Innovations in Rural Governance

Over the past four years, the Center for the Study of Rural America has focused much of its work on one major challenge—how can rural regions throughout the nation build new economic engines? This quest to claim a new economic frontier is increasingly well understood by public and private leaders alike. What is much less understood is the corresponding need to reinvent how regions reach economic decisions, a process that many now call regional governance.

In this 2003 Annual Report, we now turn our attention to the other big challenge facing rural regions: how to claim this new frontier with jurisdictional lines and institutions created for a very different rural economy.

New governance is the bookend challenge to building a new economy in rural regions throughout the nation. Yet the topic is getting little if any attention. Why? There are two main reasons. First, new governance often means crossing or, in some cases, overriding jurisdictional lines drawn long ago for a very different economic landscape. Turf battles frequently erupt at the first whiff that the status quo could change. And second, a whole set of public institutions were created with the old economy and the old jurisdictional lines in mind. County courthouses are one example; the Extension Service is another. Those who still benefit from the existing institutions oppose any change, whereas those trying to build a new economy are often silent because they rarely receive help from existing institutions. In short, they are beyond the reach of the old governance.

New governance will define how decisions will be made within a region and also how key institutions will work together. In most rural regions, three public and private institutions will be especially important: government (federal, state, and local), higher education, and the private sector (including businesses and a wide array of nonprofit institutions).

The problem in most rural regions is that many of these institutions were created for a 19th or 20th century economy. For instance, many county lines were drawn with 17th century technology—the distance someone could travel by horse and wagon to the county seat and still return home by sundown. Those jurisdictional boundaries, however, now can impede the multicounty partnerships that are often essential to building new business engines. In the case of pharmaceutical crops, for instance, several hundred farmers spanning several counties are likely to join in one common business plan, or at the very least share the...
same production protocols for one processor. As another example, land grant universities typically have charged colleges of agriculture with creating and implementing rural development programs. That made sense in the early 20th century when rural America was 90 percent agrarian. It makes less sense today when the rural economy is about 10 percent agrarian. Similarly, rural legislation mostly moves through agriculture committees in both Congress and statehouses.

The governance dilemma is not unique to rural America. The Organization for Economic Cooperation and Development (OECD), a global economic organization based in Paris, held a ministerial meeting last summer on regional economic development issues. Participants at that international conference agreed two critical issues face regions in the period ahead. The first issue is building new engines of economic growth in regions. This is essentially a question of vision: Where can the rural economy go?

The second issue is reinventing how a region is governed, essentially creating a way of reaching decisions that allows a region to make economic decisions quickly and efficiently—and in line with the new economic opportunities. Innovations in public and private institutions are the key to aligning governance with opportunity. Fast-growing regions are characterized by institutions that innovate, whereas lagging regions often have institutions that are rigid and stagnant. Thus, governance is essentially a question of implementation: How can rural regions get to a new economy?

Much remains to be learned about realigning governance to build a new rural economy, but there are encouraging signs of innovation. This annual report will highlight four of them: True North in northeast Minnesota, the Office of Rural and Community Affairs in Texas, the Manufacturing Alliance in northeast Oklahoma, and Discovery Park at Purdue University. The Minnesota case provides a good place to start, because it illustrates the issues that define a framework for new governance.
Historically, northeastern Minnesota has depended on two commodities—iron ore and timber. The rise and fall in iron and timber prices has resulted in a rollercoaster ride for the region’s economy. Over the past two decades, the situation has worsened. Dramatic consolidation in iron activity led to a sharp loss of jobs in the region. In the 1980s, mining accounted for 50 percent of the jobs and 60 percent of the income in northeast Minnesota. Today, mining represents less than 10 percent of both.

This economic slide led many groups to envision a new economic future for the region. Many ideas were floating around the region—but no way to weave the various threads into a single plan. In 1999, that changed. The Minnesota State Colleges and Universities System decided it was time to rethink how the many community colleges in northeastern Minnesota were organized and governed. For their part, the community colleges were beginning to see the need to pool resources to save administrative costs. They also realized the economic and fiscal crisis spanned several towns and counties in the region.

