

COLLEGES AND UNIVERSITIES AND REGIONAL ECONOMIC DEVELOPMENT: A Strategic Perspective

Colleges and universities have long been important economic drivers in their surrounding communities, and their potential impact on the wider, regional economy has been growing dramatically. Yet few institutions have managed their role in economic development strategically, nor have they fully leveraged the surrounding economy to improve their own competitive position. Michael Porter, Bishop William Lawrence University Professor at Harvard Business School and founder of the Institute for Strategy and Competitiveness, also at Harvard, notes that there is an escapable linkage between the prosperity of regional economies and the health of their colleges and universities. He outlines a strategic approach for universities to assess their regional business economy. From there, institutions can enhance their regional economy through a variety of targeted initiatives, ranging from providing jobs and developing real estate to offering advice to start-ups and conducting the basic research that catalyzes and supports local industries.

NOTEBOOK

The prosperity of regional economies and the health of their colleges and universities are inescapably linked.

To best manage higher education's role and fully leverage the surrounding economy to improve their own competitive position, university leaders need to understand the composition of the regional economy, and where the university can contribute.

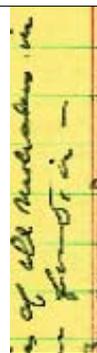
Higher education institutions also need to take a leadership role in ensuring public and private collaboration in developing and executing a regional economic plan that addresses weaknesses in the general business environment.

With a strategic approach, colleges and universities can have a major impact on regional economic revitalization—without massive new funding.

Regional Competitiveness

While some determinants of economic competitiveness are national in scope or the result of national policies, many are regional and local. Factors such as the quantity and quality of specialized skills, infrastructure, and technology and the presence of *clusters* vary markedly across regions. Clusters are geographic concentrations of interconnected companies, specialized suppliers, service providers, and associated institutions in a particular field that are present in a nation or region. California wine is a classic example of a cluster. The wine cluster is also intertwined with California's agricultural, tourism, and processed food clusters, illustrating the overlaps between clusters that have an important influence on the path of economic development in a region. Clusters are supported by state government policies (for example, the state Select Committee on Wine Production and Economy in California) and educational, research, and trade organizations (such as the University of California at Davis and the Wine Institute, an advocacy group).

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Clusters arise because they increase the productivity with which companies can compete. A region's competitiveness is determined by how productively it uses its human, capital, and natural resources; that productivity sets the region's standard of living through its effect on wages, returns on capital, and returns on natural resources. Just which industries a region competes in is not as important as *how* it competes in those industries. The key is that the region builds the *most productive environment* for companies operating there.

Clusters are either *local* or *traded* based on the scope of markets they serve. Local industries are those that primarily sell locally to serve local needs. They are present in most if not all geographic areas, and are evenly distributed. Traded clusters are those that are concentrated in a subset of geographic areas and sell to other regions and nations. Local clusters account for roughly 70 percent of employment in U.S. regional economies, while roughly

30 percent is in traded clusters. Of traded clusters, only about 1 percent is in industries dependent on natural resources. The overwhelming part of the U.S. economy is in fields where location is determined by productivity rather than natural endowments.

Traded clusters are the drivers of prosperity in regions. They have higher average wages than local clusters (\$49,367 vs. \$30,416), wage growth (4.2 vs. 3.4 percent), relative productivity (144.1 vs. 79.3), and patents per 10,000 employees (23.0 vs. 0.4).

Regions specialize in a range of clusters that often account for a disproportionate share of their traded employment. Ensuring the vitality of clusters, and improving the environment for new, related clusters, is essential to regional economic development. Universities can and do play an essential role in this process.

The *education and knowledge creation* cluster is a major traded cluster in its own right. In 2004, approximately 2.75 million people were employed in the United States in education and knowledge creation (outside of government), making it the third largest traded cluster in the economy, behind the business services and financial services clusters. Between 1990 and 2004, the education and knowledge creation cluster added approximately 1.14 million new jobs, behind just business services. And contrary to popular belief, roughly two-thirds of the jobs at colleges and universities (by far the largest segment of this cluster) represent nonfaculty administrative and support staff.

About half of the nation's 3,800 colleges and universities are located in urban areas. In 2003, the most recent year for which comprehensive data are available, these 1,900 urban institutions held more than \$134 billion (book value) in land and buildings—and they spend billions each year on capital improvements. Further, in 2003, they spent \$162 billion on salaries, goods, and services—10 times more than federal direct spending on urban businesses and job development that same year.

The University and the Regional Economy

Without question, higher education plays an important and growing role in regional economies—and the futures of our nation's colleges and universities are inexorably tied to the health of their communities and regions. To best manage their role and fully leverage the surrounding economy to improve their own competitive position, university leaders need to understand the composition of the region-



al economy, and where the university can contribute.

Higher education institutions also need to take a leadership role in ensuring public and private collaboration in developing and executing a regional economic plan that addresses weaknesses in the general business environment and constraints to cluster development.

The process of economic development has shifted over the last two decades from a top-down government model to a more collaborative model involving state, local, and federal governments, companies, business associations, colleges and universities, and other institutions. That is, building the competitiveness of a region has become a bottom-up process in which many individuals, companies, and institutions must take responsibility. Indeed, every region and cluster can take steps to enhance its competitiveness.

