

Successful Partnerships for Economic Development

Governor's Economic Development Conference

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Flagstaff, Arizona

August 18, 2006

Thank you. As many of you will remember from your high school history classes, in 1831 Alexis de Tocqueville came to the United States to study American institutions. When he returned to France he wrote *Democracy in America* which now, nearly two centuries later, still gives us what is probably the most comprehensive analysis of those early days of our country as seen through the eyes of an objective foreign visitor.

Among the institutions that impressed Tocqueville the most were what he called, "voluntary associations." He wrote,

Americans of all ages, all conditions, all minds constantly unite. Not only do they have commercial and industrial associations in which all take part, but they also have a thousand other kinds: religious, moral, grave, futile, very general and very particular, immense and very small; Americans use associations to give fetes, to found seminaries, to build inns, to raise churches, to distribute books, to send missionaries to the antipodes; in this manner they create hospitals, prisons, schools.

The theme of this year's Governor's Rural Development Conference is "Partnering in Arizona." In fact what de Tocqueville called "voluntary associations" today we often call partnerships. These partnerships were responsible for the Lancaster Turnpike in Pennsylvania in the 1790's, the Erie Canal in the 1820's, and the transcontinental railroad which was completed in 1869. What most of you are involved with in your communities is a continuation of a great American tradition stretching back 200 years.

Over the last 20 years I've been lucky enough to be invited four or five times to statewide economic development conferences in Arizona. I appreciate being invited for a couple of reasons. First, Arizona is one of my favorite states and I always enjoy coming here. But there's another reason as well. Very often when I'm invited here I'm asked to address an issue in a manner that forces me to rethink what I know – or think I know – and bring myself up to speed on what others are thinking, writing, and doing in a particular area.

This year was no exception. Lisa Henderson asked me to talk about the components of successful partnerships. So I'm going to try to do that, but just the assignment lead me listen and read and learn and reevaluate what I thought I already knew.

I'm a consultant in economic development, but for the last 4 or 5 years I've been teaching a graduate class at the University of Pennsylvania. A couple of years ago one of my students – Jen Gates – was doing some research with another one of her professors. And as part of that research they sent out a survey to several people professionally involved in

economic development including me. The first question in the survey was this: "How do you define *Economic Development*. And to tell you the truth it was a question I had to think long and hard about. But here's what I finally responded:

Economic development is the conscious, organized effort to improve a local economy.

But I decided that that definition didn't tell one much. So I expanded the definition I sent Jen. And it was this:

Economic development is the conscious, organized effort to improve a local economy. But effective, sustainable economic development meets eight tests:

1. There are positive, measurable benefits
2. Benefits extend beyond the short term
3. The public benefits are significantly greater than the public costs
4. The economic benefits are primarily local and broadly distributed
5. There are significant qualitative as well as quantitative benefits
6. Incentivized economic development activities serve as a catalyst for additional primarily market driven economic activities
7. Economic incentives are not used merely as a bribe to choose one location over another but meet the "but for" test. That is "but for this incentive, the economic development activity will not take place."
8. The "carrots" of incentives are paired with "sticks" which advance broader public policy ends.

So I'm here to talk about successful partnerships; not partnerships in general but specifically economic development partnerships. Yes, America has a 200 year history of approaching economic development on a partnership basis, but is that reason enough alone to continue in that fashion? I don't think so. It isn't that we should continue to address economic development needs through partnerships just because there's a history of doing so, but rather that there is a reason that pattern has lasted.

Simply put, partnerships for economic development are chosen because they are effective. And I believe they are effective because of a handful of reasons. With a partnership we bring together different skills. In economic development lots of skills are necessary but no single skill is sufficient.

