between 1989 and 2011, the Biotech Center issued close to 160 loans to 110 distinct business establishments, totaling more than e\$18 million (NCBC 2014). Technical and networking assistance constitutes another major aspect of its strategy. Biotech Center experts connect early-stage firms to strategic partners such as multinational life science companies and help them secure external financing by facilitating meetings with investors. The Biotech Center's entrepreneurial team meticulously tracks the outcomes of its activities and loans, with the ultimate goal of improving firms' chances of long-term success.

## INDUSTRIAL RECRUITMENT

For its first two decades, the Biotech Center generally played a support role in industrial recruitment activities led by the state's Department of Commerce. That changed in 2001, when the Biotech Center, in partnership with the Department of Commerce, created an in-house recruitment position to proactively leverage the Biotech Center's deep expertise in bioscience business development to identify and engage bioscience firms before they needed to establish manufacturing facilities. By 2004, industrial recruitment in biopharmaceutical manufacturing was identified as a top-priority target for the Biotech Center, alongside continued support for bioscience firm formation. Between 2008 and 2014, the industrial development team worked on 31 successful recruitment and retention projects, generating a net gain of 2,300 jobs for North Carolina. These projects involved large-scale, multinational biopharmaceutical manufacturers including Novartis, Merck and Novozymes, as well as smaller, mid-stage firms with high growth potential.

## STRATEGY MIXING

As the Biotech Center's industrial and entrepreneurial development efforts proceeded in tandem, teams began to notice opportunities to combine their expertise to create novel strategies. A catalyst and test case for proactively advancing a combined approach came in the form of two experiences with two early-stage firms from outside North Carolina that expressed interest in finding new locations to support company expansion.

The first was Heat Biologics, a University of Miami spinoff focused on cancer immunotherapies. Company executives looked favorably on North Carolina given the state's deep scientific talent pool and extensive clinical trial infrastructure. As a pre-revenue firm incubated outside North Carolina, Heat Biologics did not fit a standard model for either the Biotech Center's entrepreneurship team or its industrial recruitment team. So, both teams played an active role. The industrial recruitment team provided company executives with labor market data and information on regional support institutions, while

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## CASE IN POINT: THE NC BIOTECHNOLOGY CENTER AS A MODEL FOR INTEGRATED ECONOMIC DEVELOPMENT

members of the entrepreneurial team contributed their expertise in cancer vaccines and gave specifics on the technical and networking assistance available for similar clinical-stage firms. The collaboration paid off. Heat Biologics opted to relocate its management team and research operations to North Carolina over other well-established bioscience regions in New York, Massachusetts and California.

The Biotech Center's entrepreneurship-recruitment partnership was further deepened through a subsequent recruitment deal involving Sequenom, a mid-stage molecular diagnostics firm based in San Diego, California. The company sought to establish an East Coast diagnostics facility to support its launch of an alternative blood test for Down syndrome. The N.C. Department of Commerce asked the Biotech Center's recruitment team for advice as they considered options for granting incentives to Sequenom. The Biotech Center's recruitment team, in turn, sought assistance from their colleagues on the entrepreneurial team in evaluating the terms of the deal. The end result was a novel arrangement that focused attention away from revenue generation and toward market capitalization. As a result of this customized recruitment effort, Sequenom selected Durham, North Carolina, over Dallas, Texas, for the new facility.

Since working together to recruit Heat Biologics and Sequenom, members of both teams have turned their attention to developing strategies to help North Carolina communities retain home-grown entrepreneurial establishments. One product of this collaborative effort is a program that allows local economic developers to apply for assistance from the Biotech Center to support negotiations with mid-stage bioscience companies that are at risk of being lured away from the state. Awardees get a modest grant and the Biotech Center helps facilitate a three-way exchange with the local developers and company executives to draft a contractual incentive agreement. In its first few years, the program has helped generate nearly a half dozen letters of intent to keep bioscience firms in North Carolina communities.

