

Job Development in Michigan:

A Special Report

September 1980

**Special House Committee
on Job Development**



JOB DEVELOPMENT IN MICHIGAN:

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COMMITTEE MEMBERS:

Hon. Larry E. Burkhalter, Chairman
Hon. W. Perry Bullard
Hon. Martin D. Buth
Hon. Mark Clodfelter
Hon. H. Lynn Jondahl
Hon. Ruth B. McNamee
Hon. William A. Ryan
Hon. Roy Smith
Hon. Juanita Watkins
Leslie A. Getchell, Staff



HOUSE OF REPRESENTATIVES

LANSING, MICHIGAN 48901

September 4, 1980

To the Speaker of the House:

Herewith is the report of the Special House Committee on Job Development, per House Resolution 23.

Larry E Burkhalter

Hon. Larry E. Burkhalter, Chairman

W. Perry Bullard

Hon. W. Perry Bullard

Mark Clodfelter

Hon. Mark Clodfelter

H. Lynn Jondahl

Hon. H. Lynn Jondahl

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Martin D. Buth

Hon. Martin D. Buth

Ruth B. McNamee

Hon. Ruth B. McNamee

Roy Smith

Hon. Roy Smith

PREFACE

The Special Committee on Job Development was created by passage of House Resolution 23 on February 12, 1979. Its committee members were appointed by Speaker of the House Bobby D. Crim on February 22, 1979, and include Representative Larry E. Burkhalter, Chairman of the Committee, and Representatives W. Perry Bullard, Martin D. Buth, Mark Clodfelter, H. Lynn Jondahl, Ruth B. McNamee, William A. Ryan, Roy Smith and Juanita Watkins.

The Committee wishes to thank, for their cooperation and participation, the officials and staff with the Office of Economic Development, Department of Commerce; Director's Office, Department of Commerce; Job Development Authority, Department of Commerce; Travel Bureau, Department of Commerce; Bureau of Employment & Training, Department of Labor; Director's Office, Department of Labor; Executive Office, Department of Agriculture; Office of Intergovernmental Relations, Department of Management & Budget; Industrial Development Division, Institute of Science & Technology, University of Michigan; Detroit Economic Growth Corporation; the Entrepreneurship Institute; Council of State Governments; National Conference of State Legislatures; House Democratic Research Staff; and others.

* * *

This report is divided into three sections:

I. Planning--the fundamental belief that Michigan's economic development policies must be developed within the context of predetermined socio-economic objectives.

II. Targeting--not all industries are equal, nor are all businesses within an industry equal. Some businesses and industries can help the state maintain its historic socio-economic advantages and attain additional advantages; they need to be ferreted out.

III. Assistance--the state must play a more assertive role in developing a comprehensive program of facilitating new business creation. There are a few models, but there is a lot of room for leadership.

Recommendations are contained in the appropriate sections of this report. In total, there are fourteen recommendations.

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INTRODUCTION

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INTRODUCTION

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The work of this Committee began before the current focus on the near disastrous state of the Michigan economy.

Instead, the work of this Committee began as an assessment, a monitoring of current job development policy in the state. The Committee is the first legislative body to make a comprehensive, synthetical evaluation of the assumptions of which Michigan job and economic development efforts are based.

Shortly after its formation, the Committee learned that Michigan job and economic development efforts are not based on any single or even multiple set of policy assumptions. Moreover, the Committee learned there is little realization by public and private policymakers and administrators of the relationship and impact of one job and economic development program or policy to another.

The major purpose of this report, therefore, is to establish a comprehensive, synthetical approach to job and economic development effort as a matter of state policy. Job and economic development policy must be based on the state's ability to anticipate its future, not merely react to an unanticipated crisis.

Today's trauma in Michigan is a result of fundamental, long-term causes. Even if no action is taken by the state, the current plight in Michigan will subside to a degree; but the underlying causes will not disappear. Only by addressing the fundamentals through long-term solutions may it be possible for Michigan to avert situations similar to today's in the future.

Current job and economic development efforts are based on short-term objectives, adopted with little monitoring of programs or their results. This Committee proposes the adoption of a job and economic development policy based on a comprehensive approach with long-range objectives and continual evaluation.

The Portending Trend of the Michigan Economy

For years Michigan has enjoyed an economy well above the national average. Today, personal income exceeds forty other states, production per worker, gross state product, and wage/salary earnings are higher than the U.S. average. These traditional advantages may be largely attributable to the automotive industry, which dominates the Michigan economy.

Conversely, the state has had two traditional disadvantages--higher than national average unemployment and extreme economic cyclical fluctuations. These traditional disadvantages may be largely attributable to the automotive industry, as well.

I. PLANNING

Aside from any past or present attempts to address these disadvantages, however, a new dangerous trend is emerging which must be addressed. Past suggestions for improving the Michigan economy have been aimed at delving the cyclical nature of the state's economy. But the nature of the problem is far more fundamental. Michigan is undergoing an economic metamorphosis which, if unchecked, may lead the state into increased structural unemployment and the disappearance altogether of Michigan's traditional economic advantages. The resultant problem will be compounded with the state being forced to spend large sums for increase maintenance programs and contend with serious constraints in state revenue.

This portending trend has its roots in an economic metamorphosis that is not a singular event, but a continuing process. This continual metamorphosis is a fundamental aspect of the free market economic system. Fundamental forces are continually impacting on the economy giving it motion. These forces are economic, technological and market-oriented in nature. They are occurring well beyond Michigan's borders as well as within. They are fundamental and inevitable. In short, the economy is dynamic, not static.

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Conversely, the state has had two traditional disadvantages--higher than national average unemployment and extreme economic cyclical fluctuations. These traditional disadvantages may be largely attributable to the automotive industry, as well.

Aside from any past or present attempts to address these disadvantages, however, a new dangerous trend is emerging which must be addressed. Past suggestions for improving the Michigan economy have been aimed at dampening the cyclical nature of the state's economy. But the nature of the problem is far more fundamental. Michigan is undergoing an economic metamorphosis which, if unchecked, may lead the state into increased structural unemployment and the disappearance altogether of Michigan's traditional economic advantages. The resultant problem will be compounded with the state being forced to spend large sums for income maintenance programs and contend with serious constraints in state revenue.

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A society which recognizes this dynamic nature of the economy can plan for the future. Michigan, however, does not have an economic policy which recognizes this dynamism. As a result, Michigan's future remains unclear.

A major fundamental force impacting on the status quo is the accelerating rate of technological innovation and development. Technological innovation gives birth to new products and services. In turn, new products and services give birth to new industries. Technological change is a significant force in ever changing economic relationships.

Technological innovation may also yield improved products and new methods of production or information processing. For example, robotics is both a relatively new product as well as a new methodology. Robotics has, in fact, become a worldwide phenomenon both as a major new emerging industry and in its potential for revolutionizing the manufacturing process itself. The marriage of computers and machine tools with "sight" capability makes this possible. Previously, industrial robots were confined to hazardous tasks. However, this emergence of a new generation of sophisticated industrial robots is threatening to cause the mass displacement of assembly line workers. Thus, for Michigan this may mean a whole new industry compatible with Michigan's economic structure and/or it may mean the displacement of its assembly line workers. In either case, technological innovation must be recognized by Michigan if Michigan is to maintain itself as a viable economic force and provide jobs for its people.

Market and economic changes are the other major fundamental forces constantly impacting on the continuation of the status quo.

For example, oil prices have risen sharply over the past six years. As a result, new wealth is flowing into heretofore depressed middle eastern countries, clearly altering both western and middle eastern economies. The U.S. automotive industry has been forced into abandoning the production of large cars and to develop new fuel efficient small cars. It has had to spend billions of dollars

for retooling and in the process has laid off tens of thousands of employees. This rapid rise of oil prices has even placed a major U.S. automotive producer on the brink of dissolution.

Moreover, this economic and market change has spurred the search for alternative energy sources which in the end will mean the introduction and rapid growth of whole new energy-based industries.

The emergence of previously underdeveloped countries and areas in the U.S. itself means the introduction of new competitors into the marketplace. For example, Japan is making significant inroads into the American automotive market as well as the steel, integrated circuit, watch, electronic and computer markets. These inroads are partially attributable to the Japanese government's commitment to specifically assist the incubation of new high technology industries--its government leaves the remaining industries subject to the free action of the marketplace.