Their dramatic step was to reorganize the governing structure of the region’s community colleges. Six community colleges came together under one “super regional” umbrella, with one president. That umbrella, the Northeast Minnesota Higher Education District (NHED), represented a regional master plan to address the lifelong learning needs of area residents.

NHED understood that the economic crisis affected more than their operating budget. It left a number of area residents unemployed. In addition, the skills of iron miners are vastly different from those needed in the services industry.

Technology is an essential element in NHED’s regional economic development strategy. Technology helps to link institutions, cut administrative costs, and improve worker skills. For instance, the facilities planning for each campus is done on a regional basis, so that one campus complements another. And with only one president and one governing structure, curricula can easily be shared.

Still, each member institution is heavily involved in planning curriculum on their campus. As Joe Sertich, the new president, puts it, “We have one governing structure, but six campuses that retain unique areas of distinction.” NHED works to ensure full and independent accreditation for member institutions. The regional master plan is supplemented with local academic plans and input from local industries, administrators, and instructors. Each member institution is also involved in local economic development projects and works to engage other partners from the private sector, K-12 educational system, and Native American tribes.

The overall mission of NHED is to increase access and learning opportunities in the region. Through joint curricula planning they can improve the efficiency and quality of each institution and cut administrative overhead. Local and regional partnerships help ensure proper alignment with regional economic opportunities. And more fundamentally, the colleges are able to create a critical mass of highly skilled workers for potential businesses.

The creation of NHED has been a catalyst for critical changes in other key institutions in the region. After seeing some of the benefits of the regional community college, governments throughout the region have begun to cooperate more often and more extensively. The Range Association of Municipalities and Schools now serves as a forum to identify high-priority projects and opportunities to share resources. New multijurisdictional partnerships have also formed. The Central Range Initiative is bringing together five sanitary districts looking for ways to redevelop unused waterways.

NHED has also spurred new private sector investments by becoming a one-stop resource for worker training issues—and a catalyst for new economic development. In the past, meetings between businesses and community colleges were often lopsided, with a business on one side of the table and six community colleges on the other. Now, NHED can provide a single source of contact. At the same time, NHED encourages businesses to expand or relocate to the region by providing a more complete set of worker training resources. Blue Cross/Blue Shield of Minnesota moved 120 jobs to Virginia, Minnesota, because of NHED’s commitment to worker training. More jobs are being added.

NHED has also spurred new business investment by leading the effort to target new economic niches. With mining and timber in decline, NHED identified information technologies in which it had deep expertise. This led to the development of the DOIT...
program—a new initiative to bring NHED technology experts together with new training and business incubator facilities on Main Streets throughout the region. Most recently, business leaders have formed the Arrowhead Growth Alliance, a group that aims to foster new business starts. Joe Sertich is a key member of the group.

Lastly, NHED has also spurred new activities by several nonprofit institutions in northeastern Minnesota. The Iron Range Rehabilitation Board, a fund created decades ago to help diversify the region’s economy, has put fresh resources behind the DOIT program. Existing philanthropic foundations, including the Blandin and McKnight Foundations, have also backed new investments in new economic ventures. The focus on new business formations has spurred new programs by venture capital funds in the region—Northeast Ventures and Iron Range Ventures. Finally, the Northland Foundation has been formed. The foundation, which spans the seven-county region covered by NHED, now boasts a $30 million endowment.

In short, one small change in governance—the birth of a super regional community college—created a cascade of changes in how key institutions interact and make decisions. Today, that regional thinking has even been given a new identity. True North was established at the NHED to be an umbrella for new regional partnerships. Joe Sertich describes True North as “a brand identity for our new regional strategy.” In essence, the region’s community college has become the institutional home for a new regional development strategy and a forum where new regional initiatives come together.

While the impacts of this new regional strategy are still being weighed, the early returns are encouraging. In addition to attracting Blue Cross/Blue Shield to the region, new healthcare training programs have spurred new investments by healthcare providers. And, with a heavy emphasis on creating new information technology firms, the business community is plugging gaps in the region’s support network for new businesses. All in all, northeast Minnesota appears well on its way to building a new economic engine, the goal that led to the creation of True North.

