

August 2004



The Main Street ———
Economist
Commentary on the rural economy



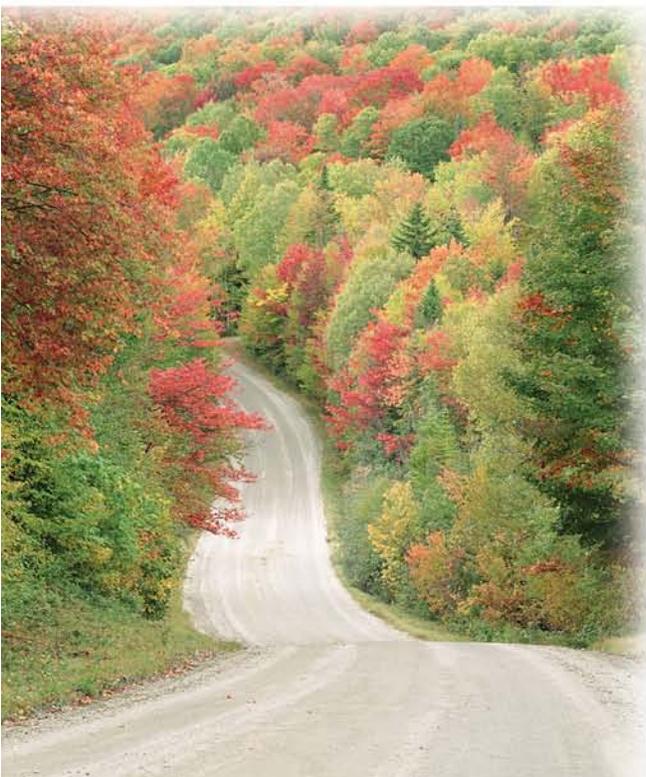
New Governance for a New Rural Economy: Reinventing Public and Private Institutions

Mark Drabentstott
Vice President & Director

Nancy Novack
Associate Economist

Stephan Weiler
Assistant Vice President & Economist

Center for the Study of Rural America



A growing chorus of rural leaders agrees that new opportunities are on the horizon for rural America. Economic consolidation and outmigration need not be rural America's future. The question most rural regions now face is this: *How to claim the new opportunities?* At root, this question is all about governance—how regions make economic decisions quickly and effectively. Simply put, regional governance is about how public and private leaders work together to build new economic engines that can compete in globalizing markets.

More than 150 rural policy experts and leaders gathered in Kansas City in May to discuss new approaches to regional governance at the fifth annual rural policy conference hosted by the Federal Reserve Bank of Kansas City's Center for the Study of Rural America.

Participants agreed that new models of governance are long overdue in rural America. While rural communities value cooperation, all too often city limits and county lines paralyze new economic development strategies. Participants were encouraged, however, by a number of innovative partnerships now being forged in rural regions. These partnerships are often sparked by higher education and philanthropic institutions, but governments and businesses are also participating.



Joseph Sertich

New Governance 101

The first session of the conference provided a working framework for regional governance. Joseph Sertich began with a sketch of the Arrowhead model of governance. The Arrowhead region of northeast Minnesota is not unlike many other rural regions. For generations it has depended on natural resources as its economic base—in this case, timber and taconite, used in making steel. Tourism has also contributed to the area's economy. After decades of decline in timber and taconite, Sertich saw the region at a tipping point at the turn of the millennium.

The region's higher education institutions recognized an opportunity to serve as a catalyst for change. The first step was reorganizing the region's community college structure. In 1999, five community colleges came together under one umbrella to pool resources and reduce costs. The five-college

district was renamed the Northeast Higher Education District (NHED), sharing one president. NHED's mission is to help create a more robust economy. And the five campuses promote effective relationships with each community. They provide services to business and industry and forge ties with state and regional economic development initiatives.

NHED quickly realized that new governance for the Arrowhead region must go well beyond the community college. By seeking new partnerships with the region's businesses and governments, they helped create a new commitment to the future of the region. That shared commitment is now captured in True North, the region's new brand that describes the cooperation among higher education, the private sector, and government—literally the three points of a figurative arrowhead. The interaction among these three key sectors is a critical component of any region's new governance.

True North's first major economic initiative is the TechNorth Prep Center Network. It is a system of work sites to match students seeking training and experience with businesses seeking young talent. The tenants of the TechNorth Prep Centers include start-up businesses, back-office contract service providers to compete with outsourcing, and larger, established organizations. This broad spectrum of tenants illustrates the fresh linkages the centers are making within the community.

