Industrial Recruitment And Economic Development: A Positional Analysis Of Competing Southeastern States

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ABSTRACT

In this study of industrial recruitment and economic development, perceptual mapping was used to identify the collective and individual positions of 10 competing southeastern states. The perceived position of the “ideal” state also was captured by the study’s findings. Industrial real estate executives who were surveyed indicated that some states have positioned themselves strategically in terms of quality of life, whereas others are recognized because of their resources and markets or pro-business environment. Some states appear better able to take advantage of their position, whereas others face economic development obstacles.

Keywords: Industrial Recruitment and Economic Development; Competing Southeastern States in US

INTRODUCTION

One of the most profound changes to occur in the US over the past decade has been the pursuit of new industries and jobs by public and private development organizations (Ellenis 1997; Jeong and Feiock, 2006). Today, these organizations number over 21,000 and possess annual recruitment budgets in excess of $2 billion (Saiz, 2010). Indeed, industrial recruitment is big business.

While jobs are the immediate focus and outcome of a successful industrial recruitment effort, more than jobs are at stake. As trickle-down economics suggests, when industry moves into an area, they provide much needed income tax dollars, growth opportunities for existing businesses, and increased overall prosperity (Eades 1994; Liu and Vanderleeuw, 2004; Persky, Felsenstein, and Carlson, 2004; Morgan, 2010).

While the pursuit of new industrial tenants is pervasive across the entire US, the southeast region has been extremely successful (Swenson, 2011; The State of the South, 2002; Venable 1999). While debatable, the southeast’s success may result from the region’s moderate cost of living, availability and productivity of labor, its reputed “pro-business environment,” or the increasing trend of industrial firms to locate in small towns and rural areas, which tend to characterize much of the southeast (Burger 1999; Hires and Capella, 2010; Lyne 1999; Nzaku and Bukenya, 2005; Reddy, 2007). Regardless of reason, industrial recruitment among competing southeastern states and cities is an intensely competitive economic game, the reward for which is a major contribution to that state’s and/or city’s long-term economic vitality.

Many factors contribute to a successful economic development effort (Bartik, 2005; Downing, 2004; Gorin 2008; Greenbaum, Russell, and Petras, 2010; Levine 1997; Ledebur, 1990; Rumora, 2006). These factors often focus of such economic issues as low or no interest loans, tax credits, training programs, free or low cost buildings, and proximity to and quality of transportation systems (Barrett, 2009; INC 2000; McManus, 2005). Other less tangible factors, collectively and commonly referred to as “quality of life” or “lifestyle,” contribute significantly to the industrial location decision (Blair 1998; Burger 1999; Faulk, 2002; Karakaya and Canel 1998; Love and Crompton 1999; Taylor 1997; Vedder 2010).
When the totality of these locational factors is considered, the question arises as to how each competing southeastern state is perceived by potential industrial residents. While numerous studies are available ranking cities throughout the US (Badenhauen, 2008; Fisher, 99; Fortune, 2010; Industry Week, 2010; Jusko, 2009; Lyne 1999), no existing research effort directly involving industrial location/relocation professionals has considered the relative position/perception of competing southeastern states.

The purpose of this research was to identify the position of competing southeastern US states as perceived by those executives responsible for their company’s industrial location decision. Specific objectives of the study were the following:

• Empirically establish the perceived market position of ten, competing southeastern states in the industrial real estate market;
• Develop perceived profiles of each individual southeastern state;
• Develop an aggregate profile of the ideal locational state;

PREVIOUS RESEARCH

In 1993, Daimler-Benz (DB) announced that it planned to build its first American automobile manufacturing plant, bringing an estimated 1,400 jobs and $300 million investment to some lucky state. Numerous southeastern US states entered the frantic competition for D-B, which ultimately was won by Alabama.

The centerpiece of Alabama’s recruitment package was a tax-break law modeled after that of another southeastern state, Kentucky. The break allowed D-B to use the money it normally would pay to the state in the form of corporate income taxes for debt service on its manufacturing facility, an outcome criticized on numerous fronts (Connaughton and Madsen, 2001; Zahariadis and Morgan, 2005). With the addition of local and private incentives, the total package made available to D-B exceeded $300 million (Gardner, Montjoy, and Watson, 2001).

In April 2002, Alabama economic development officials announced Hyundai Automotive’s decision to locate its manufacturing just outside Huntsville, Alabama. The total Alabama incentive package to Hyundai was approximately $253 million. The economic impact of Hyundai’s decision for Alabama was estimated to be $280 million per year (Hamilton, 2004).