Moreover, the sun belt states are enjoying unprecedented population and economic growth. Multinational corporations are locating many of their new operations in these states.

These technological, economic and market forces are continually at work. In short, there is no stability in the marketplace. Nor can or ought there to be. This continuing nature of change is a discernable orderly process--it is called life cycle. It is applicable to products, businesses and industries.

Every business is subject to the stages of the life cycle: introductory, growth, maturation, saturation, and decline. Each stage of the life cycle contains inherent characteristics. The introductory stage requires a large infusion of capital, sales are minimal and there may be negative profit. The growth stage still requires a large amount of capital, but sales are rapid, profit is on the upswing and many jobs are being generated. The maturation stage shows a lessening in the required infusion of capital, sales are near

their peak, job generation has slowed, and profit is at its best. The saturation stage requires more capital, sales are at their peak and beginning to decline, and profit is declining. Finally, the decline stage sees a deterioration in all areas.

The automotive industry is subject to the influence of the industrial life cycle, as well. Stockbrokers understand the concept of the industrial life cycle. That is why they often recommend to investors to invest in new, high growth industries, rather than in slow growth/no growth industries.

At one time, the automotive industry was a new, high growth industry and Michigan benefitted from it. (Michigan itself was fortunate to have the industry. Michigan didn't plan for it; it just came about in the state. It could have developed in another state.) But the automotive industry is now in its maturation/saturation stage. It may develop improved automobiles, but the industry has well saturated the market. It is now a slow growth/no growth industry.

The automotive industry, as any other industry, is subject to the affects of the product life cycle. At one time, the automobile was a new product, which led to the creation of a new industry. The automotive industry grew rapidly in response to strong consumer demand and the early years of the industry saw the formation of a number of American and foreign auto manufacturers.

However, as the initial consumer demand was met over time, the growth rate of the industry slowed. And as the growth rate continued to decelerate, many weak or small automotive manufacturers were absorbed or consolidated or abandoned.

Today, the auto industry is a highly competitive international business in which even large firms are hard pressed to survive. To remain competitive, auto manufacturers must now produce improved versions of the automobile. But improved products do not yield the growth rate of new products. Thus, if auto manufacturers produce improved products to keep pace with changes in market,

technological or economic conditions, they may experience periods of growth, but not nearly to the degree when the auto industry was young.

Just as stock market investors should invest in new, high growth industries, so should the state of Michigan. It is not that Michigan should abandon the automotive industry, rather it should also be concerned with the development of whole new, high growth industries in the state.

However, Michigan still continues to rely too heavily on automotive manufacturing; and it continues to rely on enticing the location of branch plants of multinational corporations who have for the most part passed their growth stages.

Michigan has failed to recognize that changes in technological, economic and market conditions continually occur--threatening to disrupt the status quo. Only by recognizing that the economy is dynamic, that there is a discernable, orderly process to change and that new high growth industries must be given priority development in the state can Michigan hope to determine the direction of its economic future.

If Michigan does not understand this, the state may see a future with increases in structural unemployment and expenditures for income maintenance programs and declines in population growth, state revenue, state services, quality of life considerations, per capita personal income growth, state gross product growth, and wage/salary earnings growth.

This does not need to happen. These consequences do not need to occur. But Michigan must make a conscious choice to avert this potential portending trend. Michigan must understand that change is a natural part of our economic system. Understanding this, Michigan can then for the first time have a real impact on its own future.

But this is only possible through the setting of clear economic objectives and goals through comprehensive strategic planning.

The Role of Strategic Planning

It is ironic that while the business community has long recognized the value of strategic planning, the State of Michigan has failed to utilize strategic planning for developing its business community.

Strategic planning, in fact, bears particular relevance to the state in its economic development effort, for it is most valuable in a changing market or economic climate; and Michigan is presently experiencing structural changes in its economy.

The fundamental import of strategic planning, is that if the overall strategy is correct, errors in operation can still be overcome. But wrong strategies (and strategies of no design) cannot be overcome with the best of operations. Strategic planning is valuable for a second reason--it enables the most efficient use of limited resources.

Strategic planning is an intrinsic aspect of policymaking and administration. It is a part of the total planning process that includes management and operational planning.

Strategic planning involves establishing objectives (broad fundamentals that characterize the nature and direction of an organization or entity), goals (achievement targets for establishing operational plans for carrying out strategy) and policies (determination of how the goals are to be realized).

Strategic planning looks at the whole and at the interrelationship of the parts, concurrently. It is organized. It is explicit. It involves the participation of many people. Support for decision-making is documented--the first result of the entire strategic planning process is a set of written plans; the second result, implementation of the plans.

Strategic planning is a continuous operation, because changes in the market or economic climate are continuous. It is not that the plans should be changed every day, but the thought about planning must be continuous and supported by appropriate action when necessary.

Strategic planning also looks at the futurity of decisions--cause and effect. And it looks at alternative courses of action that may need to arise in the future. Strategic planning does not attempt to make future decisions--they can only be made in the present.

Nor is strategic planning a blueprint or a plan cast in stone. It is flexible; taking advantage of a changing environment.

Strategic planning is communication and participation. At best, it facilitates common consensus; at the least, it facilitates common appreciation.

The greatest obstacle to strategic planning by any entity or organization is not in its conceptualization, but its adoption. For its adoption involves a change in information flow, decision making and administrative relationships. Its adoption, therefore, requires leadership; and leadership involves minimizing resistance to the adoption of strategic planning by permitting full communication and participation in the conceptualization and adoption process of strategic planning.

Although it is the rare large corporation that does not have some kind of systematic strategic planning system, it is safe to suggest that no state has a comprehensive long-range economic development planning process, including the State of Michigan.

In Michigan, there are islands of planning but there is no mechanism to connect all the islands for developing a comprehensive plan. Often, the

fragmented planning that does occur operates on a demand/response basis. Moreover, this fragmented planning does not operate on a comprehensive basis with an understanding of its interrelationship to the whole, but is limited in its scope to a narrow field of inquiry; therefore, it is unaware of its impact on other related--and sometimes opposing--efforts.

Not only is current planning nonspontaneous, noncontinuous, and fragmented; there is a severe lack of communication and coordination of even the demand/response planning that does occur. Often, agencies in the same department fail to communicate and worse, entire departments and agencies of different departments likewise fail to communicate.

There is a strong need not only for the State of Michigan to conceptualize and adopt a strategic planning process, but to also coordinate the activities of its agencies and departments involved in job and economic development activity. The strategic planning process must involve the full participation of all relevant sectors of state government, as well as the private, academic and labor communities.

A strategic planning mechanism for the State of Michigan can provide a systematic method for the determination and prioritization of socio-economic objectives for the state. Once the socio-economic objectives are established, the state can then adopt a strategy for attaining its objectives. This strategy will also enable the state to make efficient use of its limited resources, which is especially important in light of likely future budgetary constraints.

Finally, a strategic planning system would require the state to establish a data and information base so that the state's policymakers can determine the best possible decisions.

Not only must the State of Michigan adopt a strategic planning system, it must also coordinate its economic development efforts. Just as an organized plan for overall economic development can help Michigan attain its socio-economic goals, the implementation of the state's goals must be organized.

This requires the inclusion of all potential agencies and resources involved in economic development plans and projects, the avoidance of conflicting policies by state agencies which can stymie economic development efforts, and the coordination of administrative efforts. One agency or office must have chief responsibility for the coordination of related economic development activities and must be directly responsible to the Governor. In short, the overall coordinating agency or office must be provided sufficient responsibility to have the clout to ensure the coordinated implementation of a comprehensive job development program.

Presently, since Michigan does not have a strategic job development plan, it lacks coordination of interdepartmental efforts. Each agency and department works in a fragmented fashion and often only on short term projects; projects within an agency may be well coordinated, but not with other agencies.

For example, although the Office of Economic Development in the Department of Commerce is involved in economic development, it specializes in a very specific type of job development--generally manufacturing and plant location. The Travel Bureau, also in the Department of Commerce, specializes in tourism. Although both agencies are involved in economic development, there is little communication, partly because they work on different aspects of job development.