The Arrowhead Model

We can think of the region’s three key institutions as representing the three points of an arrowhead. Government represents one point, the private sector another, and higher education the other. To transform the region’s economy, one of the points must become the tip—the catalyst to new regional governance. In the case of True North, higher education was the tip, or the catalyst that spurred innovations in the other two points. NHED provided the spark to redefine the region’s identity and how decisions are made in the region.

The Arrowhead Model illustrates two key findings about new governance. First, all three points of the arrowhead are crucial. Joe Sertich makes the case that without the support and contributions of the private sector and governments in the region, the regional community college would be helpless to reinvent the region’s economy. To the contrary, the new relationships among the region’s key institutions are driving innovation in the economy.

And second, without a strong catalyst, governance will not innovate. Creating the NHED proved to be the spark that changed how the region thought and acted. It provided a meeting place for new thinking about the region’s economy, and it inspired new actions and investments by others. In this case higher education was the arrowhead’s tip. It might just as easily have been government or the private sector. But if no one takes the lead, governance is highly unlikely to innovate. Thus, one of the fascinating questions going forward is how catalysts in governance emerge. It is a question at the heart of the three cases presented in the remainder of this report.
Once heavily dominated by agriculture, oil, and gas, many communities in rural Texas faced difficult futures in the new global economy. Historically, the state dealt with rural issues by focusing on agriculture or industrial recruitment—or by policies crafted primarily with metro areas in mind. Knowing that saving their state’s rural communities required a new approach, state policymakers changed their strategic focus. They made government the “tip of the arrowhead” in their quest to innovate state institutions to better serve rural Texas.

In 2001, the Texas Legislature created the Office of Rural and Community Affairs (ORCA) to address rural issues across Texas. At the outset, the legislature did not have ORCA in mind. Rather, their aim was to help rural areas survive and thrive in a rapidly changing global economy. The effort was initiated by then Speaker of the House, James E. (Pete) Laney. A committee, made up of House members, was charged with researching and reporting on the needs of rural communities. Speaker Laney asked the committee to “develop plans to maintain and improve the economic, social, and cultural life of rural Texans.” The committee studied rural issues ranging from transportation and broadband to healthcare and housing. Their research included input from individuals outside the walls of the statehouse gathered through private interviews and public hearings across the state.

A principal finding of the committee was that the state needed to institutionalize its focus on rural issues, so that rural issues were always on the legislative agenda. The leadership concluded that a free-standing agency—one that was not attached to any particular department—would be the most effective means of accomplishing this goal.

As a free-standing agency, ORCA can move freely between all departments in its cooperative efforts. This capability is essential, since other agencies besides ORCA also oversee programs that affect rural areas.

In a conservative state like Texas, amidst tightening budgets, the task of creating a new agency had to be done with few additional resources. A fiscal foundation was needed. This foundation was achieved by taking two programs targeted at predominantly rural areas from other departments and joining them under the ORCA umbrella. These two programs are the Community Development Block Grant non-entitlement program (the rural portion of the program) and the Center for Rural Health Initiatives. ORCA received the budget and staff assigned to these programs along with five additional employees and a few more budget dollars.

The next step was to extend the foundation by focusing on a broader set of rural issues. In addition to overseeing community development block grants and rural health programs, the legislation assigned ORCA to do the following:

- Develop a rural policy for the state of Texas,
- Cooperate with other state agencies to improve results and cost-effectiveness of state programs affecting rural areas,
- Develop programs to improve the leadership capacity of rural community leaders,
• Monitor developments that have a substantial effect on rural Texas communities, and
• Conduct research to determine the most cost-effective ways to improve the welfare of rural communities.

To guide them in their efforts, ORCA has a governing board of nine members appointed by the Governor, Lieutenant Governor, and House Speaker. All members are lay persons and do not receive compensation. This governing structure allows representatives from rural areas themselves to oversee the activities of ORCA and help focus their attention on critical issues.

ORCA’s activities are not unlike those of most agencies in government in that they spend a good deal of time administering programs, evaluating applications, and allocating funds. It is ORCA’s focus on rural issues that makes it truly unique. ORCA’s outreach and research functions are perhaps just as important to the success of rural Texas as the funds that they deliver. These functions will also be important going forward for creating synergies with educational institutions and the private sector—the other two points of the Arrowhead Model.

