

The New Carolina Initiative



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What is State Competitiveness?

- Competitiveness is the **productivity** with which a state utilizes its human, capital, and natural endowments to create value
- Productivity determines **wages, jobs,** and the **standard of living**
- It is not **what** fields a state competes in that determines its prosperity, but **how productively** it competes

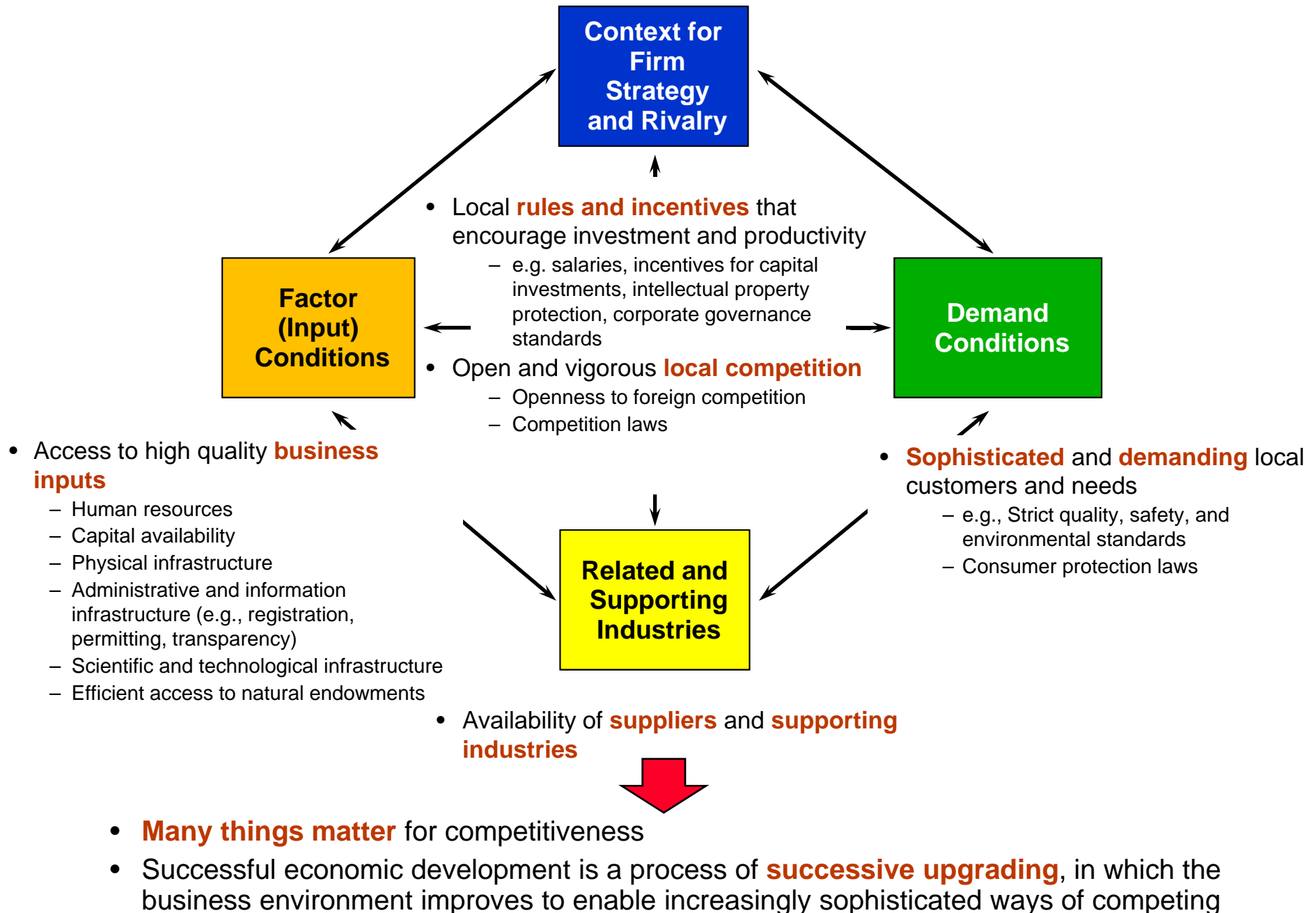
What Drives State Productivity?

**1. Quality of the
Overall State
Business
Environment**

**2. Cluster
Development**

**3. Close
collaboration
among
Government and
the Private
Sector**

Quality of the State Business Environment



South Carolina's Business Environment: Assessment

Context for Firm Strategy and Rivalry

- Difficult environment for start-ups
- Few local headquarters or core operations
- Limited local competition

Factor (Input) Conditions

- + Low cost of doing business: wages, taxes, rents, utilities
- + Flexible hard working labor force
- + Good logistics infrastructure
- + High quality technical colleges
- Weak K-12 and higher educational system
- Low skill levels in the labor force, mismatch with demand
- Relatively few advance degree holders: notably scientists and engineers
- Limited coordination between universities and companies
- Limited air access

Demand Conditions

- + Pockets of sophisticated industrial demand
- Consumer demand not as sophisticated or trend-setting

Related and Supporting Industries

- + Many institutions for collaboration
- Few high quality, specialized suppliers
- Limited interaction with local suppliers on product and process development

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What is a Cluster?

A geographically concentrated group of interconnected companies and associated institutions in a particular field



