

Governor-Elect Perdue  
Transition Advisory Group Sessions  
**Session Summary 3**

**Commerce**

November 19, 2008

Session Arranged by the  
Governor-Elect Perdue Transition Team

Session Facilitated by the  
Small Business and Technology  
Development Center (SBTDC)

Report Prepared by the  
UNC-Chapel Hill School of Government



## Session Summary 3

# Commerce

### SECTION 1. **Executive Summary**

On November 19, 2008, session participants gathered to hear representatives of the North Carolina Department of Commerce (NC DOC) describe the department's current operations and to discuss issues and challenges for economic development in North Carolina. Afterward, the participants engaged in a facilitated process to examine key issues and develop a set of recommendations for the governor-elect to consider as she forms her transition team.

Several broad categories of recommendations emerged from the discussions:

1. **Organizing North Carolina for economic development**—North Carolina benefits from the activities of a wide variety of economic development organizations at different levels of government (state, regional, and local). To harness the full potential of these organizations, the next administration should consider establishing a central authority to clarify roles and set goals for each level, to establish meaningful performance metrics reflective of each level's purpose, and to hold the organizations accountable for performance.
2. **Optimizing the North Carolina Department of Commerce**—Several recommendations to improve the efficiency or effectiveness of NC DOC were raised: (1) implement a performance-based pay structure for some portion of NC DOC employees to reward and retain the best performers, (2) continue to invest in economic development research by the state's university system, (3) retain an effective but responsible portfolio of incentives, and (4) maintain an innovative posture by gearing the agency's economic development efforts toward emerging trends and by seeking collaboration between government, the private sector, and academia.
3. **Laying the foundation for future growth**—Future growth will depend on North Carolina's ability to invest wisely in education, quality of life, and workforce development. Recommendations included: (1) communicate the relationship between quality of life standards and successful economic development in order to help citizens understand the need for investment in North Carolina's quality of life, (2) benchmark the state's relative position in quality of life compared to its competition, (3) target workforce development efforts at high school dropouts and workers who have lost jobs in the current economic downturn, (4) expand workforce development sector strategies to train workers for jobs in growing, economically sustainable industries, and (5) increase the training capacity of community colleges.
4. **Positioning North Carolina for emerging economic development opportunities**—The next administration should ensure that North Carolina is well-positioned to recognize and seize economic development opportunities whenever and wherever they arise. Recommendations included: (1) expand international trade missions and open additional NC DOC offices overseas to ensure North Carolina is at the table for international

investment opportunities, (2) support tourism marketing at levels commensurate with the state's competition and leverage state funds with local government marketing efforts, (3) adequately fund targeted economic development marketing, including exploitation of "new media" options, (4) ensure rural communities have the necessary broadband technology to participate in e-commerce, (5) develop a coordinated strategy to foster and support innovation and innovative businesses located in North Carolina, and (6) develop a coordinated and comprehensive strategy for North Carolina to capture some of the expected growth of "green industries."

## SECTION 2. **Process Used in Session**

The session began with a morning presentation by representatives of the North Carolina Department of Commerce (NC DOC). Kathy Neal, NC DOC assistant secretary for communications and external affairs, described current operations of the department, and NC DOC Secretary Jim Fain discussed issues, opportunities, and challenges for economic development in North Carolina.

In the afternoon, participants discussed pressing issues in the topic area, and participated in an exercise for developing possible solutions and recommendations for the issues. Further, the audience participated in an exercise to prioritize the issues. Finally, the audience broke into self-selected groups to discuss solutions and recommendations. This "brainstorming" process was designed to capture all ideas, even if some ideas generated disagreement among the participants or were of interest to only one person. The recommendations, therefore, do not represent a consensus position of the participants.

See the facilitator agenda (in electronic Appendix 1) for additional information about the process devised and used by facilitators from the Small Business and Technology Development Center (SBTDC).

## SECTION 3. **Participant List**

SBTDC facilitators: Marc King and Ann Howard

UNC-Chapel Hill School of Government reporters: William Lambe and Tyler Mulligan

UNC-Chapel Hill MPA student note taker: Lukas Brun

Perdue Transition Team representative: Austin Vuverka

NC DOC presenters: James Fain and Kathy Neal [Note: NC DOC personnel in attendance for the morning session did not return for the afternoon session.]

