

BY AMY GLASMEIER, AMY KAYS & JEFFERY THOMPSON, WITH ROB GURWITT



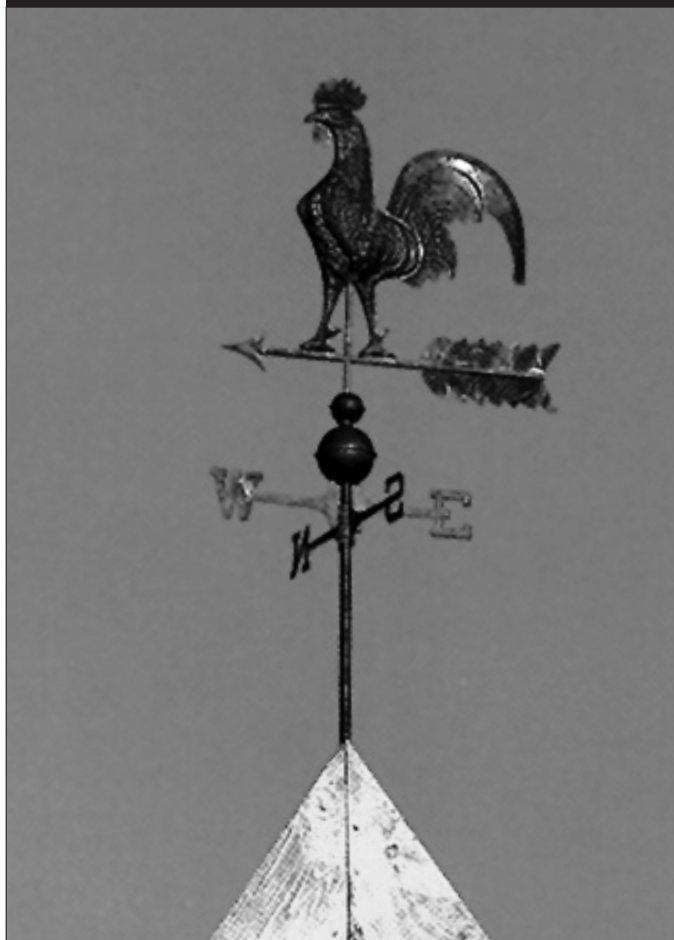
STRATEGIC OVERVIEW SERIES

BRANCH PLANTS AND RURAL DEVELOPMENT IN THE AGE OF GLOBALIZATION



The Aspen | Institute
Community Strategies Group

BY AMY GLASMEIER, AMY KAYS & JEFFERY THOMPSON, WITH ROB GURWITT



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INTRODUCTION

When I was growing up, business was mostly a local affair. Most farms and firms were owned locally. They borrowed locally, they hired locally, they shipped most of their products to neighboring communities or states within the United States.

But now we are woven inextricably into the fabric of a global economy...Whether we see it or not, our daily lives are touched everywhere by the flows of commerce that cross national boundaries as inexorably as the weather.

*—President Bill Clinton
American University
February 1993*

The 1980s and early 1990s were wrenching for rural America.

Agriculture went into a decline from which it still hasn't emerged. Mining saw disastrous drops in commodity prices and demand for raw minerals. Manufacturing was hit hard by twin recessions early in the decade, which forced plants to close and many businesses to put off badly needed capital improvements.

Still, the picture wasn't uniformly bleak. There were towns that made it through the hard times, braced by

For manufacturing—which once was seen as the source of rural deliverance—the rocky days of the 80s and early 90s were just a foretaste.

local factories that kept paychecks flowing, kept towns-people employed, and kept Main Street in business. The textile mill out in the Georgia woods, the pants factory in the Virginia Tidewater, the carburetor plant on the edge of an Ohio cornfield—none were recession-proof, but they kept their communities alive.

Globalization

**is forcing corporate America
to reshape itself in ways
that already are being felt
in even the most
remote hamlets of the
rural United States.**

It is becoming clear, though, that for manufacturing—which once was seen as the source of rural deliverance—the rocky days of the 80s and early 90s were just a foretaste. Those “flows of commerce” evoked by President Clinton are hardly benign, and they are forcing a permanent manufacturing shake-out that threatens to leave rural communities reeling. Some of the plants that survived this period will shut down in the next few years, throwing dozens or even hundreds of people out of work. Others will bump along, held in place by panicked public officials who throw incentives at them until, eventually, they too shutter their doors. And some will stay open by modernizing and slashing their workforces.

This is all a result of globalization, the opening of the U.S. economy to the pressures of worldwide competition. It is forcing corporate America to reshape itself in ways that already are being felt in even the most remote hamlets of the rural United States. Companies that once saw salvation in the low wages and hard-working labor force of Appalachia or the rural Midwest now find it in Mexico and Malaysia. Firms that thought they could compete on the basis of cost alone now see no course

but to modernize their plants and rid themselves of the less efficient operations that kept some rural communities alive. Conglomerates that built huge, vertically integrated enterprises with factories spread all over the country are now pulling in, concentrating on their core businesses and lopping off the rest. Inevitably, all this will be felt in the communities that host their plants.

Pain, then, is a certainty for rural America. For individual communities, however, it can be minimized—if they transform the way they pursue economic development. In particular, the new business climate has made it essential for rural economic development practitioners to study and understand the global pressures facing corporations and their branch plants in the 1990s and beyond.

To survive in the global economy, rural communities must learn to deal with employers in new ways. Changing economic circumstances have already compelled the business world to transform itself; governments at every level must also rethink their economic development practices. Unless they do, they will be powerless to prevent their communities from being shunted off to the farthest margins of an economy that is growing less hospitable to rural development by the year.

Unless
**governments at every level
rethink their economic
development practices,
they will be powerless
to protect their communities
from an economy that
each year is less hospitable
to rural development.**

THE ROLE OF BRANCH PLANTS IN RURAL DEVELOPMENT

It may seem a bit odd to suggest that rural communities ought to be paying more attention to corporate branch plants.

Indeed, over the last few years, rural development practitioners have displayed great enthusiasm for the notion of “flexible manufacturing networks,” which allow small firms to pool their resources and expertise to produce goods or to bid on contracts that none could handle independently. Other programs designed to encourage and nurture small-business development have met with equal praise.

Besides assembling the occasional package of factory recruitment incentives to lure a remote branch-plant prospect, this focus on encouraging small firms and indigenous development has often come at the expense of paying attention to the needs of large employers and their branch operations. This is, to put it bluntly, a mistake.

The simple fact is that branch plants are inextricably woven into the economic fabric of rural America.

Rural

**communities' focus
on small firms
and indigenous development
has often come
at the expense of attention
to large employers and
their branch operations.
This is a mistake.**

For Rural Citizens: A Primary Employer

Large firms and companies with several units provide most of the manufacturing employment in rural areas.

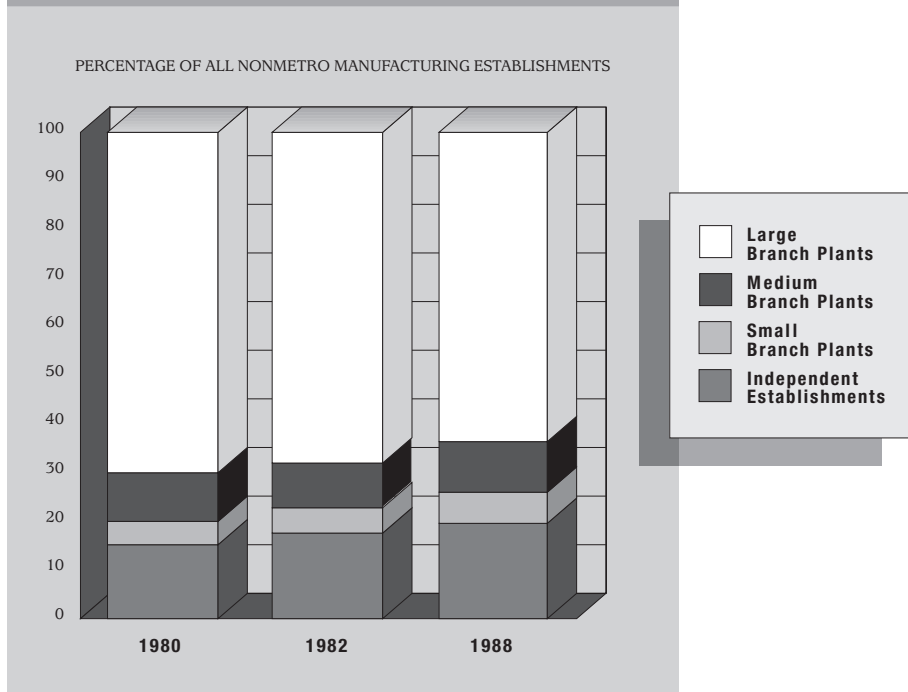
Of the
roughly one-fifth of
the rural workforce
engaged in manufacturing,
branch firms accounted for
as much as 81 percent
in 1988.