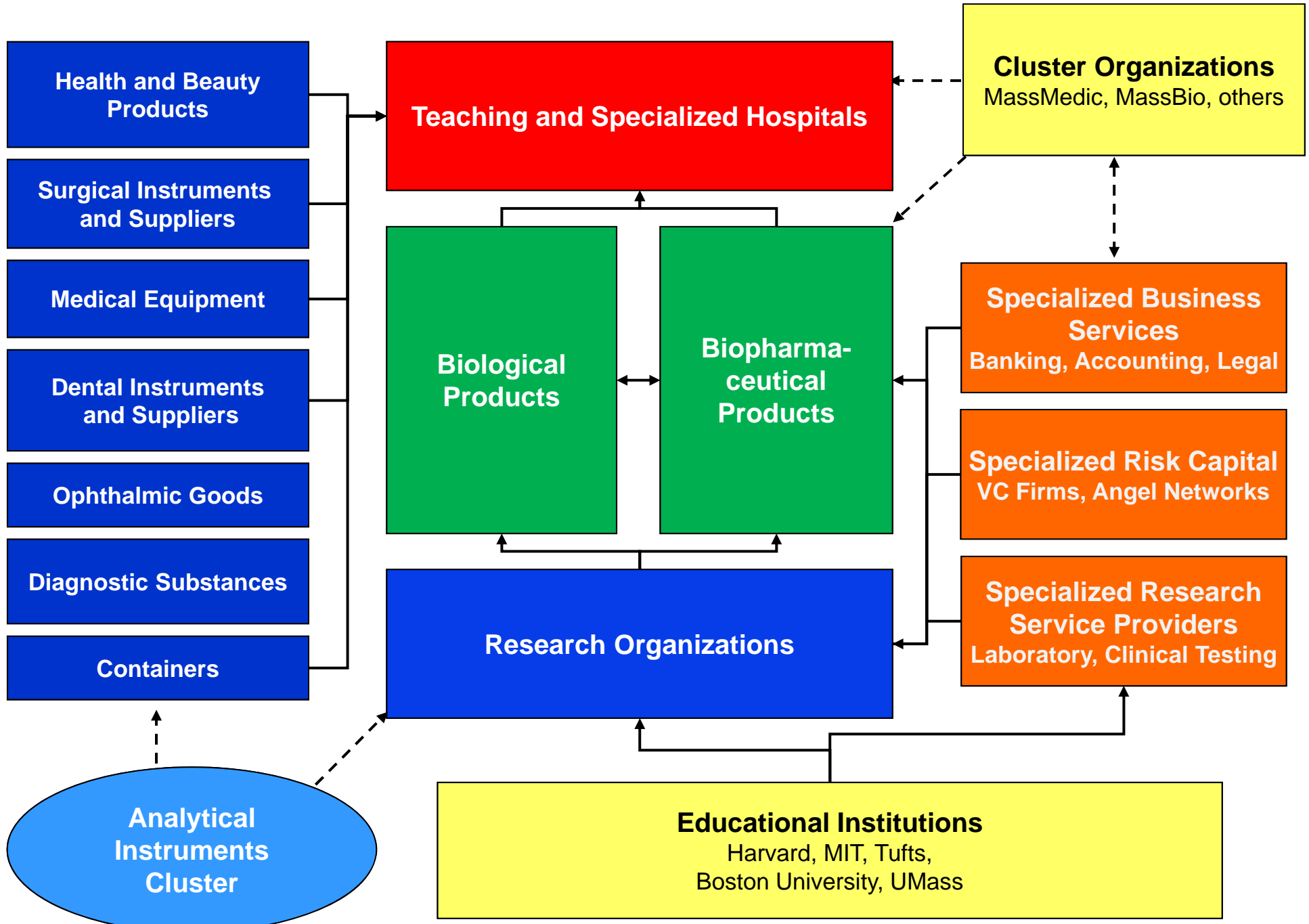
Traded Clusters

- Can locate anywhere
- Compete to serve **national** and **international** markets
- 30% of employment
- Drive long term economic growth

Local Clusters

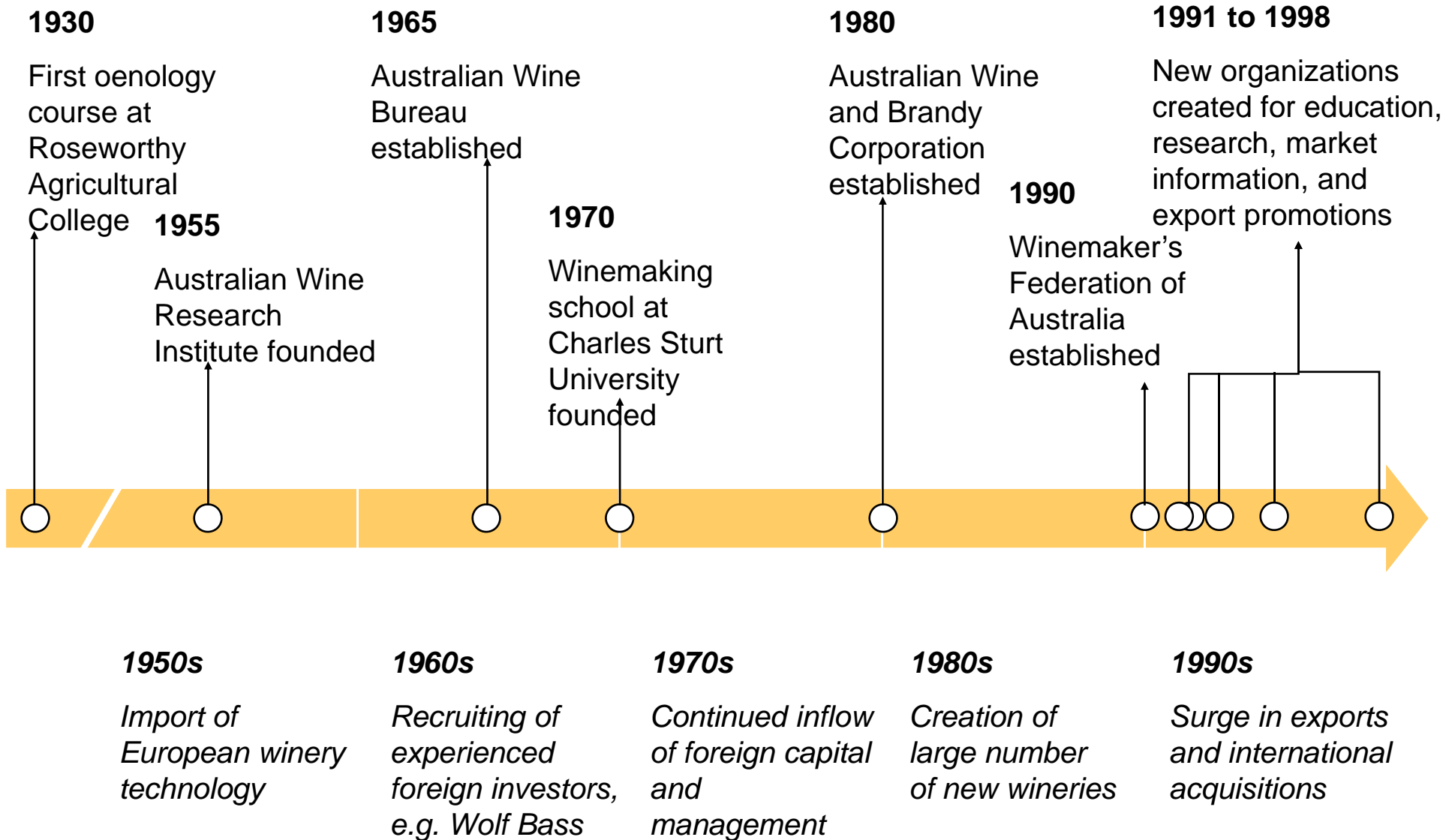
- Serve almost exclusively the **local** market
- Not directly exposed to cross-regional competition
- 70% of employment
- Affect state productivity

