



## American Planning Association

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### Identifying Sources of Economic Growth

*By Ellen Harpel, Heike Mayer, and Darrene Hackler*

*Session Presenters*

Economic development professionals now recognize that growth and prosperity do not come solely or even primarily from external business attraction. Instead, innovation is considered the main driver of economic growth in today's economy. However, standard measures of innovation — especially R&D spending, number of patents and technology transfer — can leave communities that do not have a leading research university or a high technology cluster wondering about their prospects. Research suggests that communities should examine three additional factors that can support innovation and growth in most locations: telecommunications infrastructure, professional and business services, and entrepreneurship.

At a Sunday morning conference session, Darrene Hackler of George Mason University, Ellen Harpel of Business Development Advisors, and Heike Mayer of Virginia Tech discussed their research in each area and defined a set of principles that communities can use to assess the role that these three factors play in their regional economies as well as their capacity to generate growth.

The guiding principle is acknowledgment that the economic context in which communities strive to prosper has changed. Instead of viewing each region as an island, striving to attract new businesses through incentives in a zero-sum game, a more accurate view is of a region networked into the global economy in which local capacities for growth are the determinants of success. Physical and social networks, ideas and services, and entrepreneurs and firm creation are examples of important local capacities.

#### Physical Networks: Telecommunications Infrastructure

Most cities know their telecommunications network is important. Most cities also lack specific knowledge about the ownership, location, and capacity of their networks because information from private providers has been hard to come by. Conducting an inventory of telecom infrastructure, including telecom-equipped buildings and sites, managing rights-of-way, and identifying underserved spots are key steps in assessing the network.

Beyond identifying the assets, telecommunications infrastructure and policies can be incorporated directly into overall economic development strategies. In Hackler's recent book, *Cities in the Technology Economy* (M.E. Sharpe 2006), she describes the actions of cities competing in the technology economy. For example, many cities are creating technology zones for commercial development, deploying extra conduit for future fiber deployment, hosting joint-trench deployment ventures, and establishing wi-fi hot spots that can support small businesses and entrepreneurs. By leveraging existing assets and promoting communication with the private sector on telecom issues, cities are addressing the public interest in an adequate, advanced telecommunications infrastructure, which facilitates municipal quality of life, economic well-being, and the city's future vitality.

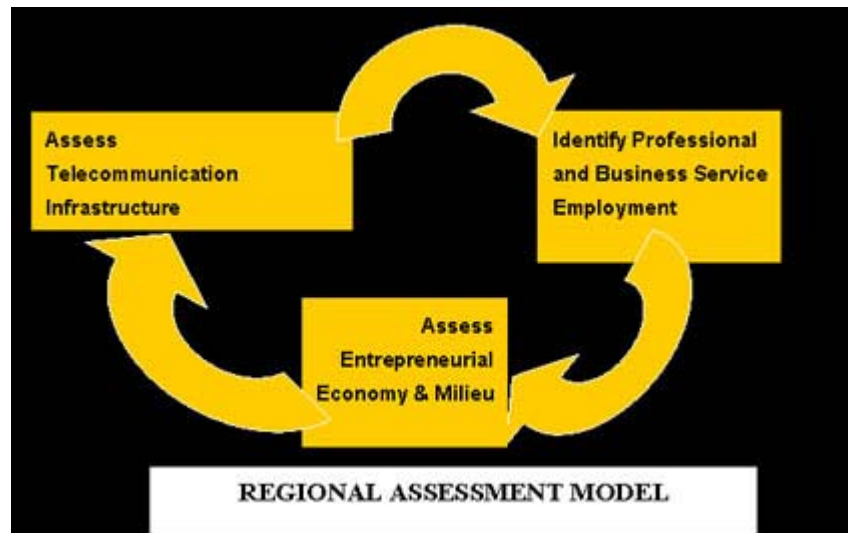
#### Ideas and Services: Professional and Business Services

Professional and business services represent the knowledge- and information-intensive industries and jobs critical to generating growth in today's economy.

Professional services include specialized services that require a high degree of expertise or training, such as legal services, engineering, and computer systems design. Business services are routine support activities — many of which are information intensive — and include back office functions as well as services to buildings and employment services.

Specialized professional and business services employment has grown rapidly because more services are required to help companies stay competitive as business transactions and processes have become more complex. Emblematic of the nature of today's economy, there are now more professional and business services jobs in the United States than manufacturing jobs. Services firms play important roles in generating and diffusing ideas that enhance regional competitiveness.

Given the important role professional and business services play in most regional economies, Harpel suggested that communities need to incorporate the professional and business services sector into their economic development thinking. Key steps are identifying the level of professional and business services employment in your community; determining the split between professional services and business services; assessing the mix of small and large businesses, including entrepreneurs and sole proprietors; and identifying how these industries are connected within the regional economy and to the global economy.



### Entrepreneurship

Recent national trends suggest that entrepreneurship is an important economic development force. Self employment rose by more than 12 percent from 1995 to 2004, with the highest growth rates among non-traditional groups of entrepreneurs: women and Hispanics. Additionally, other groups such as retirees/baby boomers promise to contribute in significant ways to a community's economy as entrepreneurs in the future. Approximately 10 percent of the U.S. workforce is now self-employed.

However, there is great variation in entrepreneurship rates among communities. All communities have the potential to support new business formation, but it is important to find ways to make each individual location entrepreneur-friendly and to assess the potential sources of entrepreneurship.

Mayer discussed research that shows that entrepreneurs do not just come from major universities. They come from existing companies where they gain skill sets and can identify unmet market opportunities. The local context and culture — especially willingness to accept failure and exposure to other entrepreneurs — also determine entrepreneurship rates. Finally, networks can be a crucial source because successful entrepreneurs are connected to others that can provide them with important inputs or market opportunities.

Some principles that planners and economic developers can focus on include fostering non-physical "incubators," such as other firms and universities, but also

social and business groups. Planners should also consider non-traditional entrepreneurs and be sensitive to their unique needs. And lastly, planners should foster networking and linkages.

### **Conclusion**

Innovation does not only come from research universities. All communities have internal sources of innovation that can help drive regional economic growth. This regional assessment model shows that assessing telecommunications infrastructure, professional and business services, and entrepreneurship can help economic developers identify their existing capacities that can support growth. The inter-related principles outlined here can serve as guidelines for making this assessment.

*This article was written by the individuals who prepared this session. Send an e-mail to [WebsiteEditor@planning.org](mailto:WebsiteEditor@planning.org) for permission to reprint this article.*

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