More recently, Volkswagen, the German automaker, picked Chattanooga over rival sites in two other states for a new assembly plant expected to create about 2,000 jobs (New York Times, 2008). Sites in Alabama and Michigan also were considered for the plant, which is part of Volkswagen’s strategy to increase its presence in America. A company statement said the plant near the Georgia and Alabama border would create 2,000 direct jobs and “add a significant number of jobs in related sectors.”

VW picked Tennessee 25 years after the Nissan Motor Company became the first foreign automaker in the south, at Smyrna, Tennessee. Chattanooga previously lost out on the $1.3 billion Toyota plant built near Tupelo, Mississippi, and the $1.2 billion Kia Motors plant that went to West Point, Georgia. VW officials noted that the south offers ample highway and rail connections and hundreds of existing suppliers, but its main attraction is a labor pool that is willing to work without being members of the United Automobile Workers union (New York Times, 2008).

Based upon the three preceding examples, it seems clear that many factors and actors are involved in an economic development effort. Further, the actual site selection process is complex, lengthy, costly, and highly competitive. Paradoxically, conventional wisdom holds that the three most important factors in real estate are “location, location, and location” (DeMeirleir, 2008; Hoban 2000). If location is viewed in terms of geography alone, the saying is axiomatic, but it offers little insight into the variables that make a finished product desirable in the eyes of a consumer.

However, there is an alternative way of viewing location. In marketing terminology, the product’s “location” is its position in the mind of a consumer, that is, how the consumer perceives the “bundle of attributes”
associated with a product relative to other products. For economic development purposes, position refers to the consumer’s perception of a specific state vis-à-vis another state. Geographic location is one locational attribute. Other attributes could include the image or quality connotations associated with that location, assessments of amenity packages, financial incentives, etc.

**Positioning: Concept and Application**

The positioning concept received its first application over thirty years ago. Since that time, it has enjoyed myriad applications ranging from consumer products, to political campaigns, to job placement. According to Ries and Trout (1981), “positioning should not be confused with strategy, even though the two are inextricably related.” “Positioning starts with a product. A piece of merchandise, a service, a company, and institution, or even a person... but positioning is not what you do to a product. Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect.”

Positioning is defined formally as “the act of defining the product’s image and value offer so that the segment’s customers understand and appreciate what the product stands for in relation to its competitors” (Scanlon 1994). Stated in more pragmatic terms, for a business or organization to establish an appropriate, desirable position in the marketplace, it must describe to customers how the company’s product differs from competing products. In so doing, the host firm or product is attempting to establish a competitive advantage that will appeal to a significant number of potential customers.

As noted by Jay R. Scanlon (1994), “strictly utilitarian issues and purely functional designs are being complemented by qualitative evaluations, previously considered irrelevant.” More accurately, the factors related to the human element are not only increasing in importance, quality of life in many instances is the deciding element in the industrial site selection decision (Buesgens 1993; Faulk, 2002; Karakaya and Canel 1998; Vedder 2010).

Despite the increasing importance of quality of life, there is little agreement among industrial site location professionals as to what this nebulous concept actually is. In part, this ambiguity may be explained by the fact that quality of life generally is a personal assessment based upon one’s perceptions of an area. Because perceptions are unique, how a city, region, or state is perceived often varies by individual, organization, or interest group (Blair 1998; McManus, 2005; Morgan, 2010; Nzaku and Bukenya, 2005). As such, the collection of perceptions that an individual holds with regard to an entity, such as a city, forms the basis for that entity’s “position” vis-à-vis competing entities.

**Positioning Research and Strategy**

Positioning addresses the “target market” and “marketing mix” questions. Positioning research can identify the market(s) to be targeted or served by the proposed product, as well as identify the market(s) being served by existing products. Relatedly, the “marketing mix” consists of four variables-product, place, price, and promotion. Collectively, these four variables comprise the tactical aspects of positioning strategy. Positioning research determines how these variables are combined to create the desired position.

There are three steps to effective positioning: (1) identifying a set of potential competitive advantages to exploit; (2) selecting, defining, and refining the most appropriate set of product attributes; and (3) effectively communicating the product’s position to the desired market. Strategically, the position chosen must be distinctive. Potential customers must not feel that the product can easily be replaced by another product. As noted, the positioning strategy selected must focus on one or more relevant dimensions. Emphasizing attributes that are unimportant or marginally important in the consumer decision-making process will only create an inappropriate or distorted position. Finally, the position selected should facilitate the use of a variety of promotional tools working in concert. For example, the price, image, amenity package, sales effort, and promotion associated with a particular location must be complimentary.