With a partnership we begin to multiply creativity. In part this is simply since we each view the world – and therefore individual challenges in the world – from a slightly different perspective. As we add partners we increase the opportunity for a greater number of creative responses to the particular challenge. But more than that – as we hear the ideas and perspectives of others, our own creative juices are stimulated. Engineers in the high tech, creative industries do not get their best ideas working in isolation; they get them from formal and informal exchanges with people around them – often literally around the water cooler. It is not by accident that companies such as Microsoft and

Google and W.L. Gore and Associates here in Flagstaff have people working in teams. Those successful companies have found that bringing together different perspectives geometrically increases creativity.

If we have done a good job putting together our organization we will have partners with different assets. Some will be financial, some political, some organizational, some managerial, some intellectual. None of us as individuals and few organizations alone possess all of the assets necessary for successful economic development strategies.

Because we will never have enough allies for our project, approaching an issue through a partnership should mean that we have different contacts. I say should mean. I have seen economic development partnerships consisting of the six best friends of the mayor. Well, having someone in the partnership that is close to the mayor is a great idea. But if we select partners who all have the same contacts our chance of ultimate success is diminished.

The phrase, *public-private partnerships* tends to be a bit overused. And the phrase has very different meanings in different contexts. At one end of the spectrum the Economic Commission for Europe has very specific definitions for Public-Private partnerships and then divides their possible roles into categories such as Build-Operate-Transfer and Design-Build-Finance-Operate and Build-Own-Operate. These PPPs are usually charged with investing millions of dollars in massive infrastructure projects.

At the other end we might have a local Main Street program that appropriately calls itself a Public-Private Partnership but would have no business building an airport or a toll road.

But the concept is almost correct at either scale, with one minor exception: nearly all the economic development partnerships I have observed are actually public-private-non-profit partnerships, with each of the three sectors paying a significant role.

While I may be guilty of slight oversimplification, there are different contributions that each of the sectors bring to the table. The public sector usually provides the authority to act, access to certain funding sources, legal and financial tools, and political legitimacy. The private sector might bring capital, entrepreneurial skills, management abilities and willingness to take risks. The non-profit sector brings innovation, manpower/womanpower, sometimes political influence and time. All of these are valuable contributions.

The question could be put somewhat differently – If this is such a good idea why can't "they" do it themselves; "they" always being someone other than me. Well, in fact there are good reasons why "they" can't do it alone. The private sector often cannot undertake economic development initiatives alone because: there is insufficient short-term return, little market rate demand, general economic or real estate conditions, a shortage of debt or equity, because cost is greater than value, or because of insufficient patience.

The public sector might not be able to act alone because of fiscal limitations, statutory restrictions, a multitude of competing demands, and the fact that there are often more than just “public” interests involved.

The non-profit sector often cannot be the only player because of lack of capital, lack of development expertise, the absence of an organizing entity, or high risk aversion on the part of the non-profit board.

When you combine what each of the three sectors can bring to the table and add what each cannot bring, the logic of the Public-Private-Non-Profit partnership becomes all the more apparent.

I already mentioned that the theme of this conference is “Partnering in Arizona.” But as you know there’s a subtitle to the conference – “Diversifying and Sustaining Your Community.” I would suggest to you that the partnership approach is critical for both diversity and sustainability.

Because of the wide variety of situations that are referred to as “partnerships” perhaps it makes sense to take just a minute and consider some variations.

First, partnerships can be either formal or informal. A formal partnership would be the local economic development foundation incorporated as, say, a 501 (c) 6 organization registered by the State of Arizona and recognized by the Internal Revenue Service. Or a “partnership” could be the “Citizens for Better Education Committee” which is just a group of local activists trying to get the school bond issue passed.

Partnerships can be either short-term or long-term. You might establish a short-term partnership to recruit a new restaurant into town or a long-term partnership to develop an industrial park.

And then partnerships can be either strategic or tactical. A tactical partnership is focused on a single goal – such as a group of business owners organized to get the parking meters removed from downtown. A strategic partnership might be like the local Chamber of Commerce which is working simultaneously on a number of economic development initiatives.

Whether a particular partnership is short-term or long-term, formal or informal, strategic or tactical, obviously depends on both its goals and the inclinations of the partners. Short-term partnerships tend to be tactical and informal while long-term partnerships tend to be formal and strategic. But there are even numerous exceptions to those patterns.