Attendees:

Joe Barker	Leslie Boney	Patty Briguglio
Doug Byrd	Lee Clyburn	Carolyn Cole
Olivia Collier	Tony Copeland	Jean Davis
Stewart Dickerson	Kenny Flowers	Grant Godwin
Bryan Gupton	Scott Hamilton	John Hardin
Jim Harrell	Rita Harris	Lori Ann Harris

Jeanette Hyde

John Peterson

Roger Shackelford

Rodney Swink

David Ward

Fred Yates

Stephanie McGarrah

John Quintero

Cleve Simpson

Marlise Taylor

Rick Weddle

Teross Young

Stephen Parker

Harold G. Sellars

Richard Sullivan

Paul Tine

Richard Wiley

## SECTION 4. **Significant Issues, Opportunities, and Challenges Identified in Morning Session about Current Administration Efforts**

Secretary Jim Fain, accompanied by other representatives of the North Carolina Department of Commerce (NC DOC), presented detailed information on current operations of NC DOC. The presentations are provided in the electronic supplementary material. Secretary Fain then engaged in a wide-ranging question and answer session with forum participants. Several critical issues emerged from the morning session and are summarized here.

### **Mitigating Immediate Threats**

In light of the current financial crisis facing the nation and the state, three items require immediate attention:

1. **Municipal and county bonds**—The market for municipal and county bonds must be revived in order for our local governments to continue to function.
2. **Plan for infrastructure improvements**—Federal funds are expected to flow to states for infrastructure projects. North Carolina, which has its own infrastructure program, must evaluate its planned infrastructure investments and coordinate them to take full advantage of expected federal funding.
3. **Continue unemployment benefits**—Unemployment benefits should be extended for those who have lost jobs during this economic downturn.

### **Organizing North Carolina for Economic Development**

As described by Fain, the economic development service delivery system in North Carolina involves at least three levels of organizations: (1) local economic development agencies at the county or municipality level, (2) seven regional economic development partnerships, and (3) NC DOC. The existence of these independent levels of actors inevitably results in some overlap, creates challenges for collaboration, and sets up competition for resources. Furthermore, North Carolina Councils of Government (COGs) may represent a fourth level that was not mentioned. The next administration may wish to explore ways to identify each level's core competencies, clarify the roles at each level, and coordinate the efforts of these different organizations by establishing different performance metrics at each level. As an example, Fain noted that the seven regional partnerships receive some "top-down" state funding. An alternative funding scheme might be structured as "bottom-up," in which regional partnerships would be funded by and accountable to their respective regions.

## **Optimizing NC DOC Investments in Economic Development Research**

### **NC DOT Investments in Economic Development Research**

Fain believes that NC DOC should continue to collaborate with state universities on research projects in the area of economic development. A recent example is the cluster study commissioned by NC DOC and performed by researchers at UNC-Chapel Hill.

### **Develop and Retain Professionals at NC DOC**

Fain expressed the concern that the state personnel system was antiquated. He believes that some additional flexibility in the system would help the department attract and retain the best employees.

### **Maintain a Portfolio of Valuable and Responsible Economic Development Incentives**

Fain acknowledged that incentives remain a controversial tool for economic development, but he opined that incentives have been a key component of industry recruitment successes in North Carolina. He supports the reauthorization of the Job Development Investment Grant (JDIG) program.

## **Charting a Course for the future of North Carolina's Economy**

### **The Foundation of Future Growth: Education, Quality of Life, and Workforce Development**

North Carolina must continue to invest in education and quality of life. Those are among the most important factors considered by businesses, entrepreneurs, and workers in deciding where to locate.

Additionally, the workforce must be ready for the jobs of the future. Workforce development efforts should be targeted to address (1) older workers who have lost manufacturing jobs and (2) the growing number of high school dropouts in North Carolina. Fain noted, as an example, that the state has an identified need for health care workers now and into the future, but community colleges may not have sufficient capacity to train the workforce that is required.

### **Take Advantage of International Opportunities**

China has announced a shift toward increased domestic investment. This may present an opportunity for North Carolina firms to export goods and services to China. NC DOC may be well-positioned to capitalize on this opportunity, because NC DOC recently invested in an office in mainland China. The new administration should consider continuing or expanding missions to foreign countries. India and other members of the BRIC (Brazil, Russia, India, and China) should not be overlooked.