Given the previous discussion of product positioning, its purpose, and benefits, it appears reasonable to ask how public and private industrial development organizations can develop effective recruitment programs and
proposals without first knowing and understanding the “position” of a given state in relation to all other competing states? If an industrial development organization is to realize significant achievements in the area of industrial recruitment, the previous question must be addressed. Armed with this positioning information, an industrial development organization should be better prepared to design and market an effective development program.

METHODOLOGY

The data for this research was obtained via a self-administered survey of a randomly selected sample of 500 real estate professionals chosen from the membership of CoreNet Global. CoreNet Global members included representatives from manufacturing, banking, public and private development organizations, utilities, communication, and government agencies (only representatives of domestic, for-profit organizations were included in this study). CoreNet Global did not sponsor or endorse this project.

A four-page, self-administered questionnaire was developed and tested and distributed to potential respondents electronically with an accompanying cover letter explaining the project. The questionnaire obtained measures of the locational desirability of 10 competing southeastern states, as well as specific state-related attributes.

The most common method for quantifying the position of a product, vis-à-vis competing products, is through the technique of Multidimensional Scaling (MDS). This procedure converts ratings of perceived state similarities to a geometric representation of several states’ positions relative to one another. By measuring the preference concerning available states, the “ideal” location can be portrayed on a perceptual map created from the perceived similarities.

One advantage of using MDS in positioning research is that, instead of evaluating each state on a list of dimensions created by the researchers, the respondents themselves indicate the dimensions they are considering when comparing industrial location alternatives. Consequently, it is possible that the perceptual map created will be based upon multiple dimensions, representing the salient "top-of-mind" attributes the respondents associate with all southeastern states.

To allow development of the perceptual map, respondents were asked to rate each of 10 southeastern states with respect to similarity on a five-point Likert scale (1 = Very Dissimilar to 5 = Very Similar). Respondents then indicated which state they preferred. Given the methodology employed, it was necessary to limit the number of locational variables (i.e., 10 states); as such, the MDS procedure employed required 45 pair-wise comparisons. The use of another unit of analysis (e.g., metropolitan areas) would have required many more comparisons (e.g., 165, if four metropolitan areas per state had been used). Further, because economic development professional publications (e.g., Site Selection) routinely publish rankings of cities, the use of states as the unit of analysis was deemed more desirable.

FINDINGS

As Table 1 indicates, respondents include a variety of professionals from both private and public organizations. Understandably, because of the research focused on southern states, the southern portion of the US is over represented, thus likely represents a source of regional bias.

Perceptual Mapping of Competing Southern States

The perceptual map of states that was developed exhibited three dimensions. These are portrayed in Figure 1 as Availability of Resources, Quality of Life, and Business Environment. There appear to be several clusters of competing states arrayed along these dimensions.

The perceived positions of all states, as well as that of the ideal location, are identified as points located along and above (denoted by a solid line) or below (denoted by a dotted line) the three axes (line length denotes the extent above or below the midpoint of each axis). The positions of all states are expressed in relation to each other.
Quality of Life

Florida, North Carolina, and South Carolina appear primarily identified with a more desirable quality of life, compared to the remaining six states. In contrast, Alabama, Arkansas, Kentucky, Louisiana, and Mississippi are perceived as offering a less desirable quality of life. Interestingly, Georgia and Tennessee, both highly regarded and
successful locations for industrial firms, occupy a rather neutral quality of life position. While this research did not explore specific reasons and/or issues associated with the quality of life measure, these findings suggest that the conduct of such research targeting these latter states may prove beneficial.

Respondents perceive the ideal state as possessing an overall quality of life that can be construed as acceptable, but not unrealistic or unattainable. Consistent with previous research, industrial real estate executives apparently perceive quality of life to be a salient piece of the location decision, but also recognize this factor as only one piece of the locational equation (Faulk, 2002; Gabriel and Rosenthal, 2004; Industry Week, 2010; Love, 1999; Vedder 2010).