But whatever the form of the economic development partnership, there seem to be some common denominators of those that are ultimately successful. I’ve assembled this list in part based on my own experience – most of my clients for the last twenty years have either been public-private partnerships themselves, or strong advocates for such partnerships. But I’ve supplemented my own perspective with principles culled from a

series of articles, academic papers, think tank documents, and other sources that I tracked down preparing for this presentation. While not every successful partnership will have every one of these characteristics, most success stories will have most of these qualities.

These common denominators fall into six broad categories.

To no one's surprise, the first of these categories is leadership. The successful partnership must have skilled leadership. But each project must have a champion as well. The champion is the person who steps up and says, "This is important. I'm going to make sure this gets done." The project champion and the partnership's leader may be the same person, or they may be different people, but both roles are critical. If yours is a strategic partnership – that is addressing several issues through a variety of projects – each project will need its own champion. If you have multiple projects it is unlikely that the partnership leader will have the time or probably the interest to be the champion on every project.

The second broad category of success variables is people, and in this category there are several components.

This can be a real challenge. A partnership only exists if there are partners. So who should those partners be if the partnership is to be successful?

Well, I've already mentioned the importance of having partners from all three sectors – public, private, and non-profit. Remember that one of the sub themes of this conference is diversity. That's an interesting concept in economic development. On one level it implies the importance of diversifying the local economy so that it is not dependent on a single employer or a single industry or even a single industry cluster. But it also increasingly means that economic development efforts need to meet the needs of a diverse workforce and involve diverse individuals in the process.

And if that is going to happen we need to look for partners in non-traditional places. In economic development traditionally we've looked to the utility companies, and the financial institutions, and the business community, and we still need to do that. But we need to move beyond the obvious. Let me give you some examples. In Detroit a neighborhood business association had as chair of their economic development committee a pastor from a local church. In Dover, Delaware, the president of the downtown organization is an administrator at the local hospital. In Henderson, Kentucky a few years back, the head of the local Main Street program was the police chief. In Beloit, Wisconsin, the champion for a waterfront redevelopment effort was an economics professor at the local college.

It's not that this search in non-traditional places means we are trying to replace the local banker, utility company manager, or Chamber of Commerce executive. Rather we are trying to supplement their skills with others who will have a slightly different perspective on the world, have a different set of contacts, and add, by their presence, a way to multiply our creative thinking process.

So we need a diverse set of partners, but we also need the right partners. It makes no sense whatsoever to make a list of every possible combination of economic, demographic, occupational, educational, gender, sexual-preference, ethnic, and racial characteristics in our town and pick one of each to be one of the partners. We need participants who can make meaningful contributions.

Which brings us to the next success requirement – there need to be multiple ways for people to contribute and multiple options for participation. The high school principal is never going to be able to make a \$5000 contribution, and it's unlikely that the bank president will be willing to sit at a card table in the shopping center parking lot every Saturday for a month to gather signatures on a petition. But both of those contributions can be vital and in the end may be equally valuable. Some people can give their time, some their money, some their specialized expertise. Successful partnerships have avenues for each of those forms of participation.

But diversifying our partners creates another challenge that needs to be overcome – we need to understand the motivation of each of the partners. Face it, if all the partners are middle-aged white male bankers, they pretty much understand without asking why they are participating in an economic development effort. But when the partners include the female native-American dentist and the Hispanic school teacher, and the retired Air Force Colonel who happens to be a local historian, the motivations might not be so obvious. To understand those motivations takes both time and effort, but today successful partnerships make that effort to increase their likelihood of success.

When the right partners are involved, when those partners reflect the diversity of the community, and when the partners understand each others' motivations, then there grows a sense of ownership. Remember almost never is someone at the economic development partnership table because they have to be; they are there because they want to be. And they will stay there if there is a sense of ownership.