In fact, a recent study by James P. Miller, a research economist at the USDA's Economic Research Service, shows that despite corporate downsizing and the spread of efforts during the 1980s to encourage "home-grown" manufacturing, the hold of large-scale manufacturing on the rural economy lessened only slightly over that decade. Of the roughly one-fifth of the rural workforce engaged in manufacturing, multi-unit (that is, "branch") firms accounted for as much as 81 percent in 1988, barely down from 83 percent in 1980; those firms with 500 or more employees accounted for 71 percent in 1980 and 66 percent in 1988.¹ (*See Figure 1.*)

For Rural Regions and Communities: Economic Lifblood

More to the point, looking at branch plants through the cold lens of national statistics gives little sense of their importance to individual regions and communities. The South and Midwest in particular are strongholds of branch-plant manufacturing. Of the 14 million Americans employed by branch plants in 1988, some

FIGURE 1. U.S. NONMETRO MANUFACTURING EMPLOYMENT: SMALL, MEDIUM AND LARGE BRANCH PLANTS, 1980-88



34 percent (4.8 million) were in the South, one-third of them in rural counties; another third of the nation’s branch-plant employees were in the Midwest.

And that says nothing of the extraordinary impact on towns throughout rural America. Travel the winding roads of Appalachia or the county highways of the rural Midwest, and you’re bound to pass through a town whose economic lifeblood flows from a branch plant.

This is not a bad thing. Branch plants have been crucial to the development of small communities.

BETTER JOBS

In rural communities, manufacturing facilities belonging to large companies have provided stable jobs, good benefits and occupational mobility that would not exist otherwise. Large firms, for example, give comparable health benefits to urban and rural employees—whereas small companies in rural areas tend to provide fewer benefits than do similarly sized urban firms.² And if large employers are going to close operations or lay off workers, they tend to give advance notice and are far more likely than their smaller counterparts to have the resources to help workers make the transition.

In rural communities, branch plants have provided stable jobs, good benefits and occupational mobility—as well as anchors for an extended network of subcontractors.

INDUSTRY ANCHORS

Just as important, the widespread perception that the operations of large firms stand alone and apart from the local economy is simply wrong. There are plenty of communities in which small, independent firms would struggle without the larger facilities that undergird the area's economy.

A prime example of how a large company can anchor an extended network of subcontractors and sub-subcontractors is provided by major rug producer based in rural Georgia. This enormous plant is set up to produce acres of single-color carpeting. Because of this, working in small-lot sizes or patterns is simply not economical in this facility. So it is

surrounded by a complex of smaller companies that handle non-standard lot sizes, which in turn keep alive an entire economy of two- and three-person operations that handle custom dyeing, rug backing and fire-proofing. The same is true in other industries—the larger the plant, the more likely it is to provide opportunities for smaller firms to set up around it.

For Rural Developers: A New Challenge

GLOBAL THREAT, RURAL SHAKE-OUT

Given the importance of branch plants to the communities in which they sit, the juncture at which rural communities now find themselves is critical. Their traditional advantages are no longer enough to keep branch plants in place. In today's global economy, the rural United States simply cannot compete when it comes to cheap labor, a lax regulatory environment or a pro-business culture.

Even worse, rural areas tend to host branch plants of mature, slow-growing industries that often face stiff competition from abroad—industries like textiles, wood products, furniture and leather. The sectors that grew rapidly during the 1980s—for example, electronics or other high-technology products—have tended to stick to urban or suburban locations.³ So, as the manufacturing shake-out continues to turn the screws

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on the weakest plants over the next few years, the results will be felt disproportionately in rural America.

MOVING BEYOND RECRUITMENT

The question, then, is how rural development practitioners ought to respond. Should they follow their typical custom and beef up their recruitment efforts? Or should they learn how to deal more fruitfully with the employers they have and with potential new employers?

Few
communities actually win
at the recruitment game.
More would benefit instead
by trying to retain
existing plants.

Historically, rural communities have relied on the first option, looking to fresh outside investment for development opportunities. When times get tough, rural chambers of commerce, electric utilities, and state and local development authorities all have a penchant for launching quests for new plants.

The problem is, few communities actually win at the recruitment game. Business researcher David Birch has found that there are something on the order of 20,000 communities chasing 500 plant relocations every year.⁴ Those odds make gambling a community's future on snagging a relocation not much better than a fool's game.

We believe that many communities would benefit instead by trying to retain existing plants. What we have in mind, though, are *not* gifts or subsidies to any corporation that demands them. That approach, which has

passed for economic development in too many communities, is simply inadequate today.

VALUING RETENTION

It is important to recognize that globalization has forever changed the appropriate “care and feeding” regimen for branch plants.

It is no longer enough for economic developers to play the role of simple land brokers or public check-writers. They must become Wall Street analysts who can help their communities understand the industries and the firms they rely on. Only if rural economic developers come to understand the pressures that corporate managers face, and the ways in which branch plants must change in order to mesh with new global challenges, can they position themselves to deal effectively with the needs of American—or foreign—businesses.

Even more important, that knowledge will help rural communities avoid being held captive and voiceless as distant corporate managers move resources around like pieces on a chessboard. A community with a firm grasp of the issues facing branch plants is in a position to think strategically about its development; only then can it discriminate in how it deploys its own resources. Community leaders can decide *not* to spend money on incentives for a manufacturer

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who appears interested only in milking cheap local labor; instead, they can try to find ways of upgrading those residents' skills. And local decisionmakers can take advantage of the pressures that manufacturers now face to modernize their plants and invest more fully in their labor forces.

These strategies can help ensure not only that a community keeps its manufacturing base, but that true economic development ensues as a result.

THE CHANGING HORIZONS OF GLOBAL MANUFACTURING

To grasp why the approach taken by rural development practitioners must change, it might help to understand how the world in which they are practicing has changed. To do that, you have to start with the globalization of the economy, which has edged rural communities out of the place they once held in the strategic thinking of corporate planners.

The Declining Rural Advantage

A POST-WAR BOOM

The rural United States, of course, has never been front and center among corporate concerns. To manufacturers, its value lay mostly in its low costs. Land is cheaper in the countryside; so is labor. Regulations tend to be more lax, and local governments more easily swayed by corporate demands.

In the economy that developed over the four decades that followed World War II, with companies focused largely on serving the U.S. market and worried mostly about competition from other U.S. companies, rural communities attracted

To
manufacturers in the past,
the value of the rural
United States lay
mostly in its low costs.

attention with their lower wages and lack of unions. Even when competition from cheap imports—especially goods such as clothing and textiles—first began to have an impact, the relocation of northern plants to the South and to Appalachia helped U.S. manufacturers remain in

contention. To corporate managers whose horizons never stretched beyond the two coasts, and often extended only as far as they could fly in a couple of hours, rural branch plants had an undeniable appeal.

In
today's economy,
manufacturers' markets,
production sites and
competition are likely
to be global.

A WORLD OF COMPETITION

These days, such limiting horizons are fast disappearing in corporate America.

In some cases, as with Levi Strauss & Co. or Motorola, it is because the U.S. market, while still important, is no longer the only target for their products. These global companies are striving to secure markets in Japan or Brazil or Eastern Europe.

In other firms that still aim largely at domestic customers—such as Liz Claiborne—although the products they sell may wind up mostly in American households, the goods are pieced together in Malaysia before making their way to your local mall.

Even in cases where both the market *and* the production site are largely domestic—the auto industry comes to mind here—the competition increasingly

comes either from abroad or from foreign corporations with operations on U.S. soil.

The economy, in other words, has become truly global. Something on the order of \$3 trillion in capital travels throughout the world each business day. At any time during a 24-hour period, there is a financial market open somewhere in the world. At the beginning of the 1980s there were some 7,000 multinational corporations, the bulk of them U.S.- or British-owned.⁵ Today there are more than 35,000 multinationals with more than 170,000 subsidiaries. And growing numbers of them are based in developing countries, especially in the Pacific Rim.⁶

What this means is that U.S. corporations face far more competition from overseas than they did even a decade ago. Until just a few years ago, investments in other countries were most often made by U.S. firms trying to gain access to Latin American and European markets, or by British firms interested in higher returns on capital than they could get at home. These days, countries that American firms once had all to themselves are playing host to Japanese or Korean or German plants.

As a result, U.S. firms have been forced to ratchet up their stakes abroad: In just the five years between 1987 and 1992, the market value of U.S. direct investment abroad rose 35 percent, to \$776 billion.⁷ Even so, U.S. firms now account for less than one-third of the 500

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largest manufacturing firms in the world, down from 61 percent in 1966.⁸ At the same time, firms in other countries have made a bold bid for the American market. Over those same five years, the value of foreign direct investment in the United States more than doubled, to \$692 billion.

Both abroad and at home, in other words, American companies are contending for markets against a growing array of competitors, many of whom use more efficient business practices and production methods, or operate with government-sponsored protections at home that give them an invaluable cushion as they fight for markets abroad.

The Lure of Foreign Climes

In this intensely competitive atmosphere, many companies have discovered that the advantages once offered to them by rural communities in the United States are being trumped by other countries. Indeed, the rising economies of Asia and Latin America and the opening of Eastern Europe have given location options to companies in the United States and the rest of the developed world that would have been unthinkable only 10 years ago.

SOPHISTICATED LABOR

A few years ago, for instance, General Electric became the first major Western firm to move into Eastern Europe

with its purchase of Tungstam, a Hungarian light bulb maker. It found a highly trained workforce and a cluster of engineers who turned out to be among the best in the world at designing sophisticated lighting fixtures. If you buy a GE compact fluorescent bulb at your local hardware store these days, it probably comes from a Tungstam facility.