### **Funding for Tourism**

Tourism in North Carolina is a significant small-business generator, so it is an important industry in the state. Fain explained, however, that the tourism budget in North Carolina is significantly less than the budget in South Carolina. In light of this fact, the North Carolina tourism budget

should be re-evaluated. Many local governments have been granted taxing authority to raise funds for the purpose of tourism marketing. Limited state money could be leveraged by requiring local government matching, thereby increasing tourism funding without a major state budget increase.

### **Increase Economic Development Marketing Efforts**

Economic development marketing efforts have become increasingly sophisticated, and the next administration should consider funding for more “channel-based” (or targeted) marketing efforts. This specifically includes developing initiatives with “new media” (blogs, discussion boards) relevant to economic development and tourism.

### **Capture Some of the Anticipated Growth in “Green Industry”**

“Green industry,” which encompasses green construction, renewable energy technology, and other businesses promoting environmental sustainability, presents enormous opportunities for economic development. Fain suggested that North Carolina should evaluate how to organize itself to take advantage of green technology and to participate in emerging green industries. In his view, the greatest near-term job growth would occur from incorporating green practices into existing industries.

North Carolina already possesses tremendous intellectual resources in green industry in its universities, the U.S. Environmental Protection Agency office in the Research Triangle Park, and allied agencies such as the North Carolina Biotechnology Center. North Carolina should develop interagency collaborative teams to coordinate North Carolina’s green industry efforts with educational and governmental resources.

## **SECTION 5. Key Issues and Solutions/Recommendations**

Based on the presentations in the morning session, a number of key issues were identified by the facilitators for consideration by participants during the afternoon session. Participants concurred with the list of issues identified by the facilitators, but they also added to the list with several of their own suggestions. In total, nine issues were identified for discussion, and they are listed here in the order in which they were presented in the afternoon session, not by priority.

The recommendations provided in this report represent positions voiced by particular participants during the course of a facilitated process. As mentioned previously, the recommendations were generated as part of a brainstorming process in which all ideas were recorded, even if other participants disagreed with them. These recommendations, therefore, should not be viewed as representing consensus positions among all participants, nor should they be viewed as policy recommendations by the UNC School of Government. A transcription of the issues and recommendations identified by participants during the facilitated process is provided in the electronic supplementary material.

## Key Issue No. 1: NC DOC Roles and Goals

**Problem.** NC DOC should drive an “innovation strategy” to assist innovative companies in all 100 counties of North Carolina. “Innovative companies” and “innovation” remained undefined terms during the discussion, but participants tended to associate “innovation” with new technology, new products, and related services being brought to market for the first time.

### Recommendations

- a. Identify existing innovative companies within North Carolina and work as a partner with those companies to help them succeed. The goal would be to make North Carolina the state of choice for innovators seeking to start or grow a business.
- b. Develop networking and marketing mechanisms (such as fairs, Internet sites, and even direct networking assistance) in order to connect innovative companies in North Carolina to potential buyers of innovative services and products worldwide.
- c. Evaluate the infrastructure needs of the most innovative companies and construct that infrastructure in North Carolina.
- d. Monitor and track the availability of financing for entrepreneurs at all stages of business growth. Strategies should be devised to eliminate any identified gaps in financing.

Other possible NC DOC “roles and goals” were identified during the brainstorming exercise, but only one key issue was explored in detail—that being the key issue identified above, which garnered the most votes in the facilitated process. The following additional NC DOC priorities were suggested by participants and received votes—but fewer votes than the key issue discussed above—and are listed below for consideration in the order of priority assigned by participants.

- a. NC DOC should focus on job creation, attempting to identify emerging industries and to capture a share of job growth in those industries.
- b. NC DOC should focus on workforce development, specifically retraining workers who have lost jobs and training high school dropouts for existing jobs in growth industries.
- c. NC DOC should identify information technology (IT) needs in rural communities and devise a strategy for building necessary infrastructure in those communities.
- d. NC DOC should market itself, articulating its role to citizens and explaining why NC DOC services and activities are important to North Carolina.