Example: Massachusetts Life Sciences Cluster



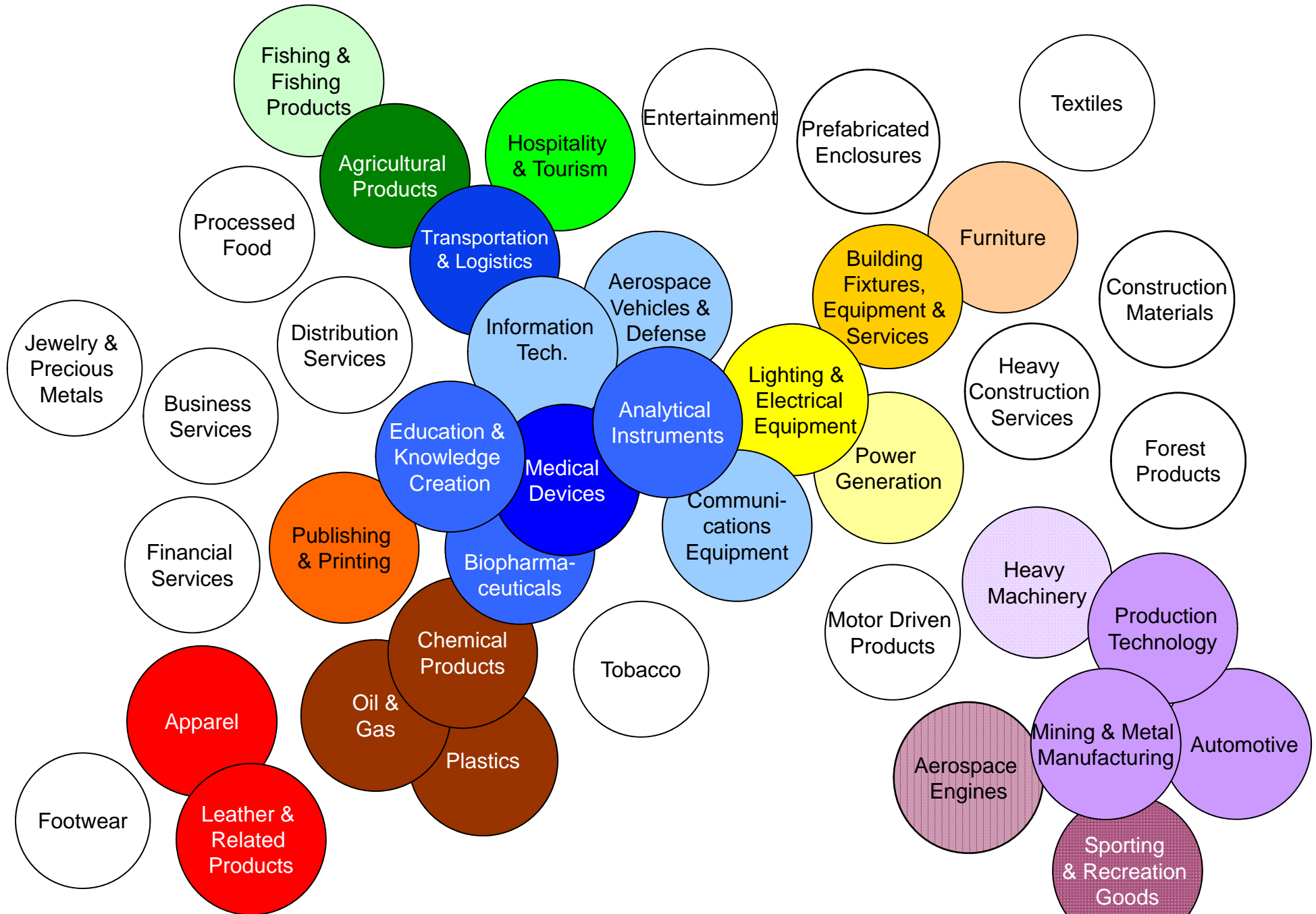
Clusters Develop Over Time

The Australian Wine Cluster



Source: Michael E. Porter and Örjan Sölvell, The Australian Wine Cluster – Supplement, Harvard Business School Case Study, 2002

Clusters and Economic Diversification

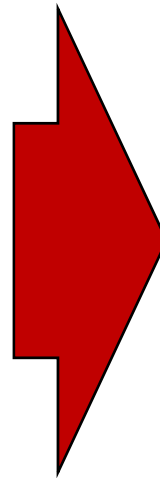


Note: Clusters with overlapping borders or identical shading have at least 20% overlap (by number of industries) in both directions.