In other words, what U.S. companies are finding as they move abroad—and not just in Eastern Europe, but in Asia and Latin America as well—is a labor force that can be as sophisticated as the one at home. In a 1992 article on the global workforce, *Fortune* quotes an executive at Siemens, the German industrial and electronics firm, as noting, “Thirty years ago they could barely spell ‘steam turbine’ in India. Now we are building the biggest ones in the world there.”

And as labor economist Harley Shaiken commented last year, “While many Americans consider Mexico an industrial backwater, the emerging reality is quite different: A new generation of high-tech Mexican plants in industries from computers to automobiles rival the productivity and quality levels of the best Japanese plants.”⁹

SMART SOURCING

Moreover, if American firms *are* having trouble finding the right labor force abroad, plenty of people in other

What

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as the one at home.**

countries are more than happy to help. As it's become increasingly clear that any national industry hoping to compete on the world market must be as good as its competitors, multinational operations have lost their pariah status in the developing world; they are now considered a prize.

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like Guatemala or Mexico, it's
hardly surprising that there
is growing pressure
to move production beyond
U.S. borders.

In just one example, Indonesia has allowed its more industrially advanced neighbor, Singapore, to build a set of industrial parks along a chain of islands in the Strait of Molucca, counting on the lure of an enormous pool of inexpensive Indonesian labor to woo Western industrial giants. And it is now commonplace for American executives to receive queries from “sourcers” abroad who tout factories that can work more cheaply than the ones those executives currently use.

So when one can find even the most sophisticated processing techniques—such as the use of industrial robots to assemble auto parts, or advanced circuit-board technology, or tunnel-freezing of produce—in low-cost countries like Guatemala or Mexico, it's hardly surprising that there is growing pressure to move production beyond U.S. borders. Already in 1990, U.S. companies employed 2.8 million people in Western Europe (up 4 percent from the year before), 1.5 million in Asia and 1.3 million in Latin America.¹⁰ And that tells only part of the story, since overseas operations owned by American firms (as well

as by Europeans and the Japanese) are increasingly turning to outsourcing, or buying parts or labor from networks of independent suppliers, rather than providing them themselves.

THE CORPORATE RESPONSE TO GLOBAL PRESSURE

Linevitably, the pressures and opportunities to be found in the global economy have changed the behavior of American business. Standards of price, quality, delivery and service that once might have prevailed only regionally or nationally are now set on a worldwide basis. Meeting these standards is shaking U.S. manufacturers to their roots.

This is largely the stuff of boardroom conversation; arguments about market development and labor costs don't tend to get bandied about in branch-plant cafeterias. Yet the questions that preoccupy distant corporate executives are crucial to the future of branch plants and the towns that host them, since the health of a rural economy may ultimately depend on the decisions reached in those boardrooms. Any rural community concerned about its future needs to understand how corporations are responding to the pressures they face.

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The Quest for Lower Costs

First, and most obviously, corporations searching for low-wage, low-cost sites for production are no longer

looking to Appalachia or the rural Midwest. American firms are conducting global searches to find the appropriate mix of skilled labor and low costs.

The fight over the North American Free Trade Agreement (NAFTA) focused great attention on the competitive pressure from Mexico being confronted by American communities that had relied on low-cost labor to attract employers. The fact is, American communities face low-cost competition not only from towns in Mexico, but from communities in such far-flung countries as Brazil, Korea, Pakistan and Portugal.

**STAGES OF PRODUCTION:
MOVING MORE AND MORE OFFSHORE**

And it's not just *where* companies make their goods that's changing; *what* they make in the first place—or at least, what their domestic operations make—is changing as well. In particular, the growing ease with which firms can establish low-cost operations abroad, and the competition they face from rivals in the developing world who can compete aggressively on cost, have convinced many analysts that companies operating in the developed world will be pushed into more specialized and higher-value-added products.

American firms
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low costs.

U.S. food processors, for instance, are starting to take advantage of lower labor costs and longer growing seasons in Mexico and Central America

to shift at least the initial stages of food preparation south of the border. Their domestic operations eventually will concentrate more heavily on the highest levels of processing, such as producing microwavable meals for supermarket freezer cases or frozen dinners for institutions. So, too, with clothing, computers or almost any other manufacturing industry one can name.

In short, products may still go through their final preparation in the United States, but increasingly the early work is being done by workers in other countries. For rural developers, this only reinforces the fact that a low-wage workforce is not much of an attraction anymore. The workers a community has to offer must be capable of dealing with more sophisticated manufacturing processes.

CORPORATE RESTRUCTURING: PEELING TO THE CORE

The drive to keep costs down is also spurring corporations to shed peripheral operations as they strive to concentrate on their core businesses.

Corporate restructuring in the 1980s aimed largely at improving companies' financial structure or managing their portfolios. So the mergers and acquisitions flood produced any number of odd conglomerates that enfolded subsidiaries whose reason for being got lost somewhere in the dusty files of previous owners.

It's not just *where* companies make their goods that's changing; *what* they make—or at least, *what* their domestic operations make—is changing as well.

The drive to keep costs down is spurring corporations to concentrate on their core businesses and shed peripheral operations. Rural communities whose plants were the targets of mergers or acquisitions in the 1980s face tremendous uncertainty.

The pressure these days is to concentrate on strengthening internal efficiency and sharpening business focus. As firms realize that their hodgepodge of subsidiaries contribute less to the bottom line than to the cost of keeping up the corporate relationship, they are peeling them off—eliminating some product lines or simply pulling profits out without reinvesting anything in those subsidiaries. They also increasingly are turning to outsourcing, by hiring independent businesses to perform services that aren't directly related to their core business, or by building networks of suppliers for parts they'd rather not produce themselves.

As corporations remake themselves in these changing times, rural communities whose plants were the targets of mergers or acquisitions in the 1980s face tremendous uncertainty.

The Quest for New Markets

The new global regime has engendered more than a simple search for lower costs. As growth in many product markets slows—particularly in Europe and North America—corporations are also being forced to pursue new markets on other continents. That, too, threatens many branch-plant operations in rural areas of this country.

**SHIFTING RESOURCES:
BEST USE, HIGHEST RETURN**

For one thing, multinationals are deciding to close down or shift the focus of branch plants for broad strategic reasons. Historically, American multinationals have defined their operations on a nation-by-nation basis. For instance, a decade or two ago, they might have had a factory in every country in Europe because that was what it took to compete in each nation. Now, however, with European integration, a factory in the Netherlands may be able to produce enough for the entire West European market. As trade barriers fall on other continents, such strategic siting decisions are becoming possible there as well.

So American companies are re-deploying individual plants to fit into a global strategy. In some instances, factories in the United States are being shut down in favor of lower-cost operations elsewhere. In other cases, firms are shutting U.S. plants down because a factory in some other country gives them access to that nation's emerging market, and at the same time provides them a platform with the right mix of favorable laws, low costs and skilled workers to ship competitively priced goods back home.

The fact is, global managers face constant pressure to shift resources from country to country to suit competitive demands. They must consolidate operations with an eye toward economies of scale. They channel resources

A_s

**their markets change and grow,
American companies are
redeploying individual plants
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to investments that pay the highest returns. And they are forever on the lookout to rationalize production in order to serve particular market segments at the lowest possible cost. All of those mandates put rural U.S.-based plants in tight competition with other plants within the same corporate family, wherever they may be.

RECONFIGURING PRODUCTION: SYSTEMS, NETWORKS AND FLEXIBILITY

T
o
compete effectively
in business today,
it is no longer necessary
to bring all phases
of production
into one extended enterprise.

At the same time, a basic shift is taking place in just what constitutes this “corporate family.”

Until a few years ago, most companies believed that in order to compete effectively they had to bring all phases of production into one extended enterprise. The result was enormous conglomerates, such as the Ford Motor Company, which encompassed every stage of automobile production, starting with forging the steel.

Today it has become apparent that, to survive in business, you don’t need to be able to make all the parts that go into a product. Corporations are instead taking advantage of low transportation costs and the explosion of telecommunications and computer capabilities to build networks of designers and producers who live not only outside their own corporate family, but outside their country of origin. The results often reverberate throughout a particular industry.

Take, for example, the rise of so-called “apparel production organizers.” These are companies, among them The Gap and Liz Claiborne, that typically produce no clothing on their own. Instead, they organize systems of firms that produce it for them—from clothing design, to the production of the fabric, to its manufacture into a shirt or a dress, to its packaging and delivery to stores. These are truly *global* systems: Both Liz Claiborne and The Gap are \$2 billion corporations with production facilities under contract to them in at least 45 countries. Not only have they had a clear impact on the demand for domestically produced fabrics and clothing, but their success at using global production systems is starting to push the U.S. textile and apparel industries away from their historic reliance on plants in the United States.

One benefit of these wide networks of production partners is that they give corporations enormous flexibility to respond to changing conditions, without having to worry about overhead they might have sunk into plants and equipment. Not surprisingly, manufacturers are seeking to develop that same flexibility within their own organizations as well. It is a change that goes beyond the flexible manufacturing processes that have been developed in the last few years, which allow producers to respond quickly to changing orders or to demand for product alternatives to their “standard” models. “The key term is ‘reconfigurable,’” a Goodyear vice president told *Fortune* last year. “We want an organization that’s reconfigurable on an annual,

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The

key term is 'reconfigurable.'