## Key Issue No. 2: North Carolina Leadership in Emerging “Green Industries”

**Problem.** North Carolina should create a far-reaching, coordinated approach to developing “green industry” in North Carolina.

### Recommendations

- a. The governor should develop a coordinated state policy on green industry that encompasses efforts by all levels of state and local government and cuts across traditional state agency lines. In discussion, most viewed the governor’s office, rather than NC DOC, as the most appropriate source for leadership on the issue, because the effort would require cooperation across agency lines.

- b. Provide incentives for investments in green industry, and leverage federal incentives by establishing matching or complementary incentives at the state level.
- c. Coordinate workforce development efforts to ensure that green industry will have a trained workforce available to accommodate expected industry growth.
- d. Encourage and leverage university research in green industry.
- e. Consider ways that state government and universities can serve as consumers of green products developed by North Carolina green industry.
- f. Drive a “culture change” in North Carolina that embraces green living, green technology, and green industry. Green industry entrepreneurs want to live and work in places that have a green culture and mindset.
- g. Set realistic goals for North Carolina’s role in emerging green industries. North Carolina does not have an ideal climate for wind and solar farms (which are expected to be located in the western United States), but perhaps North Carolina can be a primary supplier of parts for those farms. Additionally, technology must be developed to transfer energy from wind and solar farms to population centers, or to store energy produced by wind and solar farms. North Carolina could realistically develop and produce that technology.

### **Key Issue No. 3: Retaining Talent and Incentivizing NC DOC Employees**

**Problem.** NC DOC salaries are perceived not to be competitive with the private sector.

#### **Recommendations**

- a. Establish a performance-based pay structure for at least some NC DOC employees.
- b. Consider a variable pay system, in which a pool of funds for “salary bonuses” could be allocated to top-performing employees based on established metrics. If the new administration desires to move NC DOC closer to a privatization model, it could consider allocating funding to the agency based on a percentage of tax revenue generated by its economic development efforts.
- c. In order to create agency-wide incentives to promote the agency’s economic development mission, consider ways to permit all employees—from the economic development recruiters to the office staff answering the phone—to participate in the performance-based program.
- d. Consider requiring NC DOC employees who agree to participate in a new performance-based pay system to become at-will employees and to forfeit certain civil service guarantees.
- e. Training funds and some operating expenses for participating employees could be incorporated into the performance-based pay system, so funding “earned” by employees in the performance-based pay system would also pay for additional training, business recruiting activities, marketing, and other investments that the employees believe would enhance their performance.
- f. Several concerns were raised with the performance-based pay proposal:

- With respect to industry recruiters, a performance-based pay structure, if not properly designed, could lead NC DOC employees to seek out easy recruiting victories in well-developed urban areas, rather than bringing industries to some of the distressed areas of North Carolina where recruiting is more difficult.
- Some aspects of NC DOC's mission, such as community development in the Division of Community Assistance, are based in part on assisting distressed communities. A performance-based pay system is not easily applied to such services in which justice or fairness may be more important than efficiency or tax revenues generated.
- Any performance-based pay system should be constructed carefully, with follow-on studies to evaluate the new system's effectiveness in retaining top employees over time, as well as to evaluate whether undesirable incentives have been created by the system.

#### **Key Issue No. 4: Economic Development Service Delivery System**

**Problem.** Policy leaders in North Carolina need to articulate the roles and responsibilities of local, regional, and state economic development entities. Participants lamented the fact that overlapping and uncoordinated delivery systems are inefficient and create unnecessary competition for limited state resources.

##### **Recommendations**

- a. The governor-elect should create a single point of responsibility for economic development in North Carolina—an “economic development czar.” The economic development czar would be legitimized by and work through the North Carolina Economic Development Board. The czar, who could be located in the governor's office, would develop goals and specific performance metrics for each of the state, regional, and local economic development actors, and would hold those organizations accountable.
- b. NC DOC should seek the involvement of councils of government (COGs) in economic development efforts. A number of COGs have sponsored economic development plans using funding from the U.S. Economic Development Administration, and COGs are accustomed to working across jurisdictional lines.
- c. North Carolina policy-makers should review and act upon the program evaluation that was completed recently on the performance of regional economic development partnerships.
- d. The University System should be more involved in state and/or regional economic development efforts. This could be accomplished, in part, by fully implementing a previous agreement to create a position that coordinates university resources toward economic development in North Carolina.
- e. NC DOC should work with county commissioners from all one hundred counties using specialized technology to manage relationships and coordinate actors.