The Outreach and Training Services Unit of ORCA conducts activities to help rural communities, their leaders, and their administrators. These activities include providing training and assistance to deal with local issues. Building leadership capacity throughout rural Texas was a primary recommendation that came out of the initial committee report. The unit’s Leadership Capacity Building Program is aimed at identifying and building local community leaders and elected officials. The program encourages leaders to tackle local problems by identifying solutions and developing new opportunities. The unit also has a Technology and Telecommunications Resources arm that educates leaders about technologies available and how communities might use technology and telecommunications at the local level.

ORCA’s Research, Policy, and Planning Unit is an especially innovative instrument of rural policy. This unit is responsible for developing a rural policy for Texas. It monitors other activities in government that could potentially impact rural areas. It also works with other state agencies to coordinate programs that apply to rural areas. The success of ORCA has hinged on this convening power that facilitates exchanges between different agencies. These exchanges are often viewed as difficult to accomplish productively due to the unwillingness of agencies to cooperate with one another. ORCA has been successful in its convening efforts. As Bobby Gierisch in the office of the Texas House of Representatives puts it, one of the advantages ORCA provides is that there is “somebody continually looking at issues through a rural lens.” He also points out that “a lot of rural issues don’t have the ‘flavor’ to rise up on their own.” The ORCA model can bring such “flavorless” issues to the table.

ORCA is still in its infancy. But it serves as a prime example of how government can change to adapt to the needs of rural communities. And, going forward, ORCA is well positioned to foster partnerships with and among the state’s higher educational institutions, private businesses, and non-profit entities. Of course, the cooperation of all the points of the arrowhead will be essential for achieving ORCA’s goal—to improve the lives of rural Texans.

Once heavily dominated by agriculture, oil, and gas, many communities in rural Texas faced difficult futures in the new global economy.
Oklahoma has known its share of economic challenges. But it also knows opportunities. As the oil and manufacturing industries faded over the last two decades, rural towns in Oklahoma were hard-pressed to keep existing jobs, much less create new ones. The private sector in the northeastern part of the state saw opportunity in that serious challenge. They saw a chance to seize the next generation of opportunity in manufacturing. To succeed, though, this strategy would depend on stronger partnerships among firms.

“It costs less to do business in rural America,” says Roy Peters, president of the Oklahoma Alliance for Manufacturing Excellence, Inc. “The workforce is steady, and many people stay near their town and families. Therefore many workers are long-term employees. And, the employees with agriculture backgrounds have multiple skills, making this group of workers very diverse and adaptable.”

Still, in today’s global marketplace, capitalizing on even a reliable resource requires new ways of thinking—and in this case a new kind of alliance. Private stakeholders joined forces as the tip of the Arrowhead Model in northeastern Oklahoma.

Although it began as a private sector initiative, the alliance quickly widened to include other key stakeholders. Other stakeholders included representatives from the Oklahoma Center for the Advancement of Science and Technology, the Oklahoma Department of Commerce, the Oklahoma Department of Career and Technology Education, and the Oklahoma State Regents for Higher Education. The Oklahoma Alliance for Manufacturing Excellence, Inc., is now made up of both public and private stakeholders who share common interests in manufacturing and the state’s economy.

The alliance’s vision is to help rural Oklahoma manufacturing firms gain a competitive edge in the global marketplace. They strive to deliver decentralized and locally accessible assistance, coordinate use of existing resources, promote collaboration, elicit the commitment from small firms, and remain customer driven. Rural areas in particular stand to benefit from the alliance as it focuses on growing small and medium-sized manufacturers already in the state, rather than recruiting new business.

Early on, the alliance received a strong boost from the National Institutes of Standards and Technology (NIST), a quasi-governmental agency. In 1992, the alliance received a half million dollars from federal and state programs that are part of NIST. As a first step, the alliance members hosted a number of focus groups among local manufacturers to discover what assistance members needed. A common concern was locating hard-to-find items, such as specific tools. Soon, the alliance evolved into a financial and educational assistance group. By creating partnerships with local community colleges, they began to aid manufacturers by educating their workers. A major effort has been to help manufacturers implement the Lean Enterprise System. The Lean system, based on Toyota’s production model, is a technique designed to help manufacturers enhance their competitiveness through input from their employees.