Immutable systems are

dinosaurs.

monthly, weekly, daily, even hourly basis. Immutable systems are dinosaurs.”

Everything—management structures, production, product development, the way work itself is organized—is at stake. In a growing number of corporations, very little can be taken for granted any more. And that especially goes for branch plants.

U.S. BRANCH PLANTS IN THE GLOBAL ECONOMY

Looking at a chemical works sheltered in some remote hollow in West Virginia, or at a fruit processing plant surrounded by the flat reaches of northern Michigan, it seems a stretch to believe that events in India or Mexico can resonate quite strongly there. The fact is, though, companies are surprisingly delicate ecosystems; a change in one realm eventually reverberates through every other. It's inevitable that the shakeup being endured by corporate America at the moment will be felt in even the most out-of-the-way places.

THE IMPACT: DEPENDS ON THE INDUSTRY

The problem with trying to analyze just how globalization is affecting rural branch plants is that it is almost impossible to generalize these days about where manufacturing is headed.

For one thing, no two industries face precisely the same challenges. A General Motors executive in Grosse Pointe who lies awake nights worrying about competition from Japanese factories on U.S. soil has concerns very different from a textile manufacturer in Spartansburg, South Carolina, who may be troubled by

Generalizations

about how globalization is affecting rural branch plants are almost impossible. No two industries face precisely the same challenges.

the prospect of doing battle against low-cost, high-quality imports from China.

Even within industries, some firms are financially healthy and can afford to think strategically about where they're headed; others, either because they are run by unimaginative leaders or because their finances are tight, focus solely on short-term cost issues.

**THE RESPONSE:
HIGH ROAD OR LOW ROAD**

Some firms
are striving to upgrade
their workforces and systems;
others are focusing on
lowering costs.
Either way, rural communities
and their branch plants
will be affected.

Not surprisingly, then, in the course of our study we found again and again that American firms are following two routes as pressure mounts to perform in the global marketplace. Some are striving to *upgrade* their workforces, internal organization, production systems and manufacturing processes in order to raise their productivity, while others are *lowering* costs by using low-skill, low-wage workers and locating in areas where taxes, regulations and other costs are minimal.

Either way, rural communities and their branch plants are certain to be affected—sometimes for good, often for ill. To see why this should be so, it might help to look in detail at two industries with extensive operations in rural areas of the country: apparel and automobile parts.

In the case of apparel, the United States is faced with an industry that is, for the most part, unprepared to compete in today's rugged economic circumstances other than by pursuing a low-wage strategy. Auto-parts manufacturers, on the other hand, are caught up in the wholesale push by U.S. automakers to rebuild their global standing and regain their once unquestioned position astride the U.S. market. For them, finding ways to meet new demands for quality production will be the key to survival.

U.S. Apparel Industry: Quick Exit or Quick Response?

Historically, many Americans have an image of the average apparel factory as a threadbare sweatshop on the third floor of a rickety walk-up somewhere in lower Manhattan or on the fringe of downtown Los Angeles. Such places do exist, and in considerable numbers. Still, they are not the rule.

IMPORTANCE: SIZABLE

In truth, some 40 percent of the clothing and textiles produced in this country comes from just four states: North and South Carolina, Georgia and Pennsylvania.¹¹ There and elsewhere, clothing manufac-

The apparel industry is, for the most part, unprepared to compete in today's rugged economic circumstances except by pursuing a low-wage strategy.

turers tend to set up shop in rural areas—sometimes submitting their workers to conditions as disagreeable as in urban sweatshops. In some parts of the South, a single clothing manufacturer can dominate the economy of an entire town or even a county.

The \$40 billion domestic apparel industry has a sizable impact on the nation's economy as a whole as well. According to the Bureau of Labor Statistics, in 1991, for every \$1 million in final demand for apparel products, the industry created 22 jobs for workers making the goods and another 16 in other supporting industries, such as machinery and electronics.

**STATUS:
MARGINALIZING**

The vast majority of apparel firms have failed to increase efficiency by using computer-aided design or automated cutting.

This makes it all the more sobering that the U.S. apparel industry seems in danger of becoming marginalized by global competition. The industry historically has relied on labor-intensive production which, over time, has entrenched its dependence on low wages, its general reluctance to invest in plant and equipment, and its consistently low levels of productivity.

Though such large companies as Levi Strauss and Wrangler have automated extensively, the vast majority of apparel firms have failed to increase efficiency by using computer-aided design or automated cutting. The

reason lies partly in the low skills endemic to their workforce, and partly in the fact that modern technology tends to be extraordinarily expensive and designed for high-volume operations.

At the same time, U.S. apparel firms lag behind their foreign competitors in the quality of their products. This might be fine for a producer in a developing nation, but it means eventual extinction for firms that face the relatively high cost of operating in this country. In other high-cost countries, such as Germany and Japan, apparel producers have moved up-market into high-value-added goods, using higher-grade materials, producing more tailored products and even making high-fashion standards available to ordinary buyers. By and large, U.S. producers have not followed suit.

A
t
the same time,
U.S. apparel firms lag behind
their foreign competitors
in the quality
of their products.

The problem has been exacerbated by the shift of U.S. textile producers out of making cloth for apparel, and into the industrial and home furnishings markets. The result is that American clothing manufacturers have had to turn to fabrics produced overseas, which are subject to high tariffs. This makes it all the more difficult to compete on the basis of cost. Moreover, few firms have undertaken niche or marketing strategies that would reduce their vulnerability to lower-cost foreign competitors.

Even worse, in a market that increasingly demands flexibility, U.S. producers have a reputation for being

insensitive to the needs of retail buyers. This is a major reason American retailers began turning to Asia, and especially Hong Kong, for their garments. Some retailers state bluntly that cost is less important to them than the flexibility they have won working with Asian producers who can produce a pattern, acquire material, cut, sew and do the final packaging for a particular retailer all within one establishment. It is an organizational innovation that, so far, U.S. firms have been slow to adopt.

Even so,

**U.S. apparel manufacturers
have a second chance
to prepare for the future
as Asian producers
begin to focus on the
growing Asian market.**

Even so, apparel manufacturers in the United States have, at the moment, what amounts to a second chance to prepare for the future. Asian producers are starting to manufacture more heavily for the growing Asian market, and so are less inclined to ship to the United States. This is starting to produce shortages of Asian goods, which U.S. producers could, if they go about it properly, step in to fill.

**RESPONSE:
A CLOSE CALL?**

The question is what route they *are* going to take. There is no doubt, especially in the wake of NAFTA's passage, that many firms are going to close down their domestic operations and head to Mexico. This is especially true of companies that make t-shirts and other clothes that require low skill levels and generally have a high labor content. Communities with branch plants that fit into

this category face the very real prospect of losing them entirely over the next five years.

Other companies may finally find it in their interest to adopt so-called *quick-response* programs, which link apparel producers with retail chains. In such programs, producers strive to eliminate lags in the transit of unfinished goods from stage to stage in an effort to cut the time between production and sale.

Because quick response can involve both considerable cost in upgraded equipment and considerable risk in committing to retail chains, companies have been reluctant to undertake it. Even now, it is likely to be the larger apparel manufacturers, with the clout that size gives them in negotiating with retailers, that move into it first. As they do, their branch plants are virtually certain to need upgrading and their workforces training in how to operate new equipment.

Some apparel firms will close down domestic operations and head to Mexico; others may finally invest domestically in quick-response programs.

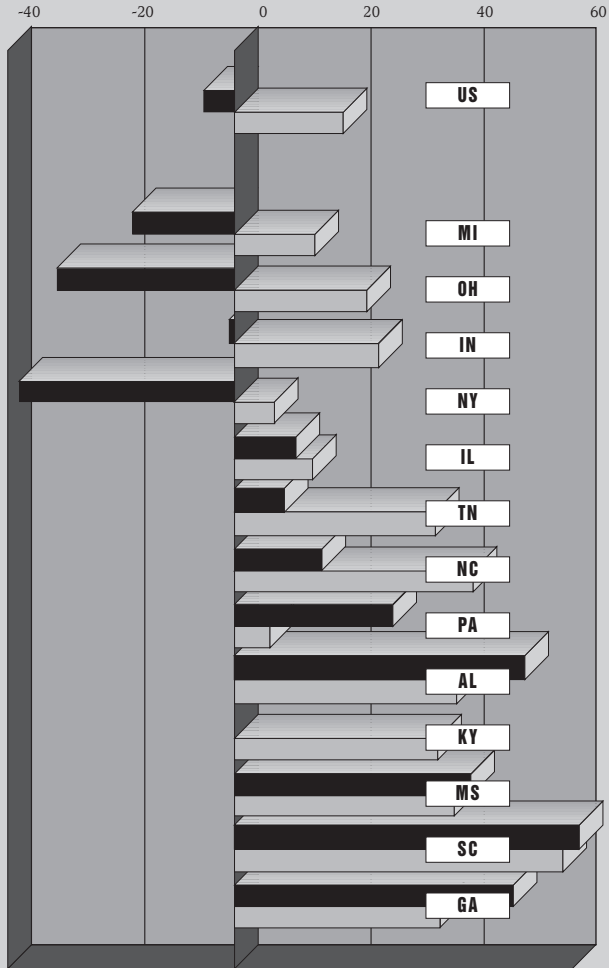
U.S. Auto Parts Industry: New Demands, Tougher Competition

IMPORTANCE: ENORMOUS

The U.S. automotive industry has an enormous impact on the U.S. economy. In 1991, it accounted for \$189 billion in personal consumption expenditures by consumers,

FIGURE 2. AUTOMOTIVE PARTS ESTABLISHMENTS AND EMPLOYMENT

CHANGE IN AUTOMOTIVE PARTS ESTABLISHMENTS AND EMPLOYMENT:
U.S. AND VARIOUS STATES, 1980-1990



Data Source: U.S. Department of Commerce, Bureau of the Census

and directly employed 776,000 workers who made motor vehicles and equipment.