## Key Issue No. 5: NC DOC Role in Addressing Quality of Life Issues

**Problem.** Policy leaders need to articulate clearly to citizens the relationship between quality-of-life issues and economic development. The term “quality of life” was left undefined during the discussion, but in economic development terms it is generally understood to represent factors such as wage levels, cost of living, crime rates, recreational opportunities, cultural activities, environmental conditions, quality of schools, and sense of community. Participants expressed the notion that successful economic development depends in large part on offering a good quality of life to business leaders and their employees, but most North Carolina citizens do not understand how improvements to North Carolina’s quality of life are related to jobs and economic prosperity.

### Recommendations

- a. The solutions proposed by participants centered on marketing efforts to communicate the quality of life message to citizens. Participants expressed skepticism that the modest budget available for marketing was sufficient to mount an effective communications effort and discussed the difficulty of commencing an additional marketing campaign on top of NC DOC’s existing marketing commitments.
- b. NC DOC should use more creative technologies and tools for spreading its message (i.e., blogs, podcasts, etc) and focus less on traditional print advertising.
- c. NC DOC should continue to deliver community assistance and Main Street services, which help communities to develop or maintain cultural and community centers.
- d. The state should restore regional partnerships to the recurring budget.
- e. Leaders in our state are unaware of North Carolina’s relative position (as compared to the state’s competition) in many quality of life factors, and therefore the administration should consider reinstating the North Carolina Progress Board to benchmark the state’s progress across a range of factors.

## Key Issue No. 6: Coordinating Policy Approach to Foreign Investment and Trade

**Problem.** NC DOC should identify and prioritize countries/regions for potential future foreign investment based on our state’s relative value proposition.

### Recommendations

- a. Determine exactly how to describe our state’s value proposition to foreign investors, making sure that we are clear about North Carolina’s competitive advantages.
- b. NC DOC should establish offices for trade in India, Russia, and Brazil, as well as foster stronger relationships with Belgium and other European countries. India is particularly attractive because it is an English-speaking country.
- c. NC DOC should work with information technology and biotechnology leaders to organize a trade mission to India.
- d. International trade activities in the North Carolina Department of Agriculture and Consumer Services ought to be combined with those in NC DOC (in order to reduce redundancy).

- e. NC DOC should contact and network with international business leaders who attended school in North Carolina.

### **Key Issue No. 7: Approach to Economic Downturn and Workforce Development**

**Problem.** There is a need to increase community college workforce training and to link that training to economic development, workforce development, and dislocated workers.

#### **Recommendations**

- a. Continue and expand the NC DOC “sector strategy” pilot workforce development program.
- b. Encourage close communication between the North Carolina Economic Development Board and the North Carolina Workforce Development Board.
- c. Work with partners to lobby for the preservation of unemployment benefits.
- d. Maintain or increase community college training capacity.

### **Key Issue No. 8: NC DOC Role in Rural Economic Development**

**Problem.** There continues to be a need for information technology (IT) access in rural areas and small towns across North Carolina.

#### **Recommendations**

- a. Strengthen and expand existing access efforts led by the e-NC Authority.
- b. Even after broadband access has come to a rural area or small town, develop a strategy for ensuring that all residents gain access to broadband service (connecting the “last mile” to the door of a home or business), whether through satellite service, cellular technology, or laying additional fiber-optic cable.

### **Key Issue No. 9: Applying Innovation in NC DOC**

**Problem.** Developing a clear strategy to make North Carolina’s economic development efforts the nation’s most innovative and effective.

#### **Recommendations**

- a. Develop a collaborative, “triple-helix” approach to economic development. Triple-helix refers to collaboration between government, the private sector, and academia.
- b. Gear NC DOC (and statewide) economic development efforts toward emerging trends (e.g. financial sector losing jobs, defense spending decreasing, green industry growing, tourism increasing, infrastructure spending increasing).

### **Electronic Supplementary Material**

- Appendix 1: Facilitator agenda provided by the Small Business and Technology Development Center (SBTDC)
- Agency transition reports and other documents provided for session