

Rethink Local Economic Development...Again

In 1990, Michael Porter, a Harvard University Business School Professor, published *The Competitive Advantage of Nations*, an examination of how prosperity is created and maintained in the modern global economy. This book shaped how national policy was established across the world. Despite its age, this publication is a must read for any local government looking to create wealth and grow a sustainable local economy for the future.

While this well-known work did create a major shift in economic development across the world, it has not found its way into the hands of a majority of rural communities, it seems. Rather than discuss each and every concept Porter puts forth in this publication, there are two basic concepts in particular that should “hit home” for many rural local government entities striving to increase the economic well-being of their community.

First, a move away from solely utilizing the “tactical” approach of development and instead emphasizing a “strategic” method is a sure-fire way to spur new ideas and techniques to revitalize a fading business sector. The table below illustrates the central characteristics of each development method:

| TACTICAL (ZERO SUM COMPETITION) | ➔ | STRATEGIC (POSITIVE SUM COMPETITION) |
|--|----------|--|
| <ul style="list-style-type: none">• Focus on attracting new investments• Compete for every plant• Offer generalized tax breaks and subsidies to lower / offset business costs• Every city and sub-region for itself• Government alone drives investment attraction | | <ul style="list-style-type: none">• Support greater local investment by existing business• Reinforce areas of specialization and emerging cluster strength• Improve the efficiency of doing business• Harness efficiencies and coordination across jurisdictions• Collaboration between Government and Private Sector to build cluster strength |

Too often rural economic development is focused solely on chasing. A never-ending quest to find and “steal” that big industry or business and bring it into town. Efforts can be made to achieve this goal, because in reality, if achieved, this endeavor can have an enormous positive impact on a local economy very quickly. Nevertheless, achieving sustainable development occurs when we think “strategically” rather than “tactically”. It takes constant collaboration among both the public and private sectors of an entire region to achieve sustainable growth, this becomes even more necessary for rural communities. The strategic method also necessitates us to focus more on how we can grow what we have, rather than

just search for the next big business. Big business attraction can create fantastic newspaper headlines, but rarely does aid in sustainable development on its own.

Similarly, concept two follows this discussion through the description of three stages of business competitive advantage. The stages are as follows:

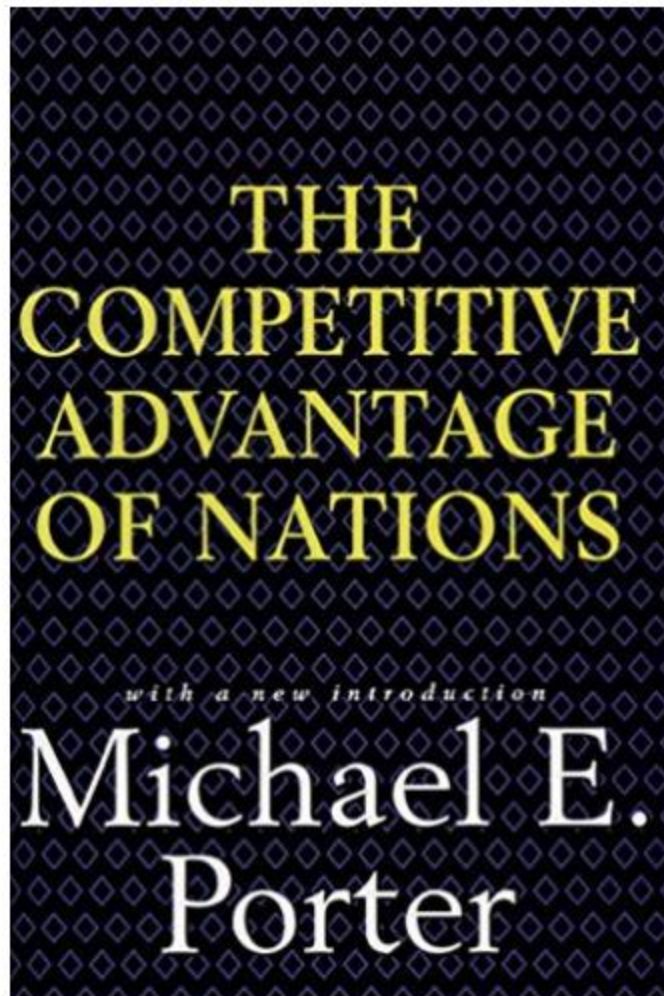
1. **Factor-Driven Stage** – In this state competitive advantage is based exclusively on the endowments of labor and natural resources of the community. This stage on supports businesses providing relatively low-wage.
2. **Investment-Driven Stage** – This stage can be identified when efficiency in producing standard products and services become the source of competitive advantage. The economy is focused and concentrated on manufacturing and on outsourced service exports. These economies do achieve higher wages than the first stage, but are very susceptible to financial crises' and external, sector-specific demand shocks.
3. **Innovation-Driven Stage** – This final stage can be described as an economy that has the ability to produce original and/or other innovative products and services with the most advanced technological methods. The business environment is such that multiple sectors and clusters have deep roots in the community, growing and building with and from one another. Companies also tend to compete globally rather than regionally or state-wide and develop their own unique strategies for intelligent investment, growing with and alongside technology innovation, as well as having the capacity to innovate within.

After reading and thinking for a few minutes about each one of these stages, it will become quite obvious to those individuals who understand basic economics, which stage your particular community currently sits. In rural areas of the nation and State of Illinois Stage 1 economies are quite common, Stage 2 economies may occur in one or two communities per county, and Stage 3 economies may only appear once or twice regionally. However, while this may be the case generally, it does not have to be the rule.

Any community of any size can create a "Innovation-Driven" economy. The biggest mistake that a community can make is try to 100% mimic the stages of success a neighboring community followed. While a collaboration on strategy may be appropriate, the makeup and progression of the growth will differ. One community may have a location advantage, another a labor advantage, and even yet another with a community college. The essential piece of the puzzle is finding your community's unique advantage and continually feeding this advantage until blossoming.

For more information from the Harvard Business School, please go to their website by clicking [Harvard Business School](#)

If you are interested in putting Michael Porter's *The Competitive Advantage of Nations* on your bookshelf, you can find it here:



Written by: Luke J. L. Eastin, SCIRPDC, 2018