The third set of success variables I've broadly lumped as "process" This is about the way the partnership operates internally.

First, all stakeholders need to be given an opportunity to participate. I make a distinction here, between members of the partnership and stakeholders. There are likely to be many more stakeholders than partners. So every one does not need to be part of the ultimate decision making process (in fact, if you tried to do that you'd end up unable to act because too many partners can spoil the project). But every stakeholder has to have an opportunity to have his say. The reason for this is a very pragmatic one. Stakeholders who feel excluded will often become antagonists. A successful partnership can survive naysayers in a community – in fact I've never worked in a community that didn't have plenty of them. But stakeholders who are antagonistic to a project will be given much more credibility in the press, among politicians, and with their neighbors. Simply giving a stakeholder the opportunity to vent is often the most effective way to mitigate what otherwise might be outright opposition.

Each of the active participants in the partnership need to both have a vested interest and feel that their vested interest is better served through collaboration with the partnership than through acting alone. Now those of you from the public sector often get nervous when you hear "vested interest." But sustained participation in an economic development partnership needs vested interest. That can be money – the downtown property owner is obviously better off economically if the revitalization effort is successful. But it may be a vested interest other than money. The preservationist's vested interest might be saving the historic buildings, even though she doesn't own any of them. The school superintendent's vested interest might be a larger tax base to support better teachers' salaries. The hospital administrator's vested interest might be improving the quality characteristics of the community to make it easier to recruit new physicians. The partners need vested interests and need to see that the partnership advances them.

Critical in creating both the appearance and the reality of the partnership being more effective than an individual effort is the pooling of resources. Chances are that if any given partner had all the resources necessary – not just money but also time, political influence, expertise, etc. – that partner would just proceed alone. It is the pooling of resources that adds value to the partnership itself.

Here's my best evidence of that. Who in the entire world has the most money? Bill Gates. And the Gates Foundation is now worth \$30 billion, and that will probably double that in the next ten years. But how does the Gates Foundation operate? Almost exclusively through partnerships with a variety of entities – the World Health Organization, the Seattle Public Schools, the United Way, the Stop TB Partnership, the University of North Carolina and dozens of others. Why? Because they've recognized that money alone is not sufficient; they need partners who bring other assets to the cause.

Related to feeling that the partnership advances vested interests is the need for partners to share in both the process and the outcome. A partner who only shows up at the ribbon cutting is sharing the outcome, but not the process. He really isn't a useful partner at all.

I mentioned earlier that there needs to be alternative means of meaningful participation in the partnership – money or time or technical expertise or whatever. But I also firmly believe in the proportionality of contributions. There's nothing wrong with coming to the table with a long list of "I want's" but then you'd better be coming to the table with significant contributions. Every partner's contribution does not need to be the same; but every partner's contribution should be proportional to what they expect from the partnership.

When there is proportionality between contributions and expectations, it makes it much easier to create the environment for the next variable for success – respect for each partner's perspective.

And it is respect for each partner's perspective that leads to one of the most important ingredients for successful partnerships – trust among the partners. Even in a small town

where everyone knows each other, a newly created partnership will not begin with each of the partners trusting all of the others. That needs to grow over time.

Also critical to building trust among the partners is integrity in process itself. That means no chairman making the decision and then informing the partners, "This is how it's going to be". That means annual financial audits. That means any purchases of goods or services from partners is fully disclosed and pre-approved by the partnership. That means keeping accurate minutes. That means regular financial reports.

Finally in the category of process are flexibility and compromise. Neither is ever easy; both are critical for successful partnerships.

Related to the process, but, I think, meriting a category of its own is organizational discipline.

What is organizational discipline?

Begin with establishing a clear vision for the partnership.

Ascertain that the partnership serves a unique purpose and is not just duplicating what others are doing.

Set realistic, achievable goals based on the vision.

Set priorities based on the established goals.

Maintain focus on the priorities.

Hire outside expertise when needed.

Have an impact that is measurable and measure it, keeping in mind that the outcomes even in economic development are just as likely to be qualitative as quantitative.