The True North experience reveals several perspectives for other regions to consider. Government, higher education, and the private sector each have much to offer, but their differing structures and goals can create challenges. For example, business has many ideas but simply lacks time to execute them. Government, although interested, has very broad goals. And colleges, while willing and responsive, are sometimes slow to change. The new governance structure has created new recognition for the community college campuses, which in turn serve as a trusted link between government and the private sector.

For True North, higher education sparked the changes in how the region's institutions interacted. Nevertheless, gov-

ernment or the private sector could play that role as well. Regardless of the initial catalyst, the other institutions still need to take on leadership roles to make new governance work. Catalyst organizations should invest their own resources early to illustrate their commitment. Initiatives need to take a long-term outlook, understanding that partnerships take time to develop. In that spirit, True North is still in its infancy, striving to expand the roles of its government and private sector partners.

Chuck Fluharty provided a broad assessment of the state of governance in the U.S. He sees governance as "the means by which people come together to identify key problems and opportunities, craft intelligent strategies, marshal necessary resources, and evaluate outcomes." An essential first step, he stressed, is to understand the importance of *interdependence* among governmental and nongovernmental organizations. Government's role seems likely to evolve into one of coordinator through multiple policy-related networks of public, private, nonprofit, and associated actors. Each player in the governance network brings unique roles, power bases, skills, resources, and values.

Governance is especially important for rural areas due to their limited ability to craft and implement new economic development strategies. Rural communities are small, sparse, and have limited access to resources. Creating new governance structures can be difficult because rural communities are seldom accustomed to working with their neighbors to solve common problems. Rural elected officials often spread their time across many responsibilities with minimal professional support.

"Good" governance, however, can actually help rural areas leverage their scarce resources more efficiently. Fluharty described good governance as engaging people in the decision-making process. He characterized good governance as: policies that give invisible people a voice, crossing traditional jurisdictional boundaries, building and sustaining collaboration, achieving meaningful economic and social outcomes, and applying past lessons to future initiatives. Most rural regions have a good foun-

dation for new governance right in their backyard—a strong base of grassroots institutions and organizations, such as local schools and churches.

Looking ahead, Fluharty outlined three critical questions for rural governance. Who will be the champions for change? Who will be the intermediaries to facilitate innovation in key institutions? And what constituencies will support the innovative leaders and institutions? Intermediaries, such as civic organizations and foundations, are particularly important because they serve the role of connecting and supporting initially disparate people and organizations. The role of intermediaries is likely to change over time, and more than one may be involved in any particular effort.

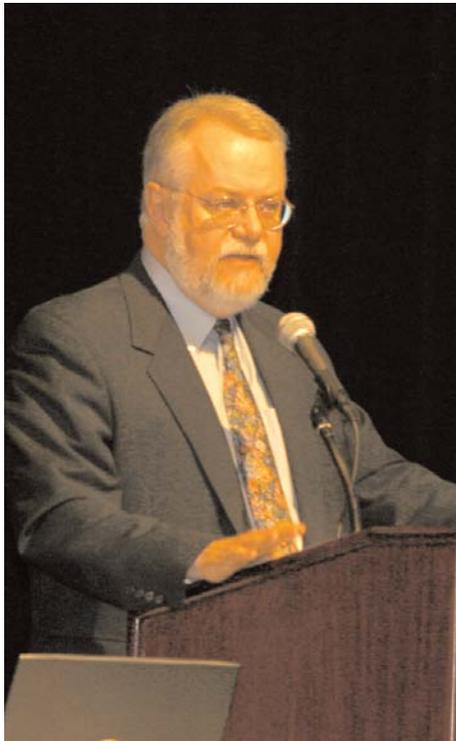
Innovating Public and Private Institutions

The second session of the conference took a close look at three different models of new governance—illustrating the three points of the arrowhead model. Each point represented an example of a different institution taking the lead in forging new regional partnerships. The first case examined government's role in the development of the Austin Technology Cluster in Texas. The second described Purdue University's lead in reinventing Indiana's economy. The final case discussed the role of nonprofits in sparking new regional development strategies.

Building the Austin Technology Cluster: The Role of Government

The tale of Austin, Texas, and its rise as a technology center is not a rural story but still offers powerful analogies. Austin's now well-known focus on technology actually began more than four decades ago. A chamber of commerce program focusing on the electronics industry launched the long journey that led Austin to become a technology center.

Government initiatives played a critical role in Austin's tech success. Local and state government recruited companies and assured an attractive quality of life to draw, develop, and retain highly skilled workers.



Karl Stauber

Indeed, workforce training and education has been a consistent theme of state and local governments. The result is that Austin now has one of the most educated workforces in the country.