More to the point, the industry has an outsized impact on the Midwest and, increasingly, the South. In 1990, 48 percent of the employment in the domestic auto parts industry was based in Indiana, Michigan, New York and Ohio. Meanwhile, between 1980 and 1990, states such as Alabama, Mississippi, Georgia and the Carolinas saw anywhere from 16 percent to 61 percent growth in the number of residents employed by the industry. (See *Figure 2*.)

STATUS:

LINKED TO THE BIG THREE

The key to the domestic auto-parts industry is that its fortunes are linked intimately with those of Ford, Chrysler and General Motors. Nearly every action the automakers take echoes throughout the auto-making complex in this country. So, to understand what lies ahead for U.S. parts manufacturers, both captive—that is, owned by an automaker—and independent, it helps to understand where the Big Three are headed.

The key to the domestic auto-parts industry is that its fortunes are linked intimately with those of Ford, Chrysler and General Motors.

To begin with, they're headed south of the border. General Motors already is Mexico's largest employer. Overall, employment in automotive-parts maquiladoras—the Mexican branch plants situated near the U.S. border—grew from 10,000 in 1980 to 130,000 in 1991. At that point, the Big Three were operating 64 plants in Mexico,

most of them manufacturing such labor-intensive parts as wiring harness, upholstery and electrical components.¹² With NAFTA now a reality, the role of U.S. auto manufacturers is only going to grow in Mexico; so, too, will the sophistication of the manufacturing done there.

In this country, the automakers' efforts to shore up their standing in the domestic market has led them to focus intently on lowering costs and improving quality. They are, for instance, turning increasingly to outsourcing in order to cut back on the expense of maintaining their own operations and to slough off the cost of parts development. Between 1978 and 1992, employ-

ment at the Big Three's captive suppliers fell from 428,000 to 245,000.¹³ The suppliers that remain are being forced to compete with the independents. At the same time, the auto manufacturers are pressuring the independents to keep costs low by negotiating deep concessions, providing suppliers with technical assistance to raise productivity, and reducing the number of independent suppliers they use in the first place.

The
**demand on automakers
for improved quality
is every bit as intense as
the mandate for low cost.**

The demand for improved quality is every bit as intense as the mandate for low cost. The automakers understand that perceptions of poor quality in their products lie behind the huge gains made by foreign competitors in the American market. In their own plants, the Big Three have been investing in modernization programs aimed at boosting the quality of production. They also have imposed strict quality-control rating systems on their independent suppliers.

It's unlikely that any of the shifts that are remaking the industry—the move into Mexico, the consolidation of facilities or the careful scrutiny of the production process—will end in the next few years. This makes the future for communities with captive parts plants rather gloomy. The Big Three have been closing plants since the early 1980s, selling them off or modernizing a few at the expense of others.

Even for those captive plants that *have* been modernized, it's not entirely clear what the future holds. Some analysts argue that, as in other industries, higher-value-added parts will continue to be made in the United States and Canada, while more labor-intensive parts are made in Mexico. But the fact is, the automakers already have some world-class facilities in Mexico, and, with NAFTA in place, there is no reason to believe they won't continue to build them there. According to one estimate, engines will cost 33 percent less to manufacture in Mexico than in the United States, a difference that is bound to figure prominently in the thinking of auto executives.¹⁴

RESPONSE:

MARKET, MOVE, MAKE FRIENDS, MODERNIZE?

For their part, independent suppliers have reacted to the uncertainty bedeviling American automaking in an

Some

industry suppliers are investing in new markets, some are seeking low-wage production sites, some are forming strategic alliances, and some are remaking themselves according to the Japanese “lean production” model.

assortment of fashions. Some companies have been investing in new markets, both geographically and by introducing new products. Some are relocating production to low-wage areas. Others are forming strategic alliances in order to compete, or are becoming component suppliers to larger parts producers that have direct relations with the automakers. And a few are restructuring and attempting to modernize along the lines of the Japanese “lean production” model.

As the
**Big Three shift more of the
cost of parts development
onto independent producers,
those suppliers with
the resources to meet
the automakers’ needs will
be the ones that prosper.**

The big firms have distinct advantages as the industry sorts itself out. Industry leaders such as Arvin, Dana and Federal Mogul all have invested heavily in Europe, and have cut their costs by shifting large-scale operations to low-cost areas, first from the unionized Midwest to the nonunion South, and now to Mexico, where line workers get paid a fraction of the average hourly U.S. wage. With NAFTA in place, the larger parts manufacturers can use Mexico to position themselves for the entire North American continent.

As the Big Three shift more of the cost of parts development onto independent parts producers, those suppliers with the resources to meet the automakers’ needs will be the ones that prosper. This can only intensify the need for independents to upgrade plant and equipment, which in turn will also favor larger firms, with their deeper pockets and greater technical resources.

Even so, there are real challenges ahead for independent suppliers, and thus for the communities that host their plants. The automakers' push for quality and the demand for technological improvements will require flexibility and innovation on the part of their suppliers. As things stand now, those are hard commodities to come by.

There is, for example, great pressure to move to the just-in-time delivery methods pioneered by the Japanese; those branch plants that can master it are more likely to survive than those that cannot. Conversations with supplier branch-plant managers, though, suggest that they are paying lip service to the notion but not necessarily moving forcefully to realize it. Deliveries now tend to be on a weekly basis, in contrast to the ability of suppliers working for foreign transplants to ship on an hourly basis.

Just as important, U.S. parts suppliers—who rarely have actual control over the design or manufacturability of parts—historically have had to compete based solely on cost and delivery. As automakers become increasingly demanding about parts quality, independent manufacturers have little experience to guide them as they try to manage modernization. The result is that the process often can be irrational. One plant we visited had installed an entire line of robots designed to make fuel injectors, a move that made great sense until headquarters decided to move the production of the injectors to

A_s

automakers become increasingly demanding about parts quality, independent manufacturers have little experience to guide them as they try to manage modernization.

Some

corporations are trying to increase branch-plant profitability by upgrading the production process and the ability of local management to make decisions that previously were centralized.

another facility, leaving the multi-million dollar investment sitting idle.

Even worse, because their management structures are highly formal, the typical branch-plant manager has scant input into decisions about modernization and little flexibility in training or deploying workers. Even where they have been given more autonomy, managers in rural communities are so isolated from their colleagues that it is difficult to get the information they need to move decisively toward modernization.

In short, it is hard to be optimistic about the ability of parts manufacturers—and their rural branch plants in particular—to establish new production processes, upgrade workers' skills, and restructure relations with suppliers and customers. Yet that is what they must do if they are to survive in an industry that faces rigorous new demands from domestic automakers and toughening competition from abroad.

Getting on the High Road to Competitiveness

The fact is, local manufacturing operations of all sorts are being asked to meet standards that, increasingly, have been set globally. Many of them will fail, or will refuse even to try as long as the low-wage, low-cost route seems to promise continued profits. Others, however, either are already making their branch operations globally competitive or, with the right incentives, can be encouraged to do so.

DECENTRALIZE DECISIONMAKING

Some corporations, for example, are pushing their branch operations to become profit centers, a step that usually demands upgrading both the production process and the ability of local management to make decisions that once might have been under central control. Where the decision to bring new technology into a plant was once made in New York or Minneapolis, now plant managers are going to trade shows themselves and analyzing whether a new capital investment is worth making and how to go about making it. Where choices of subcontractors or sources of raw materials once were solely the province of corporate headquarters, now they are increasingly up to the branches.

BOOST PERFORMANCE

In addition, two chief approaches to reorganizing plant operations are emerging among companies striving to meet competitive pressures by boosting performance. One is to *create flexible mass production* by revamping production processes to permit shorter production runs, more rapid development of products and a greater variety of products created by a single machine or plant.¹⁵ In many cases, these firms also undertake to cut costs as deeply as possible by reducing permanent employees and relying more heavily on temporary workers.

Two chief approaches to reorganizing plant operations are emerging: flexible mass production and the transformation of front-line workers into key participants in the production process.

The other approach *transforms front-line workers into key participants* in the production process. Employees may participate in quality circles; they may help refine the work process; often, they help redesign how production is carried out. This is a strategy that can require considerable investment both in equipment and in workforce training. For instance, in 1993, Cummins Engine Company reopened its Midrange Engine Plant near Columbus, Indiana after a \$206 million investment—along with \$4.4 million in state money—in

completely redesigned production lines that use ergonomic workstations and grant considerable autonomy to work teams to improve assembly-line production.