Evidence on the Impact of Clusters

Cluster Development

- Specialization in **strong clusters**
- **Breadth** of industries within each cluster
- Strength in **related clusters**
- Clusters with presence in **neighboring regions and states**



Regional Performance

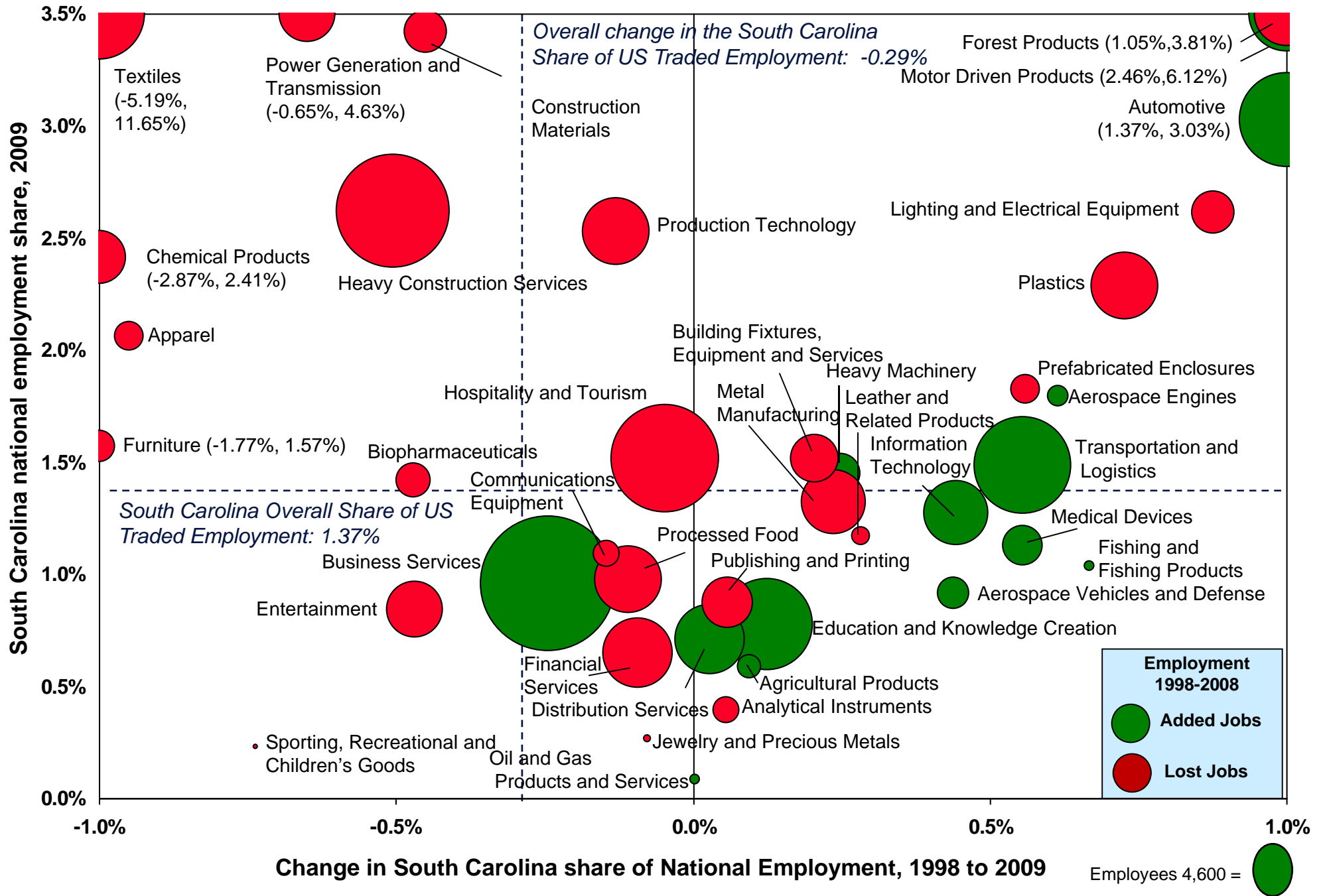
- Faster **Job** growth
- Higher **wages**
- Higher **patenting** rates
- Faster **new business** formation, growth and survival

On average, cluster strength is much more important (78.1%) than cluster mix (21.9%) in driving regional performance in the U.S.