The fifth category of variable for successful partnership is communication. The partnership needs to communicate regularly both internally among the partners and externally to other stakeholders, politicians, financial supporters, and the community at large.

Communication should be through multiple channels, including the traditional media, but today also through web sites and, if appropriate, through a blog. But communication also means one-on-one briefings, presentations to the city council, and that quarterly update at the Rotary Club.

A less obvious form of communication is transparency. Unless required by law, not every meeting has to be a public meeting. But there should be at least some public meetings each year. And both the partnership's actions and the reasoning behind the action should

be legible outside the partnership itself. The more public money the partnership receives, the more public incentives the partnership requests, and the greater the level of participation by the public sector partners, the higher level of transparency ought to be expected.

One element of communication that most Main Street program around the country are good at, but ought to be true of all economic development partnerships, is the public celebration of every success, no matter how small. It's important to celebrate successes so that the partners feel that their efforts are producing results. And it's important to maintain a sense of momentum to those not intimately involved in the partnership.

The goal of communication is that the citizens of the community personalize activities of the partnership as positively affecting their own lives.

The final element of success for economic development partnerships is continuity.

Nearly all economic development is a multi-year, ongoing process. That means the partnership charged with economic development activities has to outlast and survive local political changes. A Republican mayor will inevitably be replaced by a Democratic mayor. A Democratic state representative will ultimately be defeated by a Republican legislative candidate.

Economic development is in part a political process, but it should not be a partisan process. The continuity of political support is critical. Earlier I mentioned the importance of transparency of the organization. An additional reason for transparency is to sustain the continuity of political support.

Continuity also refers to the leadership of the partnership. While healthy partnerships don't have the exact same board members for 20 years, neither do they have a whole new board each year. Leadership of the partnership must be groomed, must be active within the partnership prior to taking on a leadership role, and needs to remain as part of the partnership for at least a limited amount of time after the mantle of leadership has been passed.

Also to assure continuity of the partnership two opposite types of partners need to be recruited. One is newcomers. They are needed for energy, new ideas, a different perspective. They are also less likely to be the partners who say, "We tried that once back in '63; it didn't work then, it won't work now."

So newcomers are important, but so are those with local knowledge. Communities are different; communities have their own personalities and idiosyncrasies. Without some partners who are aware of those peculiarities, the chances of meeting the goals are significantly diminished.

Successful economic development partnerships nearly all pay attention to issues of leadership, people, process, organizational discipline, communication and continuity.

But not all economic development partnerships are successful. Some fail. So I'll end with my top ten list of reasons partnerships fail.

1. The leadership or the staff wastes the time of the partners.
2. Partners don't do their homework.
3. Individual partners substitute the goals of the organization they represent for the goals of the partnership.
4. The partnership gets to big to be manageable.
5. Partners quibble about decisions after they are made.
6. Partners who have "I want" lists, but not "I bring" lists.
7. There is inconsistent external communication.
8. The partnership has excessive aversion to risk taking and is afraid to ever fail.
9. Inertia from the "immovable object." By this I mean a major problem is identified for which there is no apparent solution. This problem is then used as an excuse to do nothing.
10. They are partnerships in name only with only one or two people making all the decisions and the rest just token members.

My goal this morning was not to be critical of any of your local economic development partnership. I've worked with many of them over the years and seen great success stories.

Rather I offer my lists in hopes they will be useful in fine tuning your partnerships as you continue to create diverse and sustainable economies in your communities.

I began by quoting Tocqueville so I should end with him as well. He wrote,

As soon as several of the inhabitants of the United States have conceived a sentiment or an idea that they want to produce in the world, they seek each other out; and when they have found each other they unite. From then on, they are no longer isolated men, but a power one sees from afar, whose actions serve as an example; a power that speaks, and to which one listens.

Through your partnerships in Arizona, your actions serve as an example. You have a power that speaks. And your fellow citizens are listening.

Thank you very much.

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