Pike Powers noted that many policy decisions contributed to Austin's technology successes. Educational, intellectual, and physical infrastructures were continually upgraded. The University of Texas invested in tech facilities and created new endowed chairs. The city improved its water and electricity networks and built a municipal airport. City and county government offered tax abatements and utility rate agreements, arguing that such policies went beyond typical "quick-fix" incentives to attract complementary new employers within a coordinating strategic goal. Austin fostered a climate for innovation and entrepreneurship, aided by the university allowing faculty a financial stake in commercialized inventions. Finally, business, government, and the university agreed on making areas within science and technology recruitment targets.

Discovering a New Indiana Economy: The Role of Higher Education

Purdue University believes research universities should play a leading role in helping rural regions reinvent their economies. Martin Jischke sees new forms of partnerships as the way to do that. The changes in the new economy are being driven by science and technology. Jischke argued that the most effective development of knowledge-based economies is happening in states and regions that partner with research universities. He cited three examples of successful initiatives—MIT and the state of Massachusetts, Stanford and Silicon Valley, and the North Carolina universities and Research Triangle. Purdue aims to do the same for Indiana.

In response to the recent economic downturn, partnerships were formed between Indiana businesses, government, and research universities to identify sectors in the state with the greatest promise for future economic growth. Advanced manufacturing, information technology, life sciences, and transportation, distribution, and logistics were the most promising sectors. Purdue is taking a lead by supporting these areas with new investments in science and technology.

To help Indiana tap the knowledge economy, Purdue's efforts are becoming interdisciplinary and multi-institutional. The university recognizes that barriers often exist between academic disciplines. By breaking down these walls, researchers from different disciplines can create fresh innovations for the constantly evolving knowledge economy. Purdue's Discovery Park initiative started as a partnership with the state. Now its partners include the federal government, philanthropic organizations, alumni, and businesses. Discovery Park is a cluster of research centers that "connect faculty and students from many disciplines." The research at the centers is key in developing market-ready technologies, which have attracted high-tech businesses to the state.

Discovery Park is aimed at fostering growth throughout *all* of Indiana, and rural

areas have much to gain. Technology incubators could translate into new high-tech businesses locating in rural Indiana. Indiana farmers have already profited from research that developed disease-resistant soybeans. The state's timber industry has benefited by the development of better species of trees. Beyond Discovery Park, existing rural businesses have access to Purdue's Technical Assistance Program, which provides assistance with the everyday issues associated with managing a business and developing new products. And the university's Center for Rural Development goes beyond the "what" and addresses the "how-to" of rural development.

The Extension Service programs housed at land-grant universities have long been the connection between the university and the communities they serve. Jischke argued that the existing Extension model must change because there is a "growing disconnect" between 21st century economic needs and the historic focus of Extension programs. Jischke urged working toward a more "two-way" link between Extension and communities. He also argued that Extension programs should engage all of the university's disciplines, not just the traditional ones, such as agriculture. Finally, the focus of Extension programs needs to be more entrepreneurial in exploring new ways to fund activities.

Sparkling New Development Strategies: The Role of Nonprofits

Karl Stauber examined how nonprofit institutions can spur innovations in regional governance. Philanthropic organizations have been a leader in development initiatives, but he stressed they cannot do it alone. Rural development requires collaboration with government, businesses, and all private sector institutions. Depopulation and poverty are all too familiar to rural areas. Stauber stressed that "if the downward spiral is to be stopped, it must happen in this decade."

Stauber described rural decline as multidimensional—structural and incidental, absolute and relative, persistent and respon-

sive. For all these reasons, multidimensional approaches are needed for rural development. By contrast, many of the rural development efforts now in place have a single focus, such as housing or education. They may produce narrow benefits but cannot address the long-term challenges facing all corners of the economy.

Stauber outlined three crucial factors for the future competitiveness and prosperity of communities. First, communities must have a unique competitive advantage to be prosperous. Second, prosperous communities must acknowledge the need to seek new competitive advantages, rather than protecting the old. Finally, prosperous communities must strive to balance economic growth with building social and human capital.

Stauber described four models of economic development at work in rural America.

The commodity production model concentrates on a single segment of the economy. This type of development has stabilized after declining significantly. *The branch plant model* concentrates on attracting industrial facilities, often to trade and service centers. This model is in decline as a result of globalization, which has raised the cost of industrial recruitment, while increasing the risk of a company leaving town. *The entertainment and amenity model* tries to exploit scenic wonders. This model is expanding in use but is constrained by the geographical and natural characteristics of a region. *The entrepreneurship model* exploits a region's unique competitive advantages. This model is the most underutilized, but in Stauber's opinion holds the greatest potential for rural regions.