Despite the cost, this strategy can carry enormous rewards. Motorola, for instance, has invested heavily in turning its line workers into full-scale collaborators in the production process. They are as informed of company needs as their managers, are familiar with statistical process control, and can shut down the line to initiate error-checking on their own. The result is that, in an industry that often ships out televisions with thousands of small mistakes inside, Motorola now is yielding only 150-300 errors for every million parts it produces.

In fact, Jim Burge, vice president for human relations at Motorola, argues that investing in high-performance plants is the key to future competitiveness:

Motorola

**invested in turning its
line workers into full-scale
collaborators in the
production process—
and now is yielding only
150-300 errors for every
million parts it produces.**

There was a time when we thought that a technology lead would give us a sustained competitive advantage, maybe for three or five years. But today technology only gives you an advantage for a matter of months. Our competition can take a new product that we put on the marketplace...

enhance it and have it on the market in a matter of months. We found our competitors could match us point for point on conventional competitiveness dimensions.¹⁶

What distinctive advantage will allow you to be a winner in this global marketplace? How you invest in and utilize your human resources... Adopting a high-performance workplace philosophy, emphasizing our employees and our customers is, from our perspective, really a story of survival.¹⁷

There was a time
**when we thought that a
technology lead would give us a
sustained competitive advantage,
maybe for three or five years.
Today technology only gives you
an advantage for a matter of
months.**

TOO FEW IN THE LEAD

Corporations that have adopted this philosophy are, to be sure, at the leading edge of American business. But there aren't that many of them. Although more than 75 percent of America's large firms have undertaken some kind of workplace innovation, case studies suggest that only 25 to 30 percent of them have made meaningful changes in at least one of their branch operations.¹⁸

The

**upfront costs of pursuing the
high-skill road are considerable.**

**Without incentives or help in
transforming themselves,
many companies may never make
the investment.**

Those that *have* opted to go the high-performance route tend to have reached a point where the firm's survival is at stake, and to have the financial resources to pursue such all-encompassing reorganization. For the fact is, quite aside from the problems associated with the difficulty of finding timely information, or with ignorance about how to go about modernizing in the first place, the upfront costs of pursuing the high-skill road are considerable.

Without incentives or help in transforming themselves, many companies may never see it as in their interest to make

the necessary investments.

THE CHALLENGE FOR RURAL DEVELOPERS

Clearly, globalization puts at risk the economic health of the rural United States.

- ❖ It has robbed rural communities of the advantages that low wages once gave them, either by throwing them into competition with less costly countries around the globe or by forcing companies to look for workforces with higher skill levels.
- ❖ It has encouraged companies to shift production out of the United States—even from high-performing plants—in order to meet the strategic demands of competing in overseas markets.
- ❖ It has threatened the existence of companies that are ill-equipped to meet new standards of quality and service.
- ❖ It has made the future increasingly uncertain for communities that host subsidiaries acquired in the past 15-20 years.

So it should be obvious by now that globalization has also fundamentally changed the calculus of rural

In today's global economy, the challenge for rural communities is not simply to attract or retain any old branch plant. The challenge is to help firms compete and to help communities compete.

development. In this economy, the challenge for rural communities is not simply to attract or retain any old branch plant. The challenge, instead, is twofold:

Most economic development efforts are entirely unsuited to help firms compete and don't even address ways to help their communities compete.

❖ **HELP FIRMS COMPETE:** Learn how to judge which corporations can make their local operations globally competitive and then help them do so.

❖ **HELP COMMUNITIES COMPETE:** Learn how to use branch operations to ensure that the community itself becomes globally competitive.

Most economic development efforts are entirely unsuited for the first of those challenges, and are barely even aware that the second is an issue.

Helping Firms Compete: Change the Incentives

BREAK WITH TRADITION

Over the years, rural communities have learned how to offer branch plants a wide range of location incentives, from subsidized sites to worker-training services to plant construction. For the most part, though, they've relied on two attractions to lure companies or to keep them from moving: tax abatements and low-wage, non-union labor.

In an era when rural communities in the United States are competing with countries that can offer either lower costs or more attractive incentives, these are woefully inadequate approaches. In Central America, for example, governments are subsidizing low-wage industrial parks that offer labor at a fraction of the cost of even the most abysmally poor counties in the United States. And in Europe, governments offer grants that cover most of the cost of new facilities, training and equipment, packages that are far more comprehensive than most state and local initiatives here can muster.¹⁹

Offering
**branch plants tax abatements
and low-wage, non-union labor
are today woefully inadequate
approaches.**

Besides the fact that developing countries now can easily outbid U.S. jurisdictions on traditional industrial incentives, it's equally important to realize that, though mature rural industries might follow any of several routes to reach global competitiveness, these same traditional economic development practices are largely irrelevant in assisting any of the newer corporate efforts.

For example, if an apparel plant can adopt quick-response practices only by bringing in modular equipment and by training its workforce to use it, the typical tax abatements aren't going to help very much. If learning just-in-time practices or gaining access to the Japanese transplant market is the key to a firm's survival, touting an area's low prevailing wage is hardly going to persuade a fuel-injection plant manager that he can succeed in the effort.

HELP BEYOND HUGGING

And yet, industrial retention strategies generally have been aimed solely at bribing companies not to pull up stakes—a practice known somewhat derisively within the economic development field as “smokestack hugging.” What the community usually gets in exchange for its concessions are the jobs it’s always had and some tinkering with the plant itself.²⁰

What the community misses by following that route, however, is far more important: It misses a chance to ensure that the employer on which it is depending for its economic health is truly up to the task of surviving in the global economy.

“S **Smokestack**

**hugging” fails to ensure
that the employer
being solicited
is truly up to the task
of surviving
in the global economy.**

An example might help underscore this point. There is, in Georgia, a well-respected sportswear producer with factories spread throughout the state that has reached a crucial moment in its development. The firm historically has concentrated on filling small-volume, specialized orders from smaller retailers. It is now, however, under considerable pressure to explore larger markets, since mergers in the retail sportswear field have constricted its options.

Complicating matters, it has found that as quickly as it can come up with new products, Asian producers are taking its models, producing them more cheaply and selling them to both small and large retailers.

In response, the company is moving to produce in large volumes for the major retailers, as well as in smaller batches for its traditional customers. It needs great flexibility to respond to those two markets, which means it needs skilled workers, multiple modular production lines and help in balancing its inventory, developing new products, and getting access to trade shows and other sources of market information.

It is a situation made to order for an economic development initiative that combines worker retraining, management consulting, help in redesigning production flows, and perhaps low-interest loans for new equipment. It is also a situation for which the traditional approach to economic development would be entirely insufficient.

The fact is, as we suggested earlier, only a minority of corporate organizations are currently making the changes necessary to build a high-performance economy. Even worse, only a minority seem to have the organizational ability to do so on their own.

It is not enough for communities that hope to preserve their job base to assume that all their employers need are scattered tax subsidies. Instead, they—along with states and the federal government—must learn how to take deliberate action to help firms move in a competitive direction.

Communities—
along with states
and the federal government—
must learn how to take
deliberate action to help firms
move in a competitive
direction.

Helping Communities Compete: Upgrade Critical Resources

At the same time, economic development programs are, at heart, not simply about the health of the businesses they are helping. They also are efforts to improve the lives of people living in a given community or region. That is what real economic development—that is, making sure that a company's continued presence brings about upgraded jobs and longer-term economic stability for people—is supposed to foster.

INVEST IN THE COMMUNITY INTEREST

Reconomic development means making sure that a company's continued presence brings about upgraded jobs and longer-term economic stability for people.

For economic developers, then, it is vital to be able to understand when an employer's long-term corporate goals don't mesh with the community's interests.

Take, for instance, the facility in rural Georgia owned by a major New York-based women's apparel firm. The plant is used mostly to fill in orders when another of the firm's factories or subcontractors comes up short. It is low-skill work, done in poor working conditions, and the company has shown no interest in improving the situation.

This became clear not long ago when headquarters installed an entirely up-to-date modular system, tried it out for six weeks,

then packed it up and shipped it to a plant in Central America. At that moment, the firm signaled that it is using its Georgia plant to test new technology that will be used to upgrade other facilities, many of them in the developing world—but the firm has no such intentions for the Georgia plant itself.

For local economic developers, that was a pretty clear sign that this is not the right corporation with which to do business. When the company begins pulling up stakes, as its equipment move to Central America suggests it inevitably will, traditional practice would call for using public resources to convince it to stay in town. Understanding its strategy, though, suggests that those scarce economic development dollars might better be spent on upgrading the workforce with GED programs and training in modular manufacturing. Investing in the community, in other words, with an eye toward attracting a higher level of employer, would be a far more intelligent approach than investing in a specific firm with an exploitative attitude toward its facility in the community.

That distinction—between investment in the community and investment in a particular firm—is a crucial one for rural development practitioners to understand. The ultimate challenge that globalization presents to communities is to shoulder responsibility for making sure that they can meet the needs of the 21st-century economy. That means finding ways to ensure that employers will find an educated, flexible workforce. It

Rural

development practitioners must understand the crucial distinction between investment in the community and investment in a particular firm.

means identifying or establishing the local or regional institutions that can help manufacturers upgrade their management, production processes and facilities.