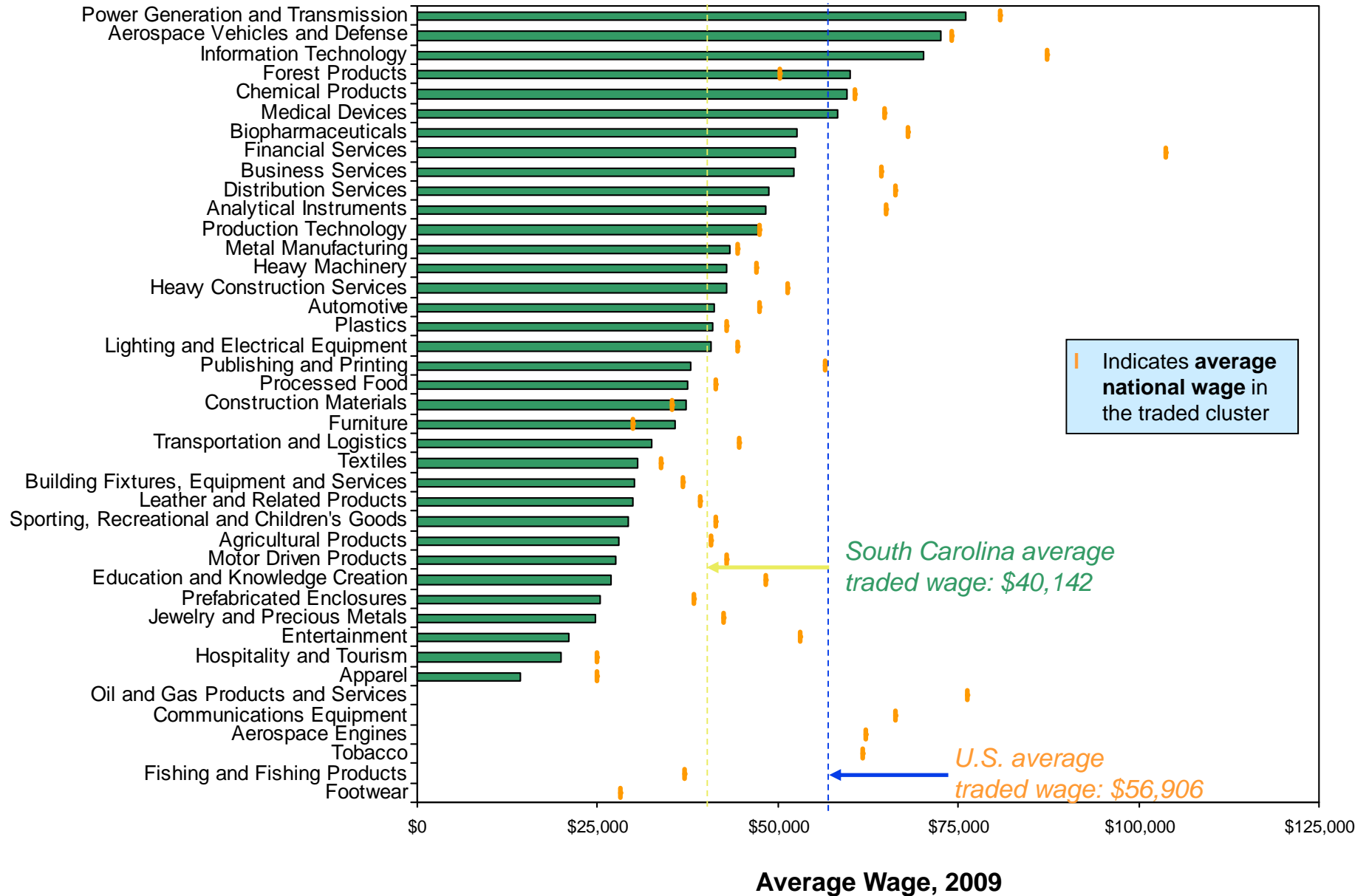
Clusters as a Tool For Economic Policy

- A forum for pre-competitive **collaboration** between the private sector, trade associations, government, educational, and research institutions
 - Brings together **firms of all sizes**, including SME's
- Creates a mechanism for **constructive business-government dialogue**
- A tool to identify **opportunities, problems** and develop a **concerted strategy** as well as **action recommendations**
- A way to **organize the implementation** of economic policies
- A vehicle for making public and private investments that strengthen **multiple firms/institutions** simultaneously
- An approach that fosters **greater and more sophisticated competition** rather than distorting the market

South Carolina Traded Cluster Portfolio, 2009



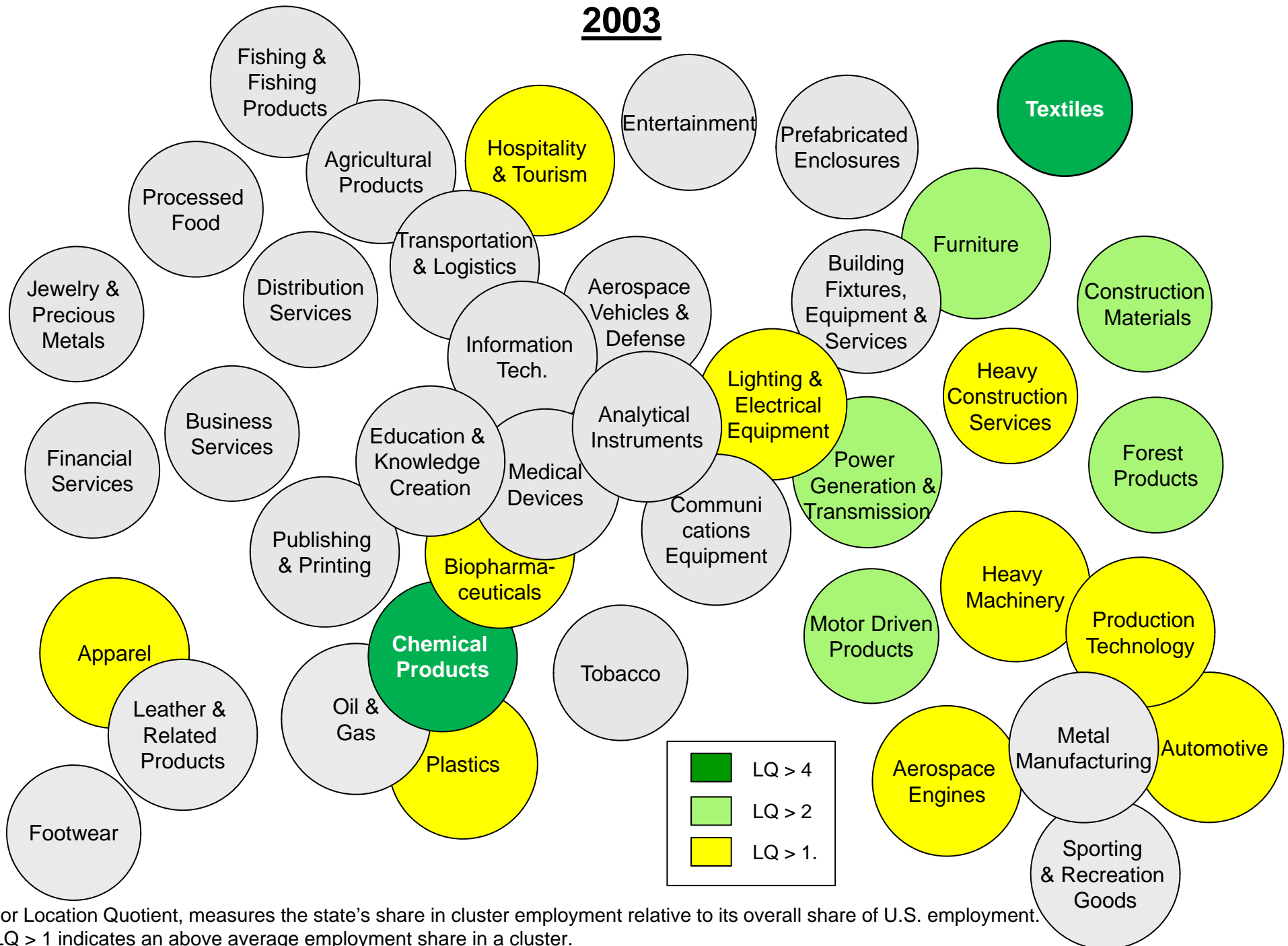
South Carolina Wages in Traded Clusters vs. National Benchmarks



Source: Prof. Michael E. Porter, Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director.