The alliance helps the firms navigate the various stages of Lean implementation—from identifying the firm’s opportunities to designing and implementing solutions. After implementation, the alliance stays involved with the firm to ensure that the firm and employees alike reap the intended benefits.
The Lean technique empowers employees to find ways to improve their manufacturing processes. This often means reducing movement of the product, eliminating waste, and reducing inventory in all stages. In doing so, firms can cut costs and boost effectiveness—and thus serve more customers. Firms are also able to make quicker adjustments to market conditions and become more competitive in the marketplace.

Some of the alliance’s greatest achievements can be seen in the actual manufacturers they have helped. Chicago Rawhide, an auto parts manufacturer, wanted to make their operations more efficient through Lean. The company sent each of their 270 employees through the Lean 101 training. “Our people are really embracing the changes,” says Mark Denton, a Chicago Rawhide process engineering manager. “With Lean, the employees have a lot more responsibility. They invest a lot of time in making the process work better and, in the end, the whole system is better off.”

As a result of Lean 101, Chicago Rawhide has seen dramatic results. Cycle time, work in process, scheduling points, and component inventory have each improved by 65 percent or more.

Hill Manufacturing, a precision machine shop in Oklahoma, has also flourished with the help of the alliance. In the last six years the firm has grown from five to 30 employees. Sales have jumped from $500,000 to $4 million annually—even in a weak economy. The alliance has helped them in a variety of ways, from counseling on pursuing government contracts, to aiding in designs of plant layouts and quality systems, to implementing the Lean system. Many of Hill’s original employees still remain with the company and have moved into management positions. With the alliance as a support system, Hill Manufacturing continues to grow.

Since 1991, the alliance has assisted over 1,800 manufacturers. The firms it has helped have increased sales by $163 million and created 1,200 new manufacturing jobs in the region. Overall, the alliance has had an economic impact of $60.7 million. The critical support system of the alliance has proved especially valuable during weak economic times, when firms must find ways to control costs and enhance efficiency or perish.

But perhaps the alliance’s greatest contribution to manufacturing firms in northeast Oklahoma has been their role as catalyst—the tip of the arrowhead. Once the idea began in the private sector, it required government’s help to get it started. Later, the idea capitalized on the third point of the model, education. The manufacturing alliance represents an innovation that clearly has benefited from all three points of the arrowhead.
Discovery Park, founded by Purdue University, shows how a land-grant university can become the tip of the arrowhead. In most rural regions of Indiana, prosperity no longer flows from the state’s traditional sources of strength—farms and factories. Simply put, fierce global pressures have left rural Indiana searching for a new competitive backbone. Discovery Park’s mission is to help rural entrepreneurs create new economic opportunities by combining discovery with innovation.

So how does rural Indiana discover new technologies? A primary source of technical information and innovation for rural places has traditionally been the state’s land-grant university. In today’s new economy, Purdue has focused on becoming a leading source of technological innovation to spur economic opportunity. Its goal is to help translate technological discoveries into “meaningful tools for growing businesses and reaching new markets.”

The foundation for Discovery Park was laid in 2000 when Purdue’s President, Martin Jischke, and the board of trustees embarked on a new strategic planning process. “Land-grant universities must use their missions for learning, discovery, and engagement to help communities and states build a high-tech economy,” said President Jischke.

Through discovery, scientific research will aim to uncover new innovations and technological advances. Through learning, students will have an opportunity to conduct hands-on, experimental research in the generation of new innovations. And through engagement, Discovery Park will translate the learning and discovery endeavors into tangible, successful economic opportunities to allow the commercialization of new products.

Purdue realized that discovering new opportunities in today’s economy required institutional change on its part. The land-grant system was created to promote the education of agricultural and mechanical arts and thus to help rural citizens participate in the emerging U.S. industrial economy. But to prosper, today’s rural population needs far more than agricultural and mechanical arts. Land-grant universities are challenged with transforming themselves from research, teaching, and extension institutions into institutions of discovery, learning, and engagement. A consensus is emerging that rural prosperity depends critically on developing new technologies, new products, and more entrepreneurs.