DEMAND A QUID PRO QUO

And it means an economic development strategy designed to encourage employers to leave the community better off than they found it. For as important as it may be for local and state governments to invest in educating and training workers, it is equally important for companies to behave in such a way that if they pull up stakes, they will leave communities in a better position to attract new investment than before they arrived.

The strategy
of economic development
practitioners should be
to encourage employers to leave
the community better off than
they found it.

Economic development practitioners must learn to demand a quid pro quo for the help they provide. If they give a company money for modernizing a plant, then they should expect some investment in human capital in return, so that workers have a basic set of skills applicable beyond that particular operation. If they provide funds for worker training, then they should expect that workers will be trained to global standards. If they provide support for technical upgrades and training, then they should expect that workers learn not only the precise technology that the firm needs, but related technologies that will increase their value to other companies thinking about locating there.

Helping Economic Developers Succeed: Learn the Global Ropes

Helping both firms and communities to compete in the global economy demands an enormous commitment on the part of economic developers. It is not simply a matter of adding new tools—training programs, management consulting, production process analysis and the like—to their toolkits. It's more a matter of changing strategies and even attitudes.

ASK THE RIGHT QUESTIONS

If they are truly going to help their communities navigate the tumultuous economy that globalization has created, those responsible for a community's economic health have to know how to sit down with current and prospective employers to discuss company strategy and even long-range corporate plans. They must be at least as knowledgeable as the branch-plant managers they deal with, and often more so—since, in our experience, a factory manager may not be aware of overall corporate strategy. And they need to know how to ask tough questions of the large firms that do business in their communities. (*See Appendix A: Get Eight Straight: What Every Economic Developer Needs to Know about Local Branch Plants.*)

Those
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and often more so.**

For example, when a company comes to seek help with downsizing, local development professionals must try to discern the firm's underlying status and intentions.

❖ Is it simply cutting costs with an eye toward eventually severing its investment in the facility, or does the facility fit into some larger strategic plan?

❖ Is the factory destined to remain a “cost center,” concerned mostly with keeping its costs of production as low as possible, held on a tight string by central managers? Or is its status due to be upgraded and local managers given greater autonomy?

❖ If a company intends to move toward a high-performance workplace, what does it lack in the way of financial resources and business know-how necessary to reach that goal?

If communities are going to take on responsibility for steering their own development, these are the sorts of questions they must be able to answer.

GET ANALYTIC, ACT STRATEGIC

Before they can do that, though, there are some tough questions that economic development practitioners must ask of themselves.

Economic
development practitioners
must know how to ask tough
questions of the large firms
that do business in their area.
First, though, they must
ask some tough questions
about their own capabilities and
those of their community.

- ❖ Do they have the ability to discern complex and often obscure corporate purposes?
- ❖ Can they assess a firm's competitiveness before problems occur—its strategy, its departments' strengths and weaknesses, its scheduling and delivery processes?
- ❖ Does the community or the region have the resources it needs—from finances to training programs to institutions that can provide management, engineering and production know-how—to be able to improve the competitiveness of local facilities?
- ❖ Do they have enough knowledge—both of the specific firm they're dealing with and of the global pressures on that firm's industry—to be treated as equals by company executives?

Unfortunately, in most communities the answer to each of those questions is “No.” Economic development practitioners often lack the training they need to approach large corporations with an analytical eye. State, regional and local economic development programs, because they have tended to focus on chasing or hugging smokestacks, typically are unprepared to provide the sophisticated technical assistance that firms need as they modernize. Neither are they always able to mobilize the community resources that can make the difference between a firm's decline and its becoming

State, regional and local economic development programs typically are unprepared to provide the sophisticated technical assistance that firms need as they modernize.

globally competitive. Most important, economic development practitioners often lack an understanding of which investments—in education, workforce training or institutions—their own communities need to make in order to position themselves in the global economy.

Until rural economic development programs come to grips with the impact of globalization on their communities, the outlook for rural America will grow bleaker with each passing year.

There are, to be sure, a relative handful of programs that have shown themselves capable of working with companies trying to deal with globalization. (*For two good examples, see Appendix B: Branch-Plant Retention the Right Way.*) But these are models; they are not the norm. The vast majority of communities not only have failed to take on the responsibility of trying to understand what has happened to their employers in the larger economic environ-

ment, they have yet to understand where they themselves fit in that environment.

Until rural economic development programs *do* come to grips with the impact of globalization on their communities, the outlook for rural America will grow bleaker with each passing year.

**APPENDIX A. GET EIGHT STRAIGHT:
WHAT EVERY ECONOMIC DEVELOPER NEEDS
TO KNOW ABOUT LOCAL BRANCH PLANTS**

**1. HOW HAS EMPLOYMENT AT THE LOCAL FACILITY
CHANGED OVER TIME?**

For most communities, probably the first sign of pending change at a plant—either good or bad—is news about employment. Layoffs, in particular, are a sign that changes are going on that are worth investigating.

Layoffs might stem from productivity increases, which would be good news for the community. Or, if employment levels are creeping slowly downward and there's no replenishment of the workforce, layoffs may signal local officials that it's time to start worrying.

In either case, changes in employment levels should spur local development officials to sit down with management to talk about what's going on.

**2. WHO OWNS THE ESTABLISHMENT?
HAS OWNERSHIP CHANGED RECENTLY?**

Who owns a branch plant—and, if it's a new owner, why they bought it—are crucial facts for a community to know. The more distant or obscure the owner is, the less likely the firm's executives are to be concerned about a rural community one of its branch operations supports.

Distant ownership, especially if a plant is owned by a large conglomerate, may be a strong sign that local developers should start thinking about the future. In times of retrenchment, when management is looking for underperforming assets to cut off or milk as a tax write-off, a large company is far less likely to be open to a request that it rethink its strategy, especially one coming from a community that it barely knows exists.

At the same time, if there has been an ownership change, it *may* be a positive sign that the new owner has decided to diversify, and that the local operation was an attractive purchase. In this case, local management usually stays intact, which means that their connections to the community remain intact as well.

But if, instead, the selling company needs to raise cash, or the buyer is simply interested in shutting a competitor's plant down, chances are good that the plant's previous management won't be around for long.

3. HAS THE PARENT COMPANY CHANGED ITS ORGANIZATIONAL STRUCTURE? IF SO, HAS THIS AFFECTED THE LOCAL PLANT?

Organizational-change decisions made in faraway boardrooms have very real implications for a community. A corporation that decides to downsize may move toward a flatter hierarchy that gives its local facilities more input into their own destinies, and brings local managers into more direct contact with the headquarters executives who influence their future. But if a lot of paring down is going on, management also may look

closely at each branch plant and ask whether it has a place in the newly configured organization.

A company may, for instance, decide to move away from its historic focus and restructure around new product lines. In this case, communities that host plants dedicated to producing the old products need to sit down with company executives to talk about their future.

Similarly, when a company moves into a joint venture with either U.S.- or foreign-owned partners, communities need to take notice. It may work out for the best, if the new partner is willing to make investments in local plants to modernize them. But it may also be a sign that the original owner is abandoning a portion of its business. In either case, finding out the intentions of the new partner should top a community's agenda.

4. WHAT DEGREE OF AUTONOMY DOES THE LOCAL MANAGEMENT EXERCISE?

This is critical to rural communities. The extent to which local management can undertake initiatives on its own, or implement change on its own, says much about the long-term viability of an operation.

If local managers must get approval for every spending decision, or if the management structure is so rigid that it can't find ways to collaborate with a local community college for special training, or if the plant manager has trouble convincing headquarters of the need for new technology upgrades, then the community has little chance of working with plant management to deal with change.

On the other hand, if a plant's managers are responsible for turning a profit on its operations, then they may be very interested in innovation and in reorganizing work processes to improve the bottom line. In that case, management usually will have a strong incentive to engage community development officials in a discussion about change.

5. HOW PROFITABLE OR EFFICIENT IS THE PLANT?

To the extent that a community can get information about a plant's profitability and efficiency, it can get some idea about where the plant sits in corporate thinking.

If a plant is efficient and a corporation's lowest-cost operation, it probably will not be the first to go when re-trenchment times hit. On the other hand, if it has a long history of high costs, labor unrest and low productivity, then it's the kind of establishment that's likely to draw the attention of executives trying to decide which operations must go. So understanding the operation becomes key to understanding its long-term viability.

That understanding, in turn, should affect economic development strategy. A plant with a bright future is more likely to have a manager who is interested in collaborating with community leaders to continually improve its efficiency and profitability.

It is even worth dealing with the manager of a plant with a dim future, but not necessarily about how to improve its operations. Instead, local officials might want to

focus their attention on its workforce, making sure that employees have high school educations or GED certificates, if in the not-too-distant future the community must try to create new businesses or attract new employers.

6. WHAT IS THE STATE OF TECHNOLOGY UTILIZED AT THE PLANT? HOW FREQUENTLY DOES IT ADOPT NEW TECHNOLOGY?

These both are indicators of the profitability and efficiency of an operation. If the parent firm has continued over the years to invest in plant and equipment, or has made recent investments, then it's generally safe to conclude that the plant is an important element of its operation. If, instead, a plant relies on antiquated equipment and would require an enormous investment to turn into a state-of-the-market facility, then it's a strong sign that the parent firm may at some point consider it preferable to shut the plant down rather than modernize it.