South Carolina Cluster Portfolio

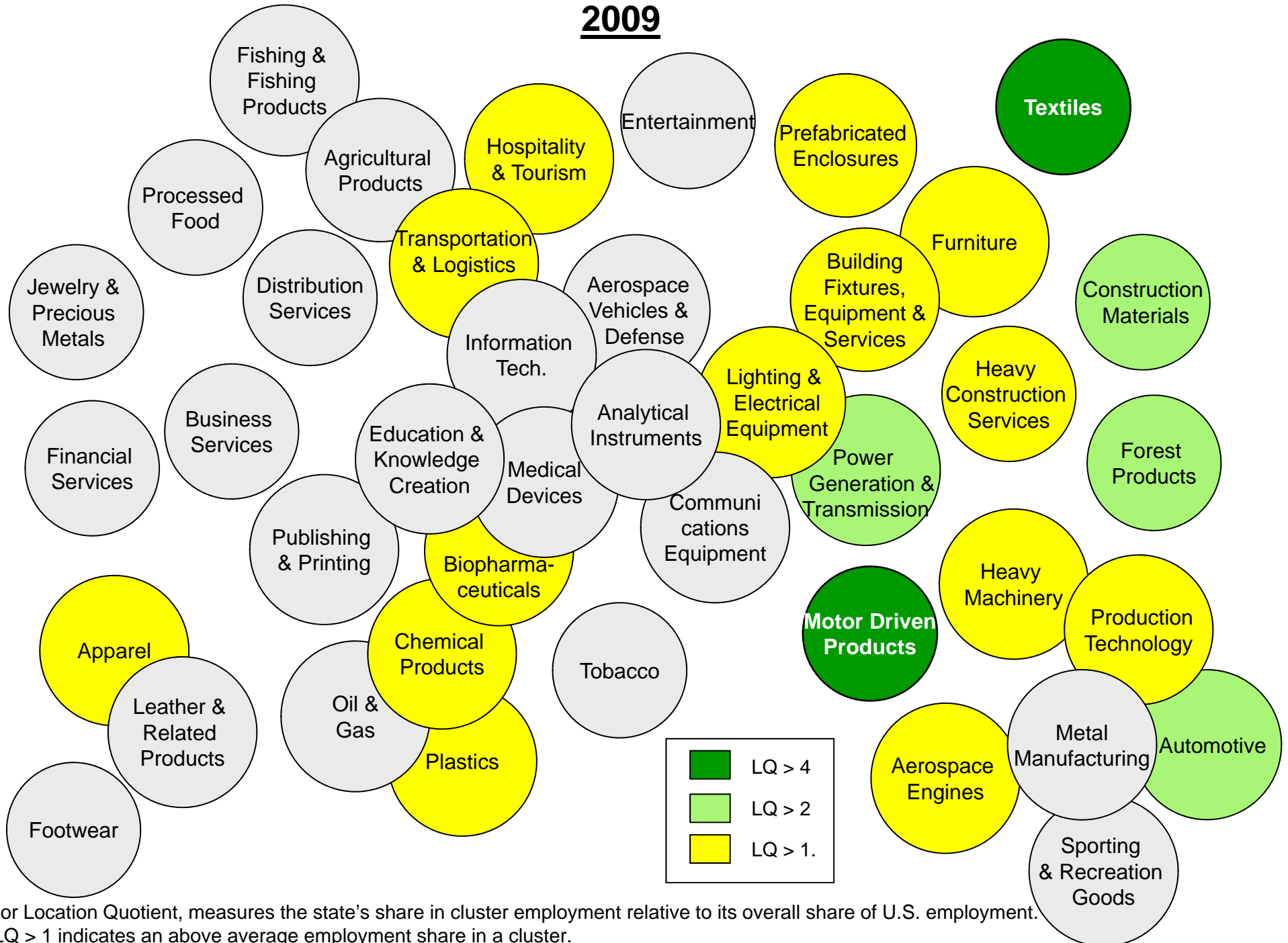
2003



LQ, or Location Quotient, measures the state's share in cluster employment relative to its overall share of U.S. employment. An LQ > 1 indicates an above average employment share in a cluster.