There is also a minimum of communication between the Office of Economic Development and the Department of Management and Budget's Intergovernmental

Office and the Department of Labor's PA 609 section even though all three groups are involved in aspects of economic development.

It is clear that administrative efforts are highly disorganized and fragmented. Furthermore, there is no umbrella agency or any person charged to coordinate overall administration efforts.

Because the lack of strategic planning and interagency coordination are serious impediments to the development of an effective economic development effort for Michigan, the Special Committee recommends the following:

RECOMMENDATION #1

The Special Committee recommends the development of an on-going, long-term, comprehensive economic research and planning mechanism for the State of Michigan.

Such a mechanism needs to be an independent agency, with a board and full-time staff. The members of the board would be drawn from the private and public sectors and would be appointed jointly by the House, Senate and Governor.

The staff would serve on a full-time basis and would be responsible to the director. Staff should be subject to civil service rules and regulations.

The agency would serve as the ultimate synthesizer of all economic data generated by government agencies, universities and the private sector, would conduct in-depth economic analyses and make policy recommendations continually and at the request of the Legislature and Administration.

RECOMMENDATION #2

The Special Committee recognizes the need for one administrative body having coordinating authority of job development efforts by the State of Michigan.

Therefore, the Special Committee recommends the creation of an Interdepartmental Job Development Coordinating Council, with the Office of Economic Development as the primary and coordinating agency.

Members of the Interdepartmental Coordinating Council should include those departments, agencies and offices involved or contributing toward job development efforts. Those departments, et al, should include, but not be limited to:

1. Office of Economic Development, Department of Commerce
2. Director's Office, Department of Commerce
3. Job Development Authority, Department of Commerce
4. Travel Bureau, Department of Commerce
5. Energy Administration, Department of Commerce
6. Bureau of Employment and Training, Department of Labor
7. Director's Office, Department of Labor
8. Executive Office, Department of Agriculture
9. Office of Intergovernmental Relations, Department of Management & Budget
10. House Fiscal Agency
11. Senate Fiscal Agency
12. Executive Office, Department of Education
13. Executive Office, Governor's Office
14. Director's Office, Department of Natural Resources
15. Director's Office, Department of Transportation
16. Public Service Commission, Department of Commerce

Such a council should meet at least 12 times per year, with a representative from each participating agency attending. A report should be prepared for the public, following each meeting.

It is recommended that the Office of Economic Development, as the coordinating agency, call and chair all meetings, prepare the agenda and follow-up reports, and prepare the rules and structure for the Interdepartmental Council.

The Office of Economic Development and the Interdepartmental Council, in addition to the staff of the Office of Economic Development, should have access to the facilities of an Institute, as outlined in Recommendation #1.

So that the Office of Economic Development can effectively become the focal point of all job development activity in the state, the Special Committee furthermore recommends that the Office of Economic Development be elevated to a Type I agency. The Travel Bureau, Job Development Authority and all other job development agencies in the Department of Commerce should be placed in line authority to the Office of Economic Development.

Summary

With the adoption of the Economic Planning Council and Institute, and the Interdepartmental Coordinating Council, Michigan can begin the formation of an effective strategic planning program and effectively coordinate the interdepartmental activities of its offices involved in economic development activity.

The adoption of these recommendations will demonstrate the belief and the commitment of the State of Michigan toward strategic planning for establishing economic development policies and for the coordination of those policies. This approach will establish Michigan as the innovator and leader in the formation of a comprehensive economic development effort. As such, it will provide Michigan with a clear competitive edge over other states. More importantly, it will mean that Michigan will be the first state to begin the road toward effectively determining its own economic development future with a clear understanding of the interrelationship of the parts to the economic whole and the efficient utilization of its resources toward the achievement of pre-determined, identifiable socio-economic objectives.

II. TARGETING

INDUSTRY TARGETING

Michigan requires that Michigan identify businesses on the basis of their classification and life cycle characteristics. Targeting is a systematic analytical process to determine which businesses and industries can help the state attain its socio-economic objectives and thus enable the state to utilize its limited resources effectively.

Targeting is a logical evolutionary step in a strategic planning and management effort by the State of Michigan. It is a recognition that different businesses yield different socio-economic consequences. It is extremely critical that if Michigan adopts a strategic planning program and identifies predetermined, identifiable socio-economic objectives, Michigan should then cultivate those businesses which will most effectively and efficiently help the state attain those objectives.

II. TARGETING

Establishing Socio-economic Objectives

Establishing socio-economic objectives is a logical outgrowth of strategic planning. Strategic planning is a policy function which must be subject to public debate and, subsequently, policy decision making by the state's policymakers. Once the initial determination of Michigan's socio-economic objectives are made, they must be subject to continued monitoring and evaluation, and when necessary, the state should be prepared to revise its socio-economic objectives.

For example, after the entire process has been conducted, Michigan's policymakers may decide that the state should establish the following socio-economic objectives (since they are examples, they are not necessarily placed

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For example, after the entire process has been conducted, Michigan's policymakers may decide that the state should establish the following socio-economic objectives (since they are examples, they are not necessarily placed

in any particular priority): maximize real personal income, increase total employment growth, improve the quality of the environment, maximize gross state product, reduce employment cyclicalities, improve the general quality of life, reduce demands on the public sectors, encourage moderate net in-migration, optimize matching labor skill availability/industry skill needs.

Attaining Michigan's Socio-Economic Objectives

An analysis of businesses by industry classification shows that not all industries are equal in ability to help Michigan attain its socio-economic objectives for two reasons.

First, different industries inherently yield different socio-economic consequences. Some industries may offer many jobs but relatively low wages, e.g., fast food franchises, or some industries may be potentially environmentally destructive, e.g., nuclear waste dump sites.

Secondly, some industries can help the state attain its socio-economic objectives more effectively and efficiently than others. For example, while some industries may be in their high growth stage, e.g., synthetic fuels, other industries may be in a mature or decline stage, e.g., automobiles.

If Michigan recognizes that certain industries can help the state attain its socio-economic objectives more effectively than other industries, the state must then determine which industries contain many of the characteristics that can help the state attain its socio-economic objectives. This requires Michigan to predetermine the characteristics that will help the state attain its socio-economic objectives. For example, the state may wish to include all or a combination of the following as desirable industry characteristics:

high growth,* countercyclical, auto related yet independent, high productivity,* high job creation,* high wage, ecologically clean, high product/business spin off,* high innovation,* clean and safe working environment, and high social awareness.

The second step in the target industry screening process requires a determination of an industry's compatibility with Michigan's economic structure: is an industry a major customer of another; will industries share resources, technologies or by-products; will different industries utilize inputs that are not in competition with each other.

Once the target industry screening process is completed and certain industries are found to be especially desirable to cultivate, the state must develop an operational program as a logical consequence of the target industry approach. Those targeted industries should then receive special attention by the State of Michigan. Specifically, agencies such as the Office of Economic Development should directly focus its staff resources, recruitment program and advertising toward target industries. In addition, the Legislature should then develop selectively designed incentives appropriate to the target industries.

Currently, the State of Michigan lacks an aggressive target industry screening mechanism and development program. State agencies are essentially demand/response oriented and the State Legislature has provided inadequate funding necessary to conduct an aggressive target industry program.

RECOMMENDATION #3

The Special Committee recommends that the Office of Economic Development establish a set of specific, identifiable criteria for targeting Michigan industry.

*These are characteristics of the industrial life cycle at its growth stage. See pages 4 and 23 for a discussion of the life cycle.

Such criteria should reflect Michigan's unique economic base, as well as social considerations. It should be used as the primary tool by which to focus available resources on Michigan's overall job development efforts.

RECOMMENDATION #4

The Special Committee recommends that the State of Michigan adopt a greatly expanded target industries program.

The Special Committee therefore recommends that the Office of Economic Development create a Target Industries Section, with funding specially appropriated by the Legislature.

Such a section would be responsible for determining and coordinating data collection, market research, advertising, public relations, counseling and policy formulation among various agencies deemed appropriate by the section for implementing a target industries program.

The section should contain an ongoing operational officer for each target industry area.