Resources

In terms of available resources, Arkansas, Kentucky, Louisiana, Mississippi, and Tennessee (the latter to a lesser extent) generally appear to be clustered together, based upon the perception that each of these states offers less resources vis-à-vis competing states. Alabama and the Carolinas are viewed as possessing adequate resources, while Georgia and Florida appear to be perceived as occupying the most strategically advantageous position as the states with the greatest abundance of resources (Badenhausen, 2008).

While this research did not identify the specific form(s) of resources respondents had in mind, given each state’s position on this factor, it is likely that the resources concept ranges in form from residents/workers to transportation to natural resources and beyond (Jusko, 2009). Whether or not this resource perception mitigates Georgia’s neutral quality of life perception is a question for future research.

Business Environment

Of the three factors identified by the research, business environment arguably represents the most interesting (important?) factor in the locational decision. An examination of each state’s position on the business environment factor indicates that all of the states studied, but especially Alabama, Georgia, the Carolinas, and Florida, are considered as possessing a strong pro-business environment. However, as with the previous two factors, this research did not identify the specific form(s) that constitute(s) a favorable business environment.

Extant literature on the subject of economic incentives to businesses has identified an array of items (e.g., tax abatement, site preparation, training funding, tax credits, revenue bonds, etc.) that typically are included in the rubric of pro-business environment (Hamilton, 2004). Further, given the success that each of the states studied has achieved in attracting major industries, these latter findings are not surprising (Connaughton and Madsen, 2001; Fortune, 2010; New York Times, 2008; Nzaku and Bukenya, 2005; Zahariadis and Morgan, 2005).

Overall Position

When viewed from an overall perspective, the study’s findings indicate that Florida, Georgia, North Carolina, South Carolina, and Alabama (to a lesser extent), appear most closely aligned with the ideal state sought by locational executives. In contrast, Arkansas, Kentucky, Louisiana, and Mississippi, appear to occupy the weakest competitive positions of the southern states studied, thus face the greatest developmental challenges.

While unfortunate, it is likely that a “Katrina” effect may have compromised the overall position of Mississippi and especially, Louisiana. Further, given the contiguous nature of Louisiana and Mississippi to the Gulf of Mexico and the frequency with which natural disasters impact this region, these states and others (or the southern portions) may face a significant environmental development obstacle.

On a more positive note, Tennessee appears to have moved or is poised to move into that group of states most closely aligned with the ideal state. For example, Tennessee enjoys the perception of possessing adequate resources, an acceptable quality of life, and an acceptable business environment, but excels in none of the three categories. In contrast, Kentucky occupies a position that appears somewhat opposite of Tennessee. It is perceived as having limited resources, as well as offering a dubious quality of life and business environment.
Like Arkansas and Mississippi, Louisiana faces developmental challenges. To its credit, Louisiana has put in place focused economic development programs designed to mitigate some of its limitations. For example, Louisiana has in place one of the most comprehensive business incubator programs in the nation (Hires and Capella, 2010). However, the extent to which a “born in Louisiana” initiative can ameliorate what appears to be a less competitive overall position vis-à-vis other southern states, remains to be seen.

CONCLUSIONS

Economic development is big business, with thousands of jobs and millions of dollars at stake. Communities, cities, states, regions, as well as the US as a whole (Economist, 2011) compete aggressively for these new corporate residents and the jobs they bring. While every state in the US vies for these economic prizes, arguably, this competition is greatest in the southeastern United States (Badenhausen, 2008). To be successful, southeastern states and cities must position themselves as being more desirable than other “competitors.” This study was undertaken to determine how industrial executives perceived ten competing southeastern states.

Overall, these findings demonstrate where and how each of ten southeastern states is perceived, individually and collectively. Based upon these findings, Florida, Georgia, North Carolina, and South Carolina are perceived as occupying the most strategically advantageous positions. While each of these states has the opportunity to improve their respective positions, Alabama may have the greatest opportunity to move into this select grouping. Several other states, Arkansas, Kentucky, Louisiana, and Mississippi appear to face the most daunting tasks. Two states, Alabama and Tennessee appear to occupy somewhat desirable positions, and appear poised to move into the upper echelon of southeastern states as an industrial location. Because of the potential for improvement available to these states, they have the greatest opportunity to bring about relevant change and improvement.

It is important to recognize that despite perceived limitations in certain areas, each of the states studied already has achieved numerous locational successes. Therefore, the challenge and opportunity for each state becomes growing the commitment to develop its economic development program, which is designed to capitalize on and/or ameliorate each aspect of their perceived position.

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