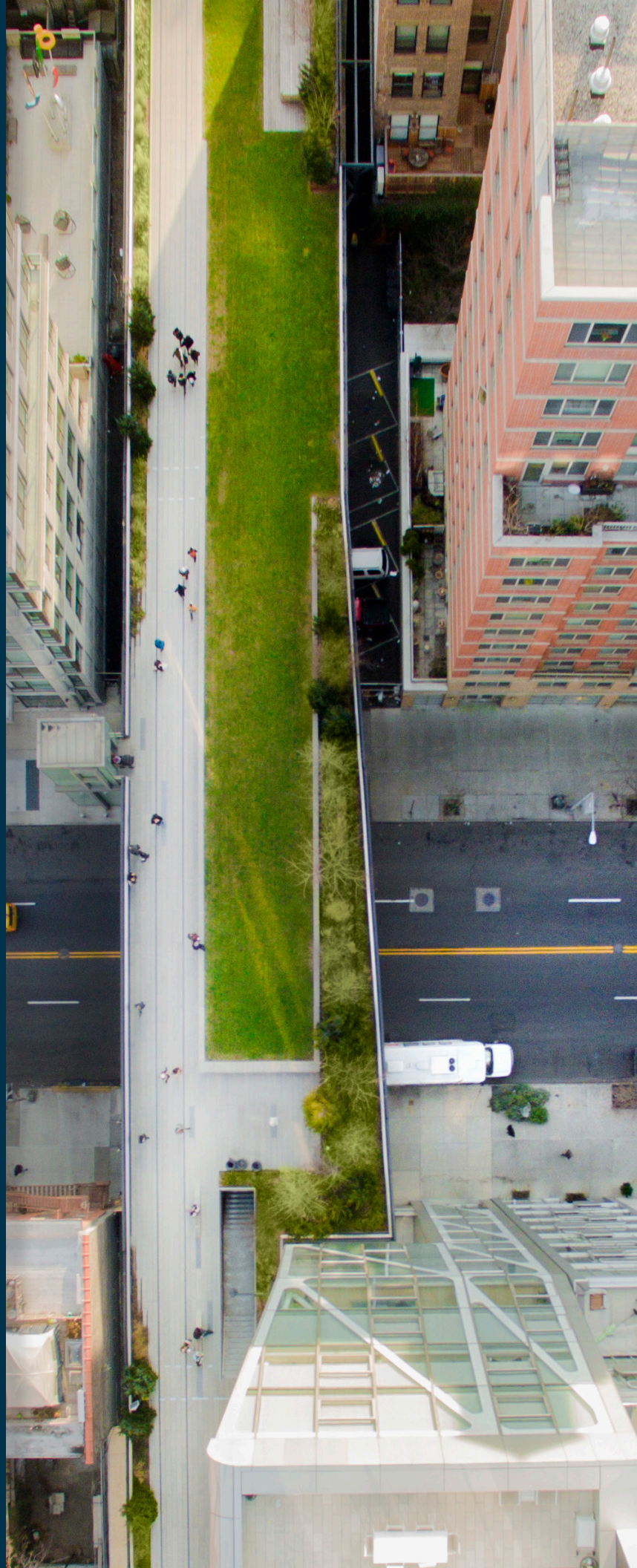
The Biotech Center's experimentation with strategy mixing is still in an early stage. Nevertheless, it is a useful example of what can happen when practitioners are encouraged to cross traditional professional divides and focus their efforts on forging intertwined economic development objectives. In this respect, this case provides a potential model for how other regions might advance support for innovative industry by bringing seemingly distinct development tools and targets into closer alignment.



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Established in 1985 by Frank Hawkins Kenan, the Kenan Institute of Private Enterprise is a nonpartisan business policy think tank affiliated with the UNC Kenan-Flagler Business School. The nonprofit institute and its affiliated centers convene leaders from the private sector, academic community and government to build a greater understanding of how entrepreneurship, economic development and global commerce can work for the public good. The institute leverages best-in-class research to develop market-based solutions to today's most complex economic challenges. In doing so, the institute aims to support businesses and policies that better the lives of people in North Carolina, across the country and around the world.



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