Advisory commissions, with executives from related private sectors and officials from university and government sectors as members, would serve as a mechanism to provide information and industry trends to each of the target industry areas.

Summary

Adopting an aggressive target industry program will provide several significant advantages for Michigan. This effort will realize efficient use of the state's resources, enable the state to have some control over the shaping of its future, and provide Michigan with a competitive edge over other states.

But a comprehensive target industry program can only be accomplished within the framework of a broad strategic planning mechanism. The two concepts are intimately and logically related to each other. A truly effective

target industry program cannot be realized unless Michigan has a complete understanding of its economic interrelationships. Thus, a strategic planning mechanism must be established as the first necessary step, and targeting as the logical second step for a sound economic development program.

Analysis of whole industries to determine which industries, through a screening process of identifiable criteria and economic compatibility, can help Michigan realize its socio-economic objectives most effectively. But targeting industries is only one aspect of the targeting process.

To complete the targeting process requires a second type of analysis. Business targeting is a "horizontal" analysis of businesses (irrespective of industrial classification) to determine which businesses, by virtue of certain characteristics such as age, can help Michigan attain its socio-economic objectives most efficiently.

The result of this two-stage targeting approach may be startling because it challenges everything about the conventional economic development approach. A preponderance of evidence has now arisen to suggest that it is new businesses which contribute most significantly to an area's growth, rather than the multinational corporation. A new economic approach for Michigan thus places an emphasis on new business development.

The Conventional Approach

The traditional approach toward economic development has been to attract exclusively to multinational corporations, i.e., the Fortune 500. The

Introduction

Strategic planning is a process to enable Michigan to systematically determine its own socio-economic objectives. Industrial targeting is a "vertical" analysis of whole industries to determine which industries, through a screening process of identifiable criteria and economic compatibility, can help Michigan realize its socio-economic objectives most effectively. But targeting industries is only one aspect of the targeting process.

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The Conventional Approach

The traditional approach toward economic development has been to appeal exclusively to multinational corporations, i.e., the Fortune 500. The

rationale for this approach is seductive. A branch plant may provide hundreds upon hundreds of instant jobs for a community; there is a lot of prestige in landing a branch plant--it "proves" that an area is "pro-business"; there's a lot of publicity when an area gets a branch plant; and as a major corporation it's a "name" business. As a name corporation, it is part of the older business community, therefore it stands as a major pillar of the community as a whole. Because it employs so many people for the community, it "deserves" to be deemed very important--because from the corporate branch plant flows tax revenue for the community's government and consumer money for the community's business. Thus, this approach has been regarded as nearly sacrosanct; the wisdom of spending large amounts of public money and providing huge tax breaks to acquire one of these major branch plants has been regarded as almost unchallengeable.

Directly related to the notion that multinational branch plants are desirable, is the traditional viewpoint that a community must keep the industry and businesses that it has, at any cost. Irrespective of the life cycle and of the dynamic nature of all economies, any loss is to suggest a multitude of negatives.

Coupled with the viewpoint that everything flows from multinationals is the view that small business is important to a community, but not nearly as important as multinational corporations. Thus, the traditional economic development approach lumps all small business together and then relegates them to second class citizenship, arguing that when "big business" is brought in "small business" will follow. While this approach is accurate in some respects, it ignores the tremendous growth potential of certain types of small businesses and it likewise ignores the fact that virtually all big businesses started out as small business. Nonetheless, traditionalists argue that big business

is more stable and that it is difficult to conceptualize programs that can spur the creation and growth of small new businesses.*

The New Economics

Unfortunately, there are serious problems with the conventional view. It's not working. That proof lies in a look at the hard statistics--there simply is no improvement in Michigan's economy. In fact, structural unemployment is rising and productivity is declining.

But the fallacy of the conventional approach lies in more than a look at the hard data. There are the fundamental errors in that approach. One is that multinationals hold little or no loyalty to a community. Their location decisions are based on many decisions; community loyalty is not one. When market or economic conditions change, multinational firms often opt to relocate or build new plants in other areas. To these firms, this is sound business practice.

Another problem with the conventional perspective is the failure to understand that any community has limited resources and that in a broadbased or "shot-gun" economic development approach the use of those limited resources without continuity is in reality inefficient and, perhaps, ineffective use of a community's resources.

*As difficult as it may be for the conventional economic development advocate to appreciate the role of small business, there is virtually no appreciation of the role of the entrepreneur. Partly, this may be due to the fact that most economic development administrators are managers. If "everyone" is an administrator, i.e., manager, then it is not too hard to discern why anyone finds it difficult to understand the role of the entrepreneur and who he or she may be: For there is a basic psychological personality characteristic difference between the entrepreneur and manager. The entrepreneur is essentially an initiator, doer, loner and moderate risk taker. A manager is essentially the opposite--administrator, planner, team player, and status quo oriented, i.e., taking risks may jeopardize the security which the status quo appears to provide.

But the most fundamental problem with the conventional approach is its apparent ignorance of the fluidity and dynamic nature of the free market system itself. A more basic error could not be made. This kind of conventional approach assumes a stability of economic direction and activity that precludes growth (or decline). It assumes the economy is static rather than vital, constant rather than fluid, and concrete rather than changing. Thus, Michigan in clinging to this approach trades economic growth for a fleeting appearance of stability and, in fact, supplants it with actual decline.

Part of this problem stems from an inappreciation of industry and business life cycles. As products have life cycles, so industries and businesses. Each stage of a business life cycle yields varying consequences. There are five discernible stages; i.e., introduction, growth, maturation, saturation, and decline. Thus, not only are businesses born; they age; and many--eventually--die. Most innovation and job creation occurs in the growth stage of a business. As a business ages, it grows more slowly. Therefore, the conventional approach toward appealing to multinational corporations is to appeal to businesses who have passed their growth stages.

A body of recent evidence strongly suggests that the traditional approach is an ineffective one.

David Birch, an economist with the Massachusetts Institute of Technology, conducted a study in 1979 for the U.S. Department of Commerce based on data maintained in the Dun & Bradstreet computer files on 5.6 million business firms in the United States from the years 1969 to 1976. Based on an analysis of his data, Birch concluded that companies with fewer than twenty employees generate 66% of all new jobs in the economy; large firms (i.e., over 500 employees) generate less than 15%. In New England and North Central United States (including

Michigan) small businesses generate all new jobs and make up for losses caused by larger firms. Dynamic firms grow; stable firms offer a false sense of security.

The Canadian Federation of Independent Businesses found in its study that businesses with 20 or fewer employees created 72% of all new jobs in Canada between 1969 to 1977. During the same period, small firms created 317,000 manufacturing jobs while large firms showed a loss of 124,000 jobs.

A 1978 study for the American Electronics Association concluded that employment growth in start ups (businesses less than 5 years old) is 155 times greater than for mature firms (businesses more than 20 years old); employment growth in developing companies (businesses 5-10 years old) is 55 times greater than for mature firms; employment growth in "teenage" companies (businesses 10-20 years old) is 20-40 times greater than for mature firms.

A U.S. Department of Labor study found that from 1969 to 1975, while 9 million new jobs were added to the overall national economy, no net gain was made by the 1,000 largest corporations.

A 1975 M.I.T. study concluded that from 1969 to 1974 young technology companies with sales equaling only two percent of mature industry leaders created 34% more new jobs than the mature companies.

Not only do young, small firms create significantly more jobs than mature, large firms; they are major new product innovators. Innovation has long been a cornerstone of the U.S. economy. From innovation emanates new products. New products are then produced for a regional or national U.S. market and when the domestic market is near saturation new products are eventually exported to other countries.

However, once new products are exported to foreign markets, receiving countries shortly begin manufacturing their own products (import substitution) for their own domestic market. Finally, when their own market nears saturation, they begin exporting to the U.S.--often at lower cost--the very product they once imported from the U.S.

Thus, it has always been crucial that the U.S. maintain a process of innovation so that new products are continually generated and exported.

Some economists are now suggesting that the U.S. innovation rate has decelerated and that, conversely, if the innovation rate is accelerated, it will reduce U.S. unemployment, inflation and the balance of trade deficit.