Knowing the state of technology and its change over time, in other words, tells a community whether it's possible to help the plant with its competitive positioning, and how effective intervening might be.

7. ARE THERE GOVERNMENTAL ACTIONS THAT HAVE AFFECTED—OR COULD AFFECT—THE BRANCH PLANT, ITS PARENT OR THE INDUSTRY AS A WHOLE?

Getting a handle on regulatory and trade-related policies is crucial to understanding the future of a community's plants.

The North American Free Trade Agreement (NAFTA) offers a prime example of how changing trade policy affects the thinking of firms and industries that compete on the basis of cost, especially those whose labor costs are significant. Since NAFTA's passage, all over the country, firms have been asking themselves to what extent they are better or worse positioned to operate within the United States, and whether there are advantages to moving to Mexico, with its lower costs.

Regulatory reforms, such as changes in environmental policy, also can have an immediate impact on the operations of a firm. If the Environmental Protection Agency bans the use of chlorine bleach, for example, the textile and sock industries will be caught short. Both use billions of gallons of the chemical, and producers around the country would be likely to need help finding alternatives.

Ideally, at (or *before*) the point that new regulations show up in the Federal Register or elsewhere, community development officials should begin exploring other options for local firms. That way, when the time comes to help companies that are too busy or too myopic to keep current on their own, they'll be ready.

8. WHAT PREVAILING COMPETITIVE TRENDS ARE AFFECTING THE INDUSTRY? HOW DO THEY AFFECT THE PARENT FIRM AND THE LOCAL FACILITY?

This is the bottom line. It is impossible to understand a plant's future without understanding the competitive environment in which it and its parent company are competing.

Until recently in the pharmaceuticals industry, for instance, very few external forces seemed to affect profitability or increase competitiveness. With the advent of health care reform, however, competition among pharmaceutical manufacturers is rising. That, in turn, has a direct impact on their facilities. Firms that are worried about the value of their stock shares, for example, have been looking closely at their more costly plants and considering shifting their functions out of the United States. Understanding why they are doing so requires understanding what is happening in the competitive environment that suddenly makes them feel vulnerable.

**APPENDIX B.
BRANCH-PLANT RETENTION THE RIGHT WAY:
TWO WORKING PROGRAMS**

Western New York Economic Development Council

Founded in 1985 and based in Buffalo, the Western New York Economic Development Corporation (WNYEDC) covers a fairly broad swath of rural New York State. The organization helps area companies and branch operations understand the competitive issues facing them, and marshals the programs and public resources that can assist them.

“What we want to put together,” says John Simon, the organization’s director of training, “is a road map to success or competitive advantage.”

MOTOR MOTOROLA?

That is precisely what Simon and his organization did in 1987, when it looked like the region was going to lose a major Motorola facility in the tiny town of Arcade, about 40 miles southeast of Buffalo. Two years before, not long after WNYEDC started up, it had helped the automotive electronics plant redesign its alternator assembly line and develop programs aimed at upgrading workers’ skills and participation in decisionmaking. So when Motorola sold the alternator line to another company and began to consider sending the rest of the plant’s

functions—and its 1,000 jobs—elsewhere, WNYEDC had enough standing with the corporation to convince executives that, at the very least, they should weigh the advantages of staying in the area.

Staying was not even on the list of Motorola's original options. The company was close to deciding to relocate the facility to France, Taiwan, Mexico or Chicago. It took six months for the company, working with Simon and a team from WNYEDC, to come to a decision to build an entirely new and very modern facility due east of Buffalo, in the town of Elma.

IT WASN'T THE MONEY

The state offered a relatively small incentive as part of the package: \$3.5 million for worker training, new infrastructure and low-interest loans for equipment. It was not, however, the money that made the difference to Motorola. Instead, as Simon puts it, the company made a “business decision,” based on its work with WNYEDC, that compared what western New York had to offer as opposed to the other locations it was considering.

One factor was the workforce it already had in place—employees whom executives saw as productive, sophisticated and capable of rapidly upgrading their skills. Another factor was the dexterity with which Simon and WNYEDC coordinated the educational resources of the region to help Motorola put its training programs in place. And a third was the level of regional engineering backup support from public institutions that the development corporation was able to mobilize

for Motorola as it went about designing new production processes.

The result is one of the corporation's most productive facilities worldwide, with a workforce that the plant manager, at the time it was completed, described as "97 percent self-directed."

TRUST AND UNDERSTANDING

Not every company may be as receptive as Motorola to intervention by local development agencies, whether government or non-profit. Indeed, says Simon, "When we started, the private sector didn't want government involved. They had to develop trust in all aspects of our business, and in particular our commitment, our confidentiality, and the fact that our approach is that we're always learning, not telling companies what they have to do."

In short, it was WNYEDC's ability to prove itself to Motorola in its earlier work with the company, and its sophisticated understanding of the needs of corporations and their branch plants, that made the difference in keeping the company from uprooting its operation and moving elsewhere.

Michigan's Northern Initiatives

Michigan's Upper Peninsula—often called "the U.P."—is 16,000 square miles of forest and small, widely dispersed towns. Its largest city, Marquette, has only 22,000

residents. The U.P. has been economically depressed for years, ever since the bottom fell out of the mining industry. Nonetheless, its hopes for a recovery have been kept alive by the wood products industry, a small high-tech enclave and scattered manufacturing

A GROUP EFFORT

In the late 1980s, faced with continuing economic decline and the difficulty of delivering services to manufacturing firms over such a huge area, Richard Anderson decided to try to convince firms facing similar obstacles to come together to learn, both from each other and from paid experts. He founded the Manufacturing Services Unit in 1988 as part of Northern Michigan University, to help U.P. firms address process inefficiencies in process and technological capability problems. Four years later, the Unit became the cornerstone of the newly formed Northern Economic Initiatives Corporation (NEICorp—which, in 1995, changed its name to Northern Initiatives), which has the broader objective of transforming the Upper Peninsula's economy.

Anderson set out to convince both independent-firm owners and branch-plant managers of the importance of creating a structure to foster ongoing improvements in their facilities. Many of these firms were at risk due both to structural changes in their sectors and to their inability to keep abreast of new trends on a variety of fronts. By joining together, Anderson argued, the firms could afford the kind of specific technical assistance that would be out of reach were they each to try to obtain it on their own. In several cases, Anderson had to travel to

distant headquarters locations outside the U.P. to help local branch-plant managers sell the idea to higher levels of management.

Anderson and Northern Initiatives have had a fair degree of success organizing groups of manufacturing firms in several industries important to the region. The oldest and most developed group comprises manufacturers connected to the wood products sector. It includes nine furniture and fixtures producers, who employ 80 percent of the sector's workers in the region. A second, newer network involves five firms engaged in metalworking and motor vehicle parts production. These five account for about one-fifth of the metal sector's employment in the region.

SERVICE AND SOCIALIZATION

Essentially, each network of industry firms is intended to create a framework and discipline among managers, and to enhance socialization among the participating firms. Northern Initiatives helps them, but members establish the governing structure and control membership. Through *continuous improvement user groups*, the groups identify areas where they can improve production processes, set priorities and make work plans. Anderson believes that the networks actually create peer pressure among managers to implement things they learn.

For its part, Northern Initiatives provides leadership and information and coordinates consulting assistance for firms. Its major services include worker/management

team reorganizations, manufacturing process assessments, and marketing assistance to help firms identify and respond to changes in national and international market demand and distribution channels. Most of this assistance has been provided by consultants who provide technical expertise in the specific areas.

U.P. WITH JOBS

The results are promising. Sales have increased among member firms across the board, as have wages and payroll. Among small firms, employment has increased 44 percent, while it has dropped 3 percent in large firms. These results seem to provide proof of increased productivity: Larger firms can be expected to lose some employees as they reorganize to work smarter, while smaller firms—which generally start out about as lean as they can get—tend to increase employment as they increase sales.

ENDNOTES

Full citations for all endnotes can be found in the references beginning on page 81.

¹ Miller.

² Frenzen.

³ Glasmeier.

⁴ *Washington Post*.

⁵ Dicken.

⁶ United Nations Centre on Transnational Corporations.

⁷ Stewart.

⁸ U.S. Congress, Office of Technology Assessment, 1993.

⁹ Shaiken.

¹⁰ O'Reilly.

¹¹ U.S. Department of Commerce.

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¹⁴ U.S. Congress, Office of Technology Assessment, 1992.

¹⁵ Bernat.

¹⁶ Glasmeier and Conroy.

¹⁷ Burge.

¹⁸ Appelbaum.

¹⁹ Conroy.

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Originally established at The Aspen Institute in 1985 as the Rural Economic Policy Program, and renamed Community Strategies Group in 2000, CSG strives to have a positive impact on communities by designing, facilitating and participating in ongoing peer-learning and networking opportunities that enhance the efforts of organizations and practitioners working to achieve more widely shared and lasting prosperity in communities, and that sustain the impact of funders' investment in them. CSG's core business focuses on the fields of community and economic development, civic capacity, family and regional livelihood, and community-based philanthropy. CSG also designs and convenes occasional one-time gatherings of foundation or community practitioners working on issues critical to the collective

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