South Carolina Cluster Portfolio

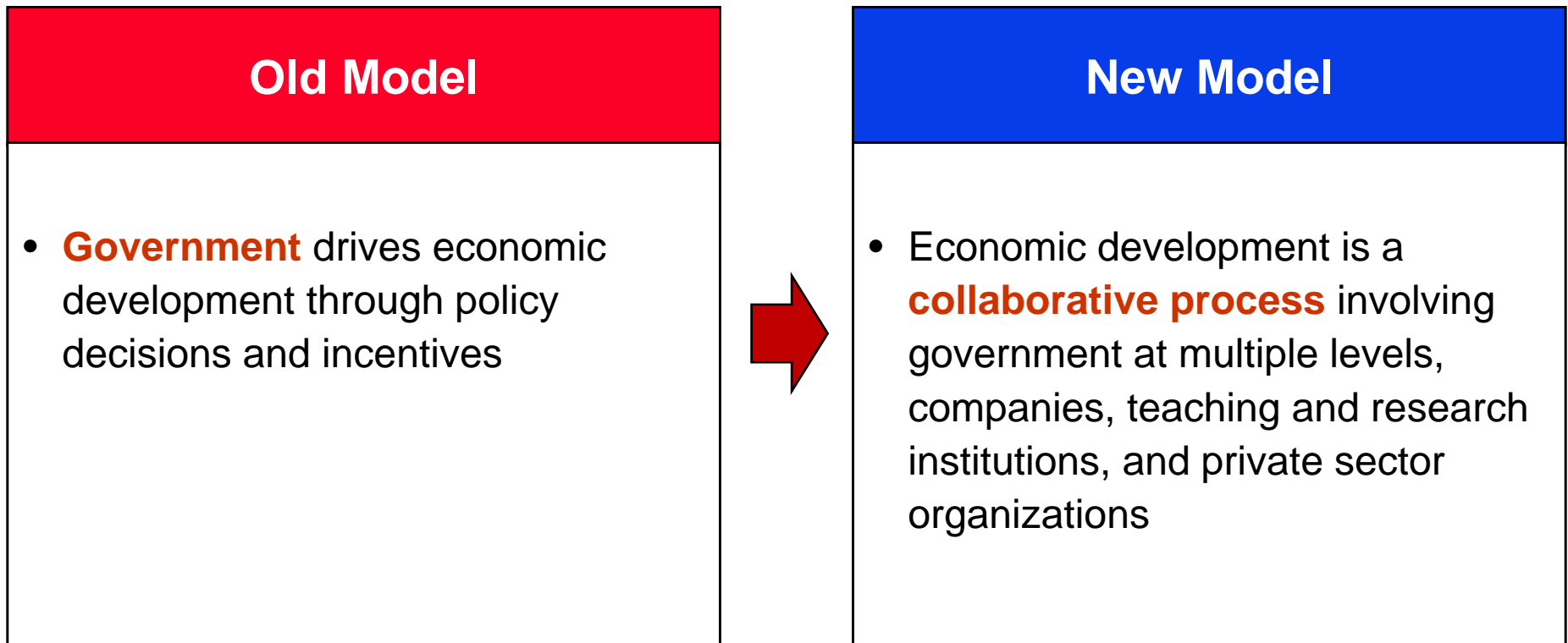
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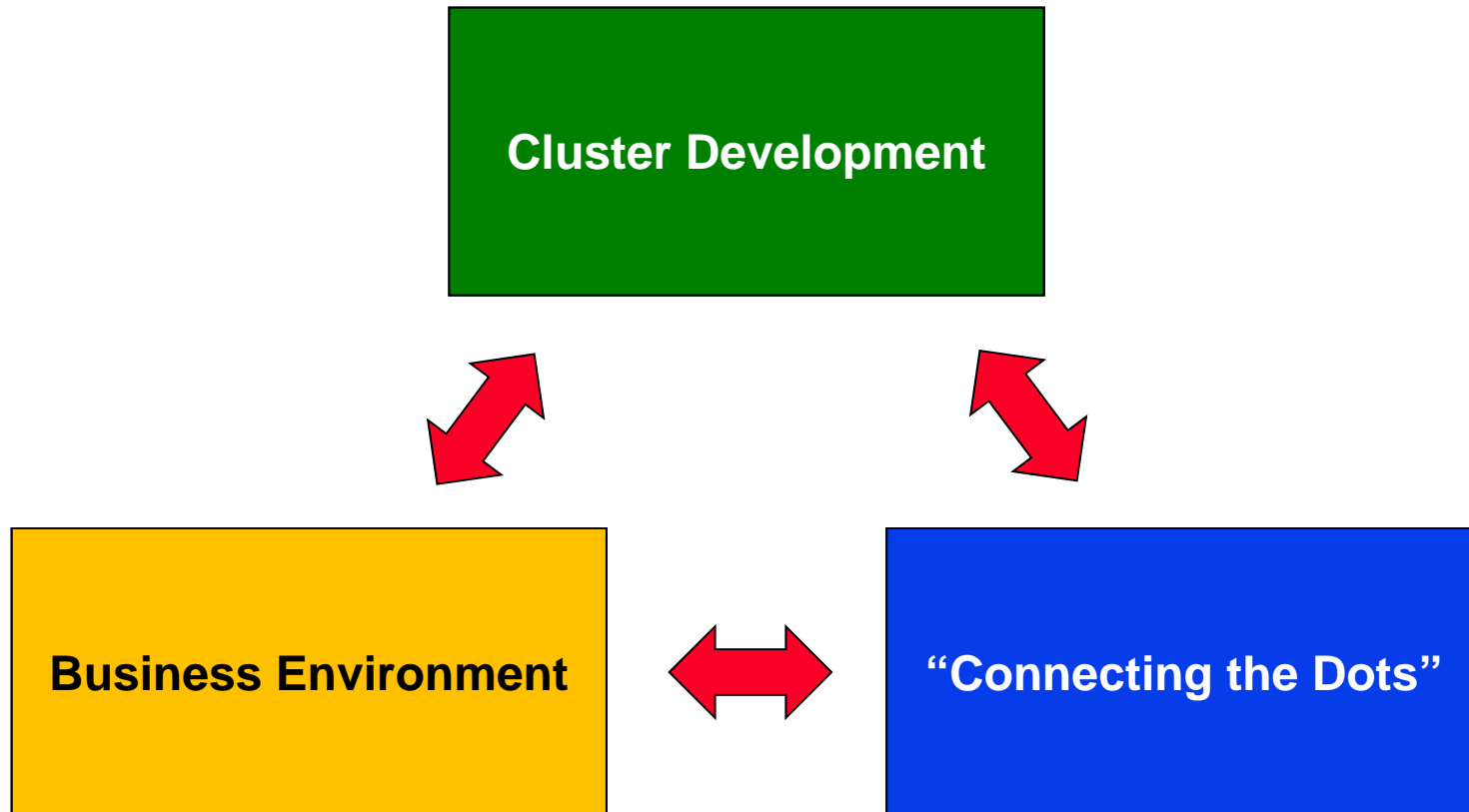
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Harnessing the New Process of Economic Development

Competitiveness is the result of both **top-down** and **bottom-up processes** in which many companies and institutions take responsibility



The New Carolina Initiative



The Eight Competitiveness Recommendations from 2003 Continue to be Relevant

1. Activate and upgrade **clusters**
2. Continue to enhance **education** and **workforce**
3. Invest in **research** and the **university system**
4. Launch internal and external **marketing campaigns**
5. Create an explicit **economic development** program for **distressed areas**
6. Increase support for **startups** and **local firms**
7. Create **new institutions** for economic development
8. Measure **progress** in raising prosperity

New Carolina Initiative's Accomplishments

- Created 15 **cluster committees**
 - Nearly 1,000 volunteers are involved with these groups
 - Studies, strategic plans, forums and conferences

New Carolina Initiative's Accomplishments

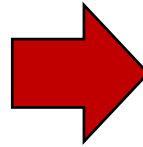
- Created 15 **cluster committees**
 - Nearly 1,000 volunteers are involved with these groups
 - Studies, strategic plans, forums and conferences
- Major success in **recruiting companies** and **suppliers** to the state in many clusters
- Built an effective **Taskforce on Education and Workforce**
- Won three **federal grants** in 2010, from the Economic Development Administration and the Small Business Administration
- Initiated a system of **statewide business incubators**
- Developed a **strategic plan** for rural and urban **distressed areas**

Next Steps for the New Carolina Initiative

- Continue a **cluster-centric economic development vision**

How Should States Compete for Investment?