The process of innovation impacts the same way within areas of the U.S. itself. That is why when a new growing industry emerges from a given area of the U.S., that area benefits economically. That is also why when an area is dominated by an older, declining industry, it suffers economically, especially if new industry does not develop within the area.

In addition to new product development, innovation also effects improved products, new or improved services, or new or improved systems methodology. In short, innovation yields productivity.

Increased productivity, in turn, may yield lower costs per unit product or service. Decelerating unit costs effect a counter-inflation influence. Decelerating unit costs also generate a more cost competitive product or service in a regional, national or international marketplace.

Increased productivity also yields more units generated per fixed period, thus accelerating the rate of product or service distribution. Accelerating

the rate of distribution, in turn, accelerates the rate of productivity and of innovation. In short, it accelerates the innovation/productivity cycle, and, in a sense, becomes self-generating.

A 1977 U.S. Office of Management and Budget study found that companies with fewer than 1,000 employees accounted for almost half of the major technical innovations in the U.S. from 1953 to 1973, in spite of the fact that small business (firms with under 1,000 employees) receives only 3.5 percent of the total federal R & D.

A 1977 National Science Foundation study discovered that over the period from 1953 to 1973, small firms (under 1,000 employees) produce 4 times as many major innovations per R & D dollar as medium-sized firms (1,000 to 10,000 employees) and 24 times as much as large firms (over 10,000 employees).

Adopting a New Business Strategy for Michigan

The key concept for Michigan's recommended new economic development strategy is not to focus on big businesses or even small businesses--but new businesses. For it is new business, which for the most part starts out as small business, that is the major contributor to society in terms of jobs and new product development.

To focus Michigan's economic development programs on new business ventures requires a basic understanding and appreciation of the product/industrial/business life cycle. It requires an understanding that businesses in the growth stage are far more significant contributors to economic growth than mature businesses. Once Michigan understands this, it must then adopt policies and programs which are designed to pursue an economic development effort aggressively oriented toward stimulating new business venture creation and

growth. In short, it means injecting a little competition and "free" enterprise into the marketplace. Michigan must be less concerned with the preservation of industries in the latter stages of the industrial life cycle and more concerned with the stimulation of industries in the initial stages of the industrial life cycle.

RECOMMENDATION #5

The Special Committee believes that State of Michigan efforts to promote industry development should be prioritized in the following order:

- (1) Creation of start up business within the state.
- (2) Expansion of existing industry within the state.
- (3) Attraction of branch industry from outside the state.
- (4) Retention of existing industry within the state.

Subsequently, the Special Committee recommends that state efforts be prioritized accordingly with substantial new efforts in the area of start-up industries.

Summary--Establishing Michigan as the Entrepreneurial State

If Michigan can establish itself as the "Entrepreneurial State" it will succeed in the same way that any new business succeeds--by establishing its position in the marketplace. No other state has adopted such a comprehensive approach--Michigan will be the first. Thus, while most of the other states are still pursuing the conventional approach by appealing exclusively to multinational corporations, Michigan would cease to be scrambling with all the other states for a small piece of the economic pie and would itself be an innovator by stimulating the creation and growth of whole new industries and businesses. Michigan would then be an exporter of ideas, products and businesses rather than an importer.

OPTIMUM MIX: NEW TECHNOLOGY INDUSTRY

This approach will provide several advantages for Michigan. It will provide Michigan with a significant competitive edge over other states. And Michigan will be capable of achieving its socio-economic objectives and thereby maximally utilizing its limited economic development resources.

Adopting this approach first requires an understanding and appreciation of all elements in Michigan involved in the state's economic development efforts, including its financial, business, labor, academic and government communities. Secondly, it requires that this consensus be communicated outside of Michigan--especially to industry location decision makers and entrepreneurs who live outside of the state.

Conveying Michigan's entrepreneurial spirit requires government agencies such as the Michigan Department of Commerce to focus its advertising and recruitment efforts toward the development of new business ventures. It requires that business organizations such as the Michigan Chamber of Commerce convey Michigan as the entrepreneurial state. Finally, it requires the State Legislature to adopt legislation oriented toward the needs of the entrepreneur.

The Grid Relationship

Targeting contains two essential elements: industry targeting and business targeting. Industry targeting is a systematic analysis of whole industries to determine which industries can help Michigan attain its socio-economic objectives most effectively. Industry targeting requires establishing a screen which contains predetermined, identifiable characteristics

OPTIMUM MIX: NEW TECHNOLOGY INDUSTRY

Introduction

There is an integral relationship between targeting industries and businesses. If a grid pattern were imagined, industry targeting would be represented by vertical lines and business targeting would be represented by horizontal lines. The optimum coordinates, then, would be represented at points where optimum industries (represented by vertical lines) intersect optimum business characteristics (represented by horizontal lines). It is those businesses at the optimum coordinates which ought to receive selective stimulation and assistance by Michigan because they are businesses which contain certain industry and business characteristics that will enable the state to attain its socio-economic objectives most effectively and efficiently.

Without the necessity of establishing an elaborate screen, it may be reasonably surmised that a number of optimum coordinates will be represented by new high technology start up companies. By virtue of its clear importance, high technology start up companies warrant priority assistance by Michigan's private and public sectors.

The Grid Relationship

Targeting contains two essential elements: industry targeting and business targeting. Industry targeting is a systematic analysis of whole industries to determine which industries can help Michigan attain its socio-economic objectives most effectively. Industry targeting requires establishing a screen which contains predetermined, identifiable characteristics

that are deemed necessary or desirable of industries. Industries which contain a certain number of these characteristics would then be presumed to be industries which can help Michigan attain its socio-economic objectives most effectively. Therefore, these industries warrant priority attention and cultivation by private and public economic development elements in Michigan.

In a grid relationship, industry targeting would be represented by vertical lines, since industry targeting is an analysis of business by industrial association.

An analysis of whole industries may be based on certain desirable characteristics, such as high growth, countercyclical, auto related yet independent, high productivity, etc. Industries which may contain a significant degree of these characteristics include solar, data communications, biopharmaceuticals, medical instrumentation, robotics, lasers, electronics and plastics.

Business targeting is a systematic analysis of businesses irrespective of industrial classification to determine which businesses by virtue of certain generic characteristics, such as age, can help Michigan attain its socio-economic objectives most efficiently.

In a grid relationship, business targeting would be represented by horizontal lines, since it is an analysis of businesses by generic association.

An analysis of businesses may be based on generic factors such as a firm's stage in the life cycle. Other factors may include size and whether the firm has gone through an "exercise" phase of expansions and contractions.

Where optimum vertical lines (industries) intersect optimum horizontal lines (businesses), lie the optimum coordinates (business within industries). A cursory analysis would appear to suggest that a set of ideal

businesses for Michigan to cultivate will be new businesses in high technology areas such as solar, data communications, biopharmaceuticals, medical instrumentation, robotics, electronics and lasers.

New High Technology Start Ups: Optimum Coordinate Mix

New high technology industry offers a wealth of desirable characteristics, especially high innovation, high job generation, high export, high import substitution, ecologically clean (generally), high wages, high productivity, clean and safe working environment (generally).

Moreover, a number of recent studies have found that high technology firms offer many of these characteristics in significant amounts over other types of industries.

For example, a 1977 Data Resources study for General Electric concluded that employment in high technology firms grew nine times faster than low technology firms during 1950-74. (This should not be surprising because productivity is the centerpiece of growth and technology yields productivity.) Output grew three times as fast, productivity increased two-fold, prices increased at one-sixth the rate, and the U.S. balance of trade for high technology products rose to a surplus of \$25 billion a year, while for low technology products it declined from breakeven in 1950 to a \$16 billion deficit in 1974.

Furthermore, a 1967 U.S. Department of Commerce study concluded that independent inventors and small technology-based firms accounted for a major share of important innovations of this century: of 61 inventions/innovations, over one-half came from independent inventors and small firms; of major inventions

during 1945-55, two thirds resulted from the work of inventors and small firms; of 13 major innovations in the American steel industry, four came from European companies, seven came from independent inventors, none by American steel companies; of 149 inventions in the aluminum industry, major producers accounted for one-seventh; of seven major inventions in refining and cracking of petroleum, all were made by independent inventors.