Nonprofit organizations are leading many of the efforts now aimed at changing

economic development visions and strategies. Nonprofits are often uniquely suited for this role because they are viewed as trustworthy, while also having tax law advantages that ease the process of raising capital funds. Nonprofits are also usually independent of local politics and thus can tap into a fresh pool of leaders.

The development successes led by nonprofits reveal some common dimensions. The vision must be developed *by* and *for* the entire community, not just a single sector. Efforts should be multidimensional and should seek to exploit a region's new



Clinton Bristow

competitive advantage. The effort must be focused on a region, not a single community. Thus, regional partnerships are critical. Finally, development goals should seek to build both wealth and community, not just one or the other.

Nonprofits have faced many difficulties in their rural development efforts. First, federal funding is inflexible and tends to be sectoral in nature. Second, institutional support for entrepreneurship and other means of creating competitive advantage, which Stauber argues are the keys to future prosperity, is lacking. Third, rural places have difficulty creating a vision for the future because they linger on what worked in the past. Fourth, regions have few forums to learn from one another. Finally, institutions devoted to research in rural public policy issues are still too few. They need adequate resources to operate on a

national basis. And they must be able to address issues in a multisectoral manner. All partners must tackle these challenges if they are to succeed in years to come.

New Policies for New Governance

The final session of the conference focused on public policies that can promote new governance in rural regions. The session began by exploring the MidSouth Partnership, where Mississippi state universities and community colleges are teaming up to address rural needs. The overview panel offered their insights on how rural America can seize new policy opportunities.

New Opportunities for Public Policy: Learning from the MidSouth Partnership

Clinton Bristow and J. Charles Lee described how MidSouth forged a new partnership with Alcorn State University, Mississippi State University, and the state's community colleges. The significant challenges facing rural Mississippi sparked conversations between these institutions, various foundations, and a Mississippi philanthropic organization. All participants quickly converged on the "need for new and renewed leadership in our colleges and universities."

The resulting public policy was the MidSouth Partnership for Rural Community Colleges. Seed foundation grants in turn leveraged federal government funding; both were key catalysts in developing rural leaders through the allied educational institutions. The Partnership trains new faculty and administrators to meet the needs of rural community colleges. Alcorn State and Mississippi State provide the training, while leaders of the community colleges help shape the curriculum. Lee noted that the MidSouth Partnership crossed traditional boundaries between individual state colleges and between state and community colleges. True to its founding spirit, the Partnership is also reaching across state lines in a collaborative effort with Alabama community colleges.

The MidSouth Partnership offers valuable insights on partnering and rural development. The Partnership was characterized as "a shared journey to lift up rural people and com-

munities," although Lee pointed out that the journey was not free of turbulence. Worrying about who receives credit can hinder partnerships. Rural regions must remember to "hold hands" throughout their journey. All parties agreed that community colleges are an "underutilized asset" in rural economic development, which can give underserved regions leadership and momentum.

Bristow outlined many areas where public policy can play a pivotal role in reshaping rural areas, particularly in terms of education and workforce training. Flexibility in the policies of a university's governing board allows it to adjust to the changing needs of the region. Flexibility is equally important in creating workforce programs that go beyond training for a specific job or company and help stimulate entrepreneurship. In this sense, workforce policies need to be forward-looking, rather than focusing on immediate or past needs.

As with the conference's earlier examples, regional partnerships such as MidSouth are critical to new regional economies and thus should be a new goal for public policy. Working across jurisdictional lines as well as the cultures of different institutions is difficult but not impossible—and can allow overlooked synergies to develop to the benefit of the entire region.

Seizing the New Policy Opportunities

Conference participants agreed that new models of governance are needed to seize economic opportunities in rural areas. The old model of developing individual programs targeted at single sectors of the economy does not meet the challenges created by a global economy. The models of governance showcased in this conference were all based on collaboration and partnerships across government, businesses, higher education, and nonprofits.

Partnerships, while simple in concept, are painstakingly difficult to develop and sustain. Linda Salmonson cautioned that such collaborations require partners to "leave turf at the door." Yet engaging multiple partners ensures that regional development efforts get adequate resources and stakeholder approval.

Champions for change are also central to new governance. In each example presented, one institution initiated the change. Larry Whitaker described champions as those who take risks and accept consequences, "even if it means losing a vote." Higher education, the business community, government, and nonprofits all have the ability to be their region's champion.