Universities and Economic Development

Higher education can enhance regional economic development via several sources of influence:

Employer. As mentioned above, just one-third of the jobs in colleges and universities are faculty; the remaining two-thirds are administrative and support staff positions. Colleges and universities can recruit and train job seekers from local labor pools, thereby improving the lives of local residents and meeting their demand for labor. A centralized, coordinated effort to hire locally, using partnerships with local nonprofits to identify potential employees, builds stronger economic ties to surrounding communities and political capital as well.

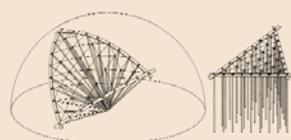
Purchaser. Colleges and universities have substantial purchasing power. Nearly half of their operating budgets (\$256 billion in 2000–2001) is spent on procurement of goods and services. This purchasing power can be used to stimulate the development of local vendors and improve their capabilities. Similar to university hiring practices, purchasing also tends to be highly decentralized; thus, a coordinated effort to identify and work with local businesses is crucial. Small steps such as simplifying the purchasing process to make it more friendly to small local vendors can have a large impact. Contractually requiring large national firms to undertake joint ventures with local firms can be highly effective in upgrading local capabilities. The University of Pennsylvania, for example, was able to increase its local spending from \$2.1 million in 1987 to more than \$55 million in 2000 through its “Buy West Philadelphia” program.

Real estate developer. As colleges and universities expand and develop their substantial and growing real

estate holdings, they can serve as anchors of local and regional revitalization—particularly in areas that may at first appear too risky for the private sector. The historic tension between local governments and communities stemming from higher education’s tax-exempt status and past expansion plans that often overlooked the interests of local residents and businesses can be overcome in time with the right approach. Taking into account the economic interests of the local community is a win-win strategy that can transform communities and benefit institutions. Howard University, for example, partnered with the Washington, D.C., government, Fannie Mae, and corporations to transform 45 abandoned, university-owned properties in a crime-ridden neighborhood into more than 300 housing units and \$65 million in commercial development. On another level, Research Triangle Park in North Carolina is the highly successful result of an intentional effort based on a regional economic development strategy that took into account the value of the research and knowledge creation by the three universities in the area.

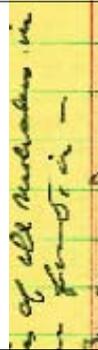
Workforce developer. Colleges and universities are in the business of developing tomorrow’s workforce by educating students who graduate and assume public, private, and civic positions. This role, however, can extend beyond conventional academic programs. Universities can develop executive and continuing education programs to serve regional clusters, and better align existing programs with those fields where there are local undergraduate and graduate hiring needs. Universities can conduct research on labor supply and demand, as well as workforce development best practices. They can enhance local job growth and economic development by facilitating partnerships among institutions, government, and industries in key regional clusters to identify and fill specific areas of need. In the Chicago area, for example, a collaboration of higher education institutions, community and industry organizations, and the mayor’s office has been working for nearly 10 years to meet the shortage of manufacturing workers there by preparing Chicago’s inner-city residents for such jobs. Each partner contributes unique expertise to the effort.

Advisor and network builder. Business advisory programs—programs that channel faculty and student know-how to businesses—are the most common type of college and university engagement in business development, more so than local purchasing and hiring programs. Faculty, students, staff, and specialized centers serve as resources through a variety of activities such as serving on boards of directors of local firms, conducting relevant research, providing consulting (often for free or



at nominal cost), and serving as interns. Additionally, colleges and universities can play a key role in facilitating networks of local business representatives by organizing forums where they can meet and access powerful alumni and business networks. Universities are often central nodes in clusters, and can play a major role in cluster development initiatives.

Colleges and universities harbor large, often untapped revitalization capability for the nation and have the potential, in partnership with governments, businesses, and community organizations, to fuel regional economic growth.



Technology transformer and incubator. Rapid technological innovation and its commercialization are the hallmarks of modern economic competitiveness and growth. Universities have a crucial role in developing technology and catalyzing its commercialization. This is often best accomplished using a cluster model.

Universities can also play a role in operating incubators. Through more than 150 incubators affiliated with colleges and universities across the country (70 percent of which are focused on technology companies) academia encourages aggressive commercialization of research and supports faculty business start-ups. In partnership with governments, community organiza-

tions, training centers, large established businesses, and venture capital firms, universities can help to offer valuable resources to incubator businesses—including, simply, space in which to do business. The phenomenal growth of knowledge-based economies along Route 128 in Boston, in Silicon Valley in California, and in the Research Triangle in North Carolina is a testament to the power of these partnerships.

Conclusion

Colleges and universities harbor large, often untapped revitalization capability for the nation and have the potential, in partnership with governments, businesses, and community organizations, to fuel regional economic growth. With a strategic approach, they can have a major impact on regional economic revitalization—without massive new funding. The higher education community can contribute the leadership, energy, and vision necessary to undertake what amounts to a sustained, multifaceted campaign to enhance regional prosperity and, likewise, its own long-term prospects.

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