New high technology business ventures hold other inherent advantages over other types of businesses. They have a much lower failure rate; that is, one of five new high technology ventures fail at the end of five years vs. four out of five for all new business ventures. They offer much greater growth, and serve as fundamental building blocks for an area's economy.

In light of the significant contributions of new high technology businesses, the State of Michigan must recognize that significance in its economic development policies and programs. Michigan's policymakers must recognize that new high technology industries offer significant benefits to the state and to develop legislation accordingly. Government agencies must develop programs oriented toward the development of new high technology industries and to prioritize existing programs toward the development and inducement of new high technology businesses. Finally, financial, university and business associations, such as the Chamber of Commerce, must recognize the value of new high technology industry and develop cooperative programs to facilitate the development of high technology industry in the state.

Once Michigan's policymakers recognize the significance of new high technology businesses, they must develop an appropriate policy framework. The state's policymakers and administrators must accept that Michigan has limited resources. Therefore, the state must prioritize the availability of its resources to select industries who have been prioritized on the basis of

the industry/business target grid. Then, Michigan must begin to develop a special working relationship with certain new high technology industries and leave the remaining industries subject to the free action of the marketplace.

RECOMMENDATION #6

The Special Committee recommends that the State of Michigan adopt target industry programs which have particular impact on the development of high technology industry in the State of Michigan.

Such target industry programs may include solar energy, electronics and data communications, since they are not only high growth industries, but provide particular relevance to technology-based industries, entrepreneurs and resources currently available in Michigan especially around Ann Arbor, East Lansing, Detroit Metropolitan, and Houghton.

High technology businesses are noted for their low failure rate and high growth potential. Given the current U.S. recession in technological innovation, critical in its effect on long-term economic growth, such an active approach would help to re-stimulate technological innovation.

Summary

New high technology industries will offer special advantages for Michigan. They will optimize Michigan's socio-economic objectives, economic compatibility with available resources and efficient use of assistance and resources with the result of placing Michigan in the forefront of economic development activity.

But this approach, effective as it may appear, requires the complete understanding and commitment of Michigan's public and private economic development sectors.

ASSISTANCE

Introduction

Traditionally, the private and public sectors in Michigan have had an adversary relationship. This is, in part, an inherent result of the

On the other hand, there is also the potential to develop a mutually beneficial relationship--government as catalyst and the private sector as provider. As catalyst, government can enact policies designed to create an atmosphere conducive to the healthy stimulation of the business community. In turn, a thriving business sector can help the State of Michigan realize its socio-economic objectives, using their increased revenue.

This new cooperation is to adopt a selective economic development approach, rather than continue its historical non-discriminatory or "shotgun" assistance approach. This broad-based assistance approach is not unique to Michigan; in fact, all the states engage in it. But precedents have been established--most notably by Japan. There, government works cooperatively to stimulate high technology new business ventures, and the payoff has been highly successful. Today, partly because of that selective cooperative approach, Japanese industries have penetrated the U.S. market in electronics, automobiles and steel, and are three years ahead of U.S. technology in industrial robotics--a rapidly growing high technology industry. Japan's achievement is all the more remarkable given that ten years ago Japan was known as an exporter of low technology, inexpensive consumer products. Today, it is a major technological innovator and exporter. Michigan can learn from Japan's experience.

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This new cooperation requires Michigan to adopt a selective economic development approach, rather than continue its historical non-discriminatory or "shotgun" assistance approach. This broad-based assistance approach is not unique to Michigan; in fact, all the states engage in it. But precedents have been established--most notably by Japan. There, government works cooperatively to stimulate high technology new business ventures, and the payoff has been highly successful. Today, partly because of that selective cooperative approach, Japanese industries have penetrated the U.S. market in electronics, automobiles and steel, and are three years ahead of U.S. technology in industrial robotics--a rapidly growing high technology industry. Japan's achievement is all the more remarkable given that ten years ago Japan was known as an exporter of low technology, inexpensive consumer products. Today, it is a major technological innovator and exporter. Michigan can learn from Japan's experience.

Overview

Historically, Michigan provides assistance and support to business in a patchwork/piecemeal, demand/response manner. There is no design; no comprehensive understanding of how business assistance programs actually impact on Michigan's socio-economic structure. Nor are there truly effective systems to measure results of particular business assistance efforts. Results cannot be measured and assessed, however, since there are no defined socio-economic objectives.

Assistance to business is provided nonselectively. There is little recognition that the state's resources are limited, even less recognition that businesses contribute different socio-economic results. Therefore, there is no understanding in the value of providing assistance selectively. Moreover, although start ups offer the greatest economic growth potential, Michigan has done little to stimulate business birth. Thus government cooperation and support of business needs to be built into the governmental process.

As a result of this lack of design in Michigan's approach, there is no perceptible movement toward alleviating the state's traditional economic woes of cyclicalities and high unemployment. As well, there is no perceptible movement toward achieving any socio-economic goals, because no goals have been set.

The development of a selective assistance approach should establish a structure to Michigan's economic development effort. Selective assistance should be provided within the context of a comprehensive economic development effort by Michigan. The state's limited resources should be concentrated on target industry start-ups and should emanate from a cooperative state government. Consequently, the state's financial resources would be allocated

appropriately and, therefore, efficiently. There would be a specified, coordinated commitment by Michigan toward alleviating the state's traditional economic woes and toward the achievement of recognized socio-economic goals.

Types of Assistance

In the final analysis, virtually all of the assistance programs offered by the State of Michigan are characterized as having little or no impact on the stimulation of "new" business activity in the state.

Of the assistance programs offered by the state, most of the programs are financial--and oriented toward established businesses without real consideration for growth or job creation potential.

In fact, it would appear that Michigan has adopted many of its financial assistance programs simply because other states have them. Thus, many of the assistance programs that Michigan has do not serve to provide the state with a competitive edge. Rather there is a sense Michigan feels compelled to offer them in order to keep pace with the other states.

Thus, since virtually every state has them, the net result is that many of these assistance programs are essentially meaningless. Moreover, it may be argued that these programs are a drain on the state and federal treasury rather than effective investments.

Many of the programs states have adopted are based on policies which have originated from Washington. Therefore, it appears that federal policymakers ought to reexamine current policy that is causing states to engage in bitter rivalry in the highly questionable pursuit of mostly slow growth multinational corporations.

Concurrently, Michigan must develop financial assistance programs oriented toward the needs of start ups. Although start up businesses offer the greatest growth and job generation potential, their greatest problem is being able to secure sufficient financing; most public and private financial programs are oriented toward mature businesses, not start ups.

The only direct financial assistance program that has been established by the State of Michigan which impacts on start ups is the New Business Development Corporation Act of 1979. The NBDC is designed to make long term debt and equity financing available strictly to start ups, particularly high technology firms. However, the NBDC has yet to make financing available because it has yet to be organized.

The Job Development Authority Act of 1975 also provides direct assistance to businesses; but it only provides direct, low interest loans to finance industrial construction by firms which have credit sufficient to attract revenue bond buyers. Thus, the JDA by law cannot finance start ups.

Although they were not created with the planned thought of helping start ups, there are two state programs which can provide some financial assistance to start up ventures. The Plant Rehabilitation Act of 1974 encourages businesses to renovate and expand aging manufacturing plants with an exemption from the property tax on the value of improvement or to build new plants with a 50 percent reduction in property taxes on new construction. The Single Business Tax of 1975 allows up to a 100 percent write-off for new capital expenditures.

The Economic Development Corporation Act of 1974 allows local government to establish economic development corporations for the purpose of selling revenue bonds; but in reality, the businesses which benefit are, for the most part, mature firms.

Michigan provides even less non-financial support. The state needs to make available planned resources, such as industrial parks, transportation, utilities, and a skilled labor force. Michigan does not do this in a comprehensive sense.

An area that Michigan can greatly improve is in providing information to prospective businesses. Prospective businesses need direct access to information and studies with regard to markets, growth projections and industrial analyses. They need direct access for advice, business counselling, entrepreneurship interaction and management training. And they need direct access to and fast and firm responses from governmental regulatory agencies--with no "buck passing". State government has played an active role as regulator of business. Although it is a legitimate function of government to regulate, it should also be a legitimate function of government to help the business community negotiate its way through the regulatory maze that government itself creates.