Echoed throughout the conference was the need for public policies to support such innovations in governance. John Welty identified seven components that are needed for rural regions to capture opportunity:

- A sense of "place"
- Engagement by higher education
- An entrepreneurial culture
- Collaboration and cooperation among regional leaders
- Financial investment from multiple institutions
- Strong leadership, organizational, and economic infrastructure
- Educational and training programs that serve the region's goals

These seven components cover many of the public policy areas that participants agreed must be addressed to help foster the prosperity of rural regions.

Participants concluded that rural America has good reason to be bullish about its economic prospects. Still, rural communities must find new ways to think and act together as regions. The consensus view was that new models of regional governance will be the hallmark of prosperous rural regions. Salmonson and Whitaker agreed that the basic premise of policies and governance is people, and meeting the needs of a region's people should be central to development efforts. One institution or organization cannot meet those needs alone. To build new economic engines in rural regions, higher education, government, business, and nonprofits must all be at the table when strategies for the future are born.

New Governance for a New Rural Economy: Reinventing Public and Private Institutions

NEW GOVERNANCE 101

New Governance in Action: The True North Model

Joseph M. Sertich, Jr.—President, Northeast Higher Education District,
Chisholm, Minnesota

Assessing the State of Rural Governance in the United States

Charles W. Fluharty—Director, Rural Policy Research Institute,
Columbia, Missouri

INNOVATING PUBLIC AND PRIVATE INSTITUTIONS

Moderator:

Gary Gorshing—Executive Director, South Western Oklahoma
Development Authority, Burns Flat, Oklahoma

Building the Austin Technology Cluster: The Role of Government

Pike Powers—Partner, Fulbright & Jaworski L.L.P., Austin, Texas

Discovering a New Indiana Economy: The Role of Higher Education

Martin Jischke—President, Purdue University

Sparking New Development Strategies: The Role of Nonprofits

Karl Stauber—President and Chief Executive Officer, Northwest Area
Foundation, St. Paul, Minnesota

NEW POLICIES FOR NEW GOVERNANCE

New Opportunities for Public Policy: Learning from the MidSouth Partnership

Clinton Bristow, Jr.—President, Alcorn State University

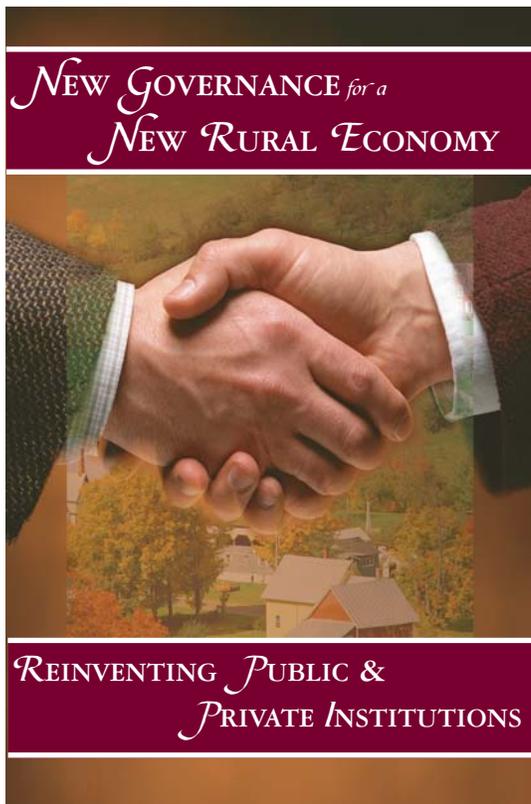
J. Charles Lee—President, Mississippi State University

Seizing the New Policy Opportunities

Linda Salmonson—Public Affairs Coordinator, East River Electric Power
Cooperative, Madison, South Dakota

John D. Welty—President, California State University, Fresno

Larry B. Whitaker—McLean County Judge/Executive, Calhoun,
Kentucky



New governance will redefine how rural regions make economic decisions and how key institutions work together in building a new economy. Government, higher education, and the private sector, including the business and nonprofit communities, are especially important in defining governance in most rural regions. What is the state of governance in rural regions? How can regions cross jurisdictional lines and surpass the limits of old governance? And what steps can public and private leaders take to innovate governance in their region?

To shed light on these issues, the Center for the Study of Rural America hosted a conference, *New Governance for a New Rural Economy: Reinventing Public and Private Institutions*, May 17-18 in Kansas City, Missouri.

A distinguished group of rural experts from the United States and beyond were on hand to share their ideas. Our audience included national leaders from government, business, finance, and academe.

The conference proceedings will be available this fall. To receive a free copy, please visit our website at www.kansascityfed.org/ruralcenter or write us at:

Public Affairs Department
Federal Reserve Bank of Kansas City
925 Grand Boulevard
Kansas City, Missouri 64198