Tactical (Zero Sum Competition)



Strategic (Positive Sum Competition)

- Focus on attracting **new** investments

- Compete for **every** plant

- Offer **generalized** tax breaks

- Provide **subsidies** to lower / offset business costs

- Every city and sub-region **for itself**

- **Government** drives investment attraction

- Also support greater local investment by **existing** companies

- Reinforce areas of **specialization** and emerging cluster strength

- Provide state support for training, infrastructure, and institutions with **enduring benefits**

- Improve the **efficiency of doing business**

- Harness efficiencies and coordination **across jurisdictions**, especially with neighbors

- Government and the private sector **collaborate** to build cluster strength

Next Steps for the New Carolina Initiative

- Continue a **cluster-centric economic development vision**
- Identifying South Carolina's **distinctive competitiveness position** through collaboration with government and other stakeholders

Positioning the State

- What is the **distinctive competitive position** of South Carolina given its location, legacy, existing strengths, and potential strengths?
 - What unique value as a business location?
 - For what types of activities and clusters?

Define the Value Proposition

Develop Unique Strengths

- What **elements of the business environment** can be unique strengths relative to peers/neighbors?
- What **existing** and **emerging clusters** represent local strengths?

Achieve and Maintain Parity with Peers

- What **weaknesses** must be addressed to remove key constraints and achieve parity with peer locations?

- Economic strategy requires **setting priorities** and **moving beyond** long lists of separate recommendations.

Next Steps for the New Carolina Initiative

- Continue a **cluster-centric economic development vision**
- Identify South Carolina's **distinctive competitiveness position** through collaboration with government and other stakeholders
- Engage the **state government** more effectively in improving the **business environment**

The Role of Government in Cluster Initiatives

Government should

- Support *all* existing and emerging clusters
- Participate
- Enable data collection and dissemination at the cluster level
- Be ready to implement recommendations

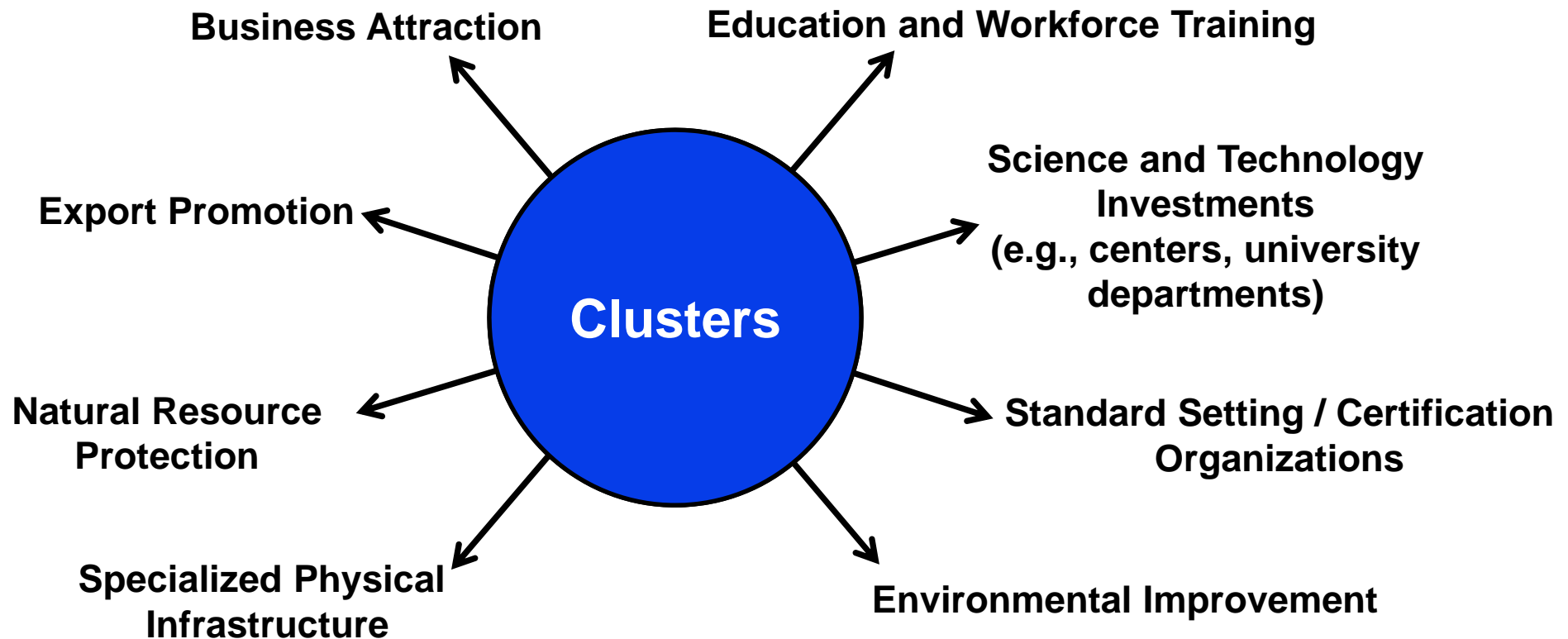
Government may

- Initiate/
Convene
- Finance
Public
Investments
to Improve
the Business
Environment

Government should not

- Pick favored clusters
- Pick favored companies
- Subsidize or distort competition
- Define cluster action priorities

Aligning Economic Policy and Clusters



- Clusters provide a framework for **organizing the implementation** of many public policies and public investments to achieve greater effectiveness

Next Steps for the New Carolina Initiative

- Continue a **cluster-centric economic development vision**
- Identify South Carolina's **distinctive competitiveness position** through collaboration with government and other stakeholders
 - Sequence and prioritize action items
- Engage the **state government** more effectively in improving the **business environment**
 - Encourage membership and participation in New Carolina by the state and city governments
- Strengthen New Carolina's **organizational capacity**
 - Moderately expand New Carolina's resources and staff
- Developing **stronger metrics** for assessing and reporting progress

Summary

- The goal of economic strategy is to enhance the **state's productivity**. This is the only way to create jobs, high income, and wealth in the long run
- Improving productivity does not require new public resources, but **using existing resources better**
- Economic strategy is non-partisan and about getting **results**
- Improving productivity demands that the private sector **engage government** and **vice versa**
- Improvements in competitiveness **take time** to produce results
- New Carolina is making significant progress towards a more prosperous South Carolina's **economy** and a **better society**