There is also a strong need for a comprehensive study of government regulations and governmentally required costs to business. Programs such as MIOSHA, unemployment compensation, minimum wage, workers compensation, licensing, environmental regulation and federal regulations must be analysed within the context of their impact on the economic climate in Michigan as well as their socio-economic benefits. Many if not all of these benefits are likely to be outlined in Michigan's criteria for economic development, i.e. high wages, safe working conditions, clean environment, etc.

Quality of life considerations must also be a part of an economic development program in Michigan. Quality of life considerations can make Michigan a more attractive state to do business in; they are of prime importance to technological entrepreneurs. But quality of life aspects must be tied in with any

socio-economic objectives established by the State of Michigan. The objectives are desired goals as well as a vehicle for improving the economic environment, and serve to coordinate quality of life considerations. The aspects of quality of life that must be considered include education, recreation, safety and cultural opportunities.

RECOMMENDATION #7

The Special Committee recommends that financial incentives be developed which are specifically designed for target industries and start up businesses with high growth characteristics.

RECOMMENDATION #8

The Special Committee recommends that the State of Michigan create an ombuds section within the Office of Economic Development. This business office would operate on a demand/response basis and would have a publicized toll-free telephone line made available to the business and entrepreneurial community.

The function of the office would be to provide a one-stop system for solving government related problems or providing advisory guidance to businesses having specific problems, inquiring about marketing outlets and research and other marketing information available on file in the Office of Economic Development. The Special Committee wishes to underscore the point that the office will not refer the calling business, but will intervene on behalf of the business and respond in a timely fashion.

Furthermore, the Special Committee recommends that the State of Michigan bear full responsibility for such advisory guidance, including incorrect interpretations of state regulatory guidelines to inquiring businesses.

RECOMMENDATION #9

The Special Committee recommends that the State of Michigan create a greatly expanded small business development program, that would be particularly oriented toward new business formation, within the Office of Economic Development in the Department of Commerce.

The program would include the establishment of a small business development center in the Office of Economic Development. The center would:

1. establish a network of centers to make available informational, managerial and technical assistance to small businesses;
2. employ a staff of business formation professionals;

3. develop, collect and disseminate information on establishing and operating a small business;
4. continually examine the needs of small business development;
5. conduct small business training programs;
6. promote the activities and resources of public and private organizations and authorities involved in small business development;
7. coordinate state department and agency small business efforts;
8. contract with higher education institutions or other entities to develop programs to encourage the application of science and technology by, in, and to small business;
9. engage in small business advocacy and policy development;
10. counsel small business regarding the relationship of small business to state government; and
11. consult with experts and authorities who have regulatory, legal, economic or financial expertise.

Furthermore, the State of Michigan should organize a representative state-wide small business advocacy council to advise and assist the small business center and the Office of Economic Development.

The small business center would also submit an annual report to the Legislature; and the Legislature would annually appropriate operating funds to the center.

RECOMMENDATION #10

The Special Committee recommends the establishment of a state urban land bank fund to assist municipalities in the acquisition and renovation of certain land for industrial development.

Such a fund would act as seed money and thus provide a mechanism for municipalities with limited or no vacant land or limited annexation powers to recycle existing land as an industrial development tool for retaining or attracting firms or for preserving land for such use in the future.

Proceeds from the sale of such recycled land could then be used by a municipality to finance additional land acquisition and development and to repay the State of Michigan its seed money from the state fund.

Ideally, such a program would encourage municipalities to develop land bank programs on a revolving basis. That is, the proceeds from land sold would be used to continually acquire and renovate additional land within the municipality.

UNIVERSITY-INDUSTRIAL

Introduction

Michigan's universities can play a key role toward the development of Michigan's economy--particularly toward the development of a new high technology industrial community in the state.

Michigan's colleges and universities contain an enormous volume of information and technology in its laboratories. Much of it lies underutilized; too little is transferred; even less is transformed into new products and services that can serve societal needs. Clearly, Michigan's colleges and universities can play a pivotal role in enhancing Michigan's economic climate. What is required is a new cooperation between the academic and private sectors to promote the development of new high technology businesses in Michigan.

The Stanford University Experience

Stanford University in Palo Alto, California is most often cited as the best example of the role a university can play in promoting the development of whole new industries. Today, the area around Stanford University boasts the greatest concentration of high technology industry in the world.

That development did not occur through chance, but over time through a cooperative relationship between Stanford University and the business community.

Surrounding Stanford University are collections of companies involved in semiconductors, lasers, medical instrumentation, magnetic recording, and educational and consumer electronics. Although a few of the companies are branches of major corporations, most of the industry originated locally.

The Palo Alto area offers all the ingredients high technology entrepreneurs need to succeed--thousands of people skilled in new technologies, a large number of knowledgeable venture capitalists, over fifty industrial parks for research and manufacturing, pleasant climate and clean environment, and a cooperative university.

Stanford University itself has a 660-acre industrial park with over 55 industrial tenants. In turn, the university has received \$18 million in pre-paid leases, which produces \$1 million a year of investment income. The park is particularly advantageous to entrepreneurs partly because it lies so close to the campus that it is an easy walk from the classrooms to the plants.

There is a high degree of cooperation among the companies which begins on a personal level; competitors not only talk to each other, they exchange problems and experience.

In some of the industrial parks around Stanford University, entrepreneurs can rent a garage and two or three offices adjacent to it. Mature companies supply components that newly created companies need to build new products.

The Potential for Michigan

The same kind of high technology industrial development is possible in Michigan. Although Palo Alto/San Jose and Boston/South New Hampshire are two of the largest high technology industrial communities in the U.S. there exists a similar but smaller community in Ann Arbor, Michigan. That such firms exist in the Ann Arbor/Detroit area suggests that Michigan contains some of the conditions necessary for the formation of a high technology community. But

this de facto preference for development in Michigan is attributable more to chance than design by the State of Michigan.

Michigan, if it so chooses, can create an atmosphere to stimulate the development of a thriving high technology community in the state. The ingredients necessary include cooperative, technology-oriented universities, technological entrepreneurs and venture capital. In addition, there must be interaction among members of the university, entrepreneurial and financial sectors; an atmosphere rich in entrepreneurial activity so that potential entrepreneurs can witness the entrepreneurial process, thus through direct experience learn to perceive the risks to be relatively low and the rewards to be relatively high; low-cost working space adjacent to universities; market opportunity; a state government which encourages high technology new business formation; and a wealth of quality of life considerations.

Once these ingredients are assembled, once a mechanism has been created to permit the transfer to market by new firms of knowlege generated from a university or established firms, spin-off activity will then ensue.

This generational development creates a chain reaction of high technology new business formation. A second generation of new high technology firms will spin-off from the initial generation of firms, accelerating the process of the formation of a high technology industrial community. Third and fourth generations will follow, further accelerating the momentum.

Moreover, there is a tendency among like industries to cluster--particularly high technology industries. This phenomenon, which can be observed in the tight clusters of high technology firms in several areas of the U.S., will further accelerate the development of a high technology community as other

entrepreneurs, venture capitalists and scientists/engineers are drawn to the area. This clustering occurs in part because geography is important to small companies. The cost of acquiring relevant technologies increases in direct proportion to the time required to obtain the technologies. Thus, a firm with ready access to external technologies will have lower costs, than one with less access. Ready access is proportionate to geographical distance.

A central ingredient in the formation of a high technology business community are technology-intensive universities. Universities are major contributors to the innovation/entrepreneurial process. A great proportion of basic and applied research occurs within the confines of universities. This knowledge lies dormant until it is transformed into new products. But this transferrance cannot occur unless there is a cooperative university. Thus, not only are universities generators of ideas; they are vital in the role of the commercialization of ideas.

It is partly in recognition of the essential role of universities in the high technology entrepreneurial process that the National Science Foundation has funded four experimental innovation centers at selected universities throughout the U.S. since 1976. The National Science Foundation is now in the process of expanding its program to include ten additional universities--the University of Michigan is actively pursuing one of the grants. The National Science Foundation Centers are designed to make available managerial and technical information and resources to the potential technological entrepreneur and to improve the skills of the practicing entrepreneur.

RECOMMENDATION #11

The Special Committee recommends the establishment of innovation centers at Michigan universities.

Objectives of such innovation centers would include:

1. Increasing the number of technological entrepreneurs emerging from Michigan universities;
2. Establishing an atmosphere in which innovation occurs;
3. Increasing the use and commercial exploitation of new technology developed at Michigan universities and in Michigan communities.
4. Encouraging the development of Michigan-based companies; and
5. Increasing the success rate of small technologically-oriented businesses.

Activities of such innovation centers would include:

1. Product development assistance;
2. Low-cost idea evaluation;
3. Technical consultation;
4. Business planning;
5. Prototype development;
6. Education programs in innovation, technological design and entrepreneurial planning;
7. Publicity and exposure;
8. Establish formal lines of communication among innovators, entrepreneurs, venture capital organizations, new product-oriented companies, educators and organizations; and
9. For promising concepts, negotiate arrangements to provide specialized services such as lab studies, machine shop services, computer time and hiring of consultants.

Users or clients of the innovation centers would include university student and faculty ideas and innovations, industrial problems, engineers and scientists, independent inventors, venture capital firms and investors, patent attorneys, industrial and professional associations and government agencies.

Resources of the innovation centers would include university faculty, university laboratories, experienced entrepreneurs, graduate students, industrial contract funding, contacts with venture capitalists and industrial firms, and government grants and contracts.

Initial funding for the innovation centers can be provided with grants from the federal and state governments; eventually the centers would be self-sustaining with revenue from royalties, industrial sponsorship, government contacts and institutional support.

The innovation centers would be affiliated with Michigan's universities and would be staffed with a director, full-time personnel, faculty, students, and others. Advisory boards composed of representatives from universities, industry and government would provide policy and guidance to the innovation centers.

Over 215 universities and colleges throughout the U.S. offer programs in the fundamentals of organizing a new business venture. Harvard Business School has offered entrepreneurial studies programs since 1947. The University of Pennsylvania's Wharton School, University of Southern California and Baylor University in Waco, Texas, offer MBA degrees with a major in entrepreneurship. Babson College in Wellesley, Massachusetts, has an undergraduate entrepreneurial major.

Typically, an entrepreneurial studies program includes topics such as patent law, new venture evaluation, risk-taking guidelines, negotiation of new acquisitions and development of suppliers and customers. Class assignments often include case studies of successful and unsuccessful small business ventures and preparation of detailed business plans for a proposed business venture. Occasionally, students may find partners for their new ventures among fellow students as well as investors and guest classroom speakers who may evaluate the business plans.

RECOMMENDATION #12

The Special Committee recommends that Michigan colleges and universities develop programs in entrepreneurial studies; and the State of Michigan should assume full financial responsibility.

In addition, the Special Committee recommends that Michigan colleges and universities develop programs to encourage cooperative efforts between business and science/engineering/technical departments to promote entrepreneurial activity.

Entrepreneurial studies programs, also known as new business venture management programs, and the promotion of cooperative efforts between business and science departments have been developed successfully by schools outside of Michigan. Such programs adopted by Michigan schools can help to foster innovation and growth in the state's economy, lower failure rates in new business ventures and make comprehensive technical knowledge of entrepreneurship available to the public.

Michigan's colleges and universities can play an essential role as community economic development catalysts.

They can cooperate with a local community to develop industrial parks on or adjacent to university property.

RECOMMENDATION #13

The Special Committee recommends that Michigan municipalities develop industrial parks adjacent to Michigan universities and that Michigan universities develop portions of university land as industrial parks specifically for the location and establishment of new venture high-technology industry.

The Special Committee believes making available such land to the technological/entrepreneurial community is a vital factor for creating conditions for stimulating and developing high-technology industry in Michigan.

Locating such industrial parks in close proximity to Michigan universities would make readily available university personnel, students, library and research resources. In turn, previously unused or underutilized university property would make property leasing revenue available to the university and would provide employment opportunities for its students. In addition, the development of a high-technology community would provide direct and spin-off employment and revenue for area residents.

Such industrial parks may include the availability of raw land, land with required utilities or land with specially renovated or built structures appropriate to the required needs of a new technology-based business.

The universities can review the role of their staff in the development of an active technological entrepreneurial community.

RECOMMENDATION #14

The Special Committee recommends that State of Michigan policies that determine the working and consulting relationship between university staff and high technology new venture industry be re-examined. In order to stimulate the development of such industry in Michigan, it may be necessary to review certain university constraints on university personnel.

The Special Committee believes that in order to protect the integrity of Michigan's universities, such policy determination should be left to the universities to explore. However, the Special Committee recommends that full debate and consideration be given to this issue since private universities, most notably, Stanford University (Palo Alto, California), have encouraged and developed active working links between its personnel and industry with highly favorable results to all sectors of its area's economy.

Summary

Michigan's colleges and universities hold a major potential role in technological economic development. They are an essential key in the technological formation process; they are a large, virtually untapped resource.

A new, cooperative university/industrial effort offers many benefits and advantages to Michigan--for contributing to the economy as a whole, for a return to the schools themselves, and for providing jobs to Michigan's work force.

A logical extension of this type of strategy is targeting. Targeting recognizes that resources are limited and therefore must be made available to those industries and colleges which can contribute the greatest return to the state. The greatest return is determined by the establishment of socio-economic objectives, which is a major aspect of the strategic planning process.

SUMMARY

Michigan's economy is changing. This change is occurring because market, technological and economic factors are constantly challenging the status quo. Any alteration of the status quo may yield different economic considerations.

Thus, Michigan has two choices. It can attempt to determine the shape of its future economic environment; or it can follow the flow of events and accept whatever conditions may arise as a matter of course. In other words, Michigan can choose to strive for a future of hope or Michigan can choose to expect a future that is unknown.

Exercising control over the future of Michigan is attainable only in an atmosphere of strategic planning. Strategic planning involves a comprehensive long-range approach to formulating economic policy. Once initiated, these policies are continually monitored and evaluated, since strategic planning also recognizes that conditions change and new variables may be required to be considered.

Moreover, this formulation of economic development effort must be coordinated among all agencies in the executive branch involved in job and economic development activity, and must include the cooperation of the private and academic communities, as well as other units of government.

A logical extension of strategic planning is targeting. Targeting recognizes that resources are limited and therefore must be made available to those industries and businesses which can contribute the greatest return to the state. The greatest return is determined by the establishment of socio-economic objectives, which is a direct aspect of the strategic planning process.

Comprehensive targeting requires an understanding of the industrial life cycle and the relationship between industries and businesses and their resultant impact on the state's economic and social system.

A new Michigan strategy ought to include the stimulation of new businesses within the state--for new businesses are the major generators of new jobs.

Once this strategy is adopted, the state of Michigan must provide assistance oriented toward the implementation of this new strategy. At present, there are few programs designed to impact on new business activity. This must change. Moreover, this assistance must not come from government alone, but must come from the academic and private sectors, as well.

Once this new strategy is implemented, Michigan may then begin to realize an economy of choice and see an end to its traditional economy of chance with all its inherent problems and conflicts that have plagued Michigan for years.

House of Representatives



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July 1, 1967

STATEMENT OF DISSSENT FROM SPECIFIC RECOMMENDATIONS

APPENDIX

Although I appreciate the work of the Special Committee and generally support the recommendations, I must dissent from some of the specific recommendations, while I would expect that colleges and universities in Michigan would explore means to encourage entrepreneurial skills, I feel strongly that it is not appropriate for the Legislature to determine how colleges and universities should function.

I dissent from Recommendations 11, 12, 13 and 14 in that they spell out how colleges and universities should carry out their programs and I believe that it is an inappropriate legislative function.

H. Lynn Jordan
Rep. H. Lynn Jordan

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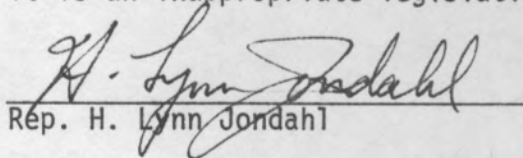
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