Discovery Park has two complementary goals. The first goal is to provide a place where scientists with different backgrounds can meet and collaborate on the discovery of new innovations. By supporting interdisciplinary research, the goal is to reach across the university’s departmental structures that often forge silos of isolation and foster a level of cross-pollination that leads to new discoveries. Discovery Park will support these endeavors by providing state-of-the-art laboratories and equipment for clusters of scientists to work together as they explore today’s new frontier of technological and scientific innovations.

The second goal of Discovery Park is to transform technological innovations into new products and new firms—which in turn will create a new economic strength for the rural regions in Indiana. At Discovery Park scientists will

Combining centers of discovery with an ‘underlay of information technology and an overlay of entrepreneurship [will produce] real solutions to real-world problem.’

- Charles Rutledge, Discovery Park’s executive director
Combining centers of discovery with an “underlay of information technology and an overlay of entrepreneurship [will produce] real solutions to real-world problems,” says Charles Rutledge, Discovery Park’s executive director. The result should create economic growth and opportunity for the whole state of Indiana.

Discovery Park is actually a cluster of centers for technological advancement. Currently, there are five centers. Three centers focus on the discovery of new products. In each of these three, scientists have the laboratory space and state-of-the-art infrastructure they need to forge scientific and technological advancements:

- The Birch Nanotechnology Center focuses on discovering new technologies in the field of nanotechnology, a new science where “tiny materials and structures are built atom by atom or molecule by molecule.”
- The Bindley Bioscience Center focuses on blending life science and engineering technologies.
- The e-Enterprise Center focuses on discovering new digital technologies.

Discovery Park’s two other centers will help translate scientific discoveries into economic opportunities:

- The Burton D. Morgan Center for Entrepreneurship will focus on creating new entrepreneurial firms to transform new technological discoveries into viable commercial products.
- The Discovery Learning Center will focus on producing a new generation of scientists and researchers to produce a future stream of innovations, commercial products, and economic opportunities.

Discovery Park is also supporting business development by offering business incubator facilities. The nanotechnology and entrepreneurship centers provide incubator space to help nurture new start-up firms. Discovery Park could also team with incubator facilities at Purdue’s existing system of research parks to commercialize new products and start new firms. Purdue has now undertaken an accreditation program to expand its network of research parks across the state. By teaming Discovery Parks with research parks, a pipeline of new technologies emerging from campus laboratories could be transformed into new products, new firms, and new economic opportunities for rural Indiana.

Purdue was the catalyst in launching the Discovery Park idea. But support from government and the private sector was also necessary to complete the three points of the Arrowhead Model. In the fall of 2001, the Lilly Endowment committed $26 million to the project. These funds were leveraged with grants from state, federal, and other private foundations. Activities at Discovery Park have also received support from Indiana’s 21st Century Fund, a state program that promotes faculty partnerships at Indiana universities and companies for technological discovery.
—2004 Annual Conference—

NEW GOVERNANCE for a NEW RURAL ECONOMY
Reinventing Public and Private Institutions

—A national conference hosted by—

The Federal Reserve Bank of Kansas City’s
CENTER for the STUDY of RURAL AMERICA

MAY 17–18, 2004

More and more regions now recognize that thinking and acting as a region is crucial to success. And as we have discussed in this annual report, how a region makes swift and effective decisions—or, new governance—is key to future growth. This year’s conference will highlight regions that are innovating governance and identify promising steps leaders in government, education, and business can take to improve their region’s prospects for success. We hope you can join us in Kansas City for this important conference.

For information contact Nancy Novack at (800) 333-1010, ext. 2423 or visit us on the web at www.kc.frb.org.

---

2003 Main Street Economist Articles

January  Building New Competitive Advantages for the 21st Century
February  Can Rural America Plan for Tomorrow’s Drought?
March    New Troubles at Rural Factories: New Implications for Rural Development
April    Rising Farmland Values: Some Implications for Rural America
May     Thinking Regionally, Acting Locally: Emerging Rural Regions in the U.S.
June    Main Streets of Tomorrow: Growing and Financing Rural Entrepreneurs
        (2003 conference summary)
July    The Outlook for U.S. Agricultural Exports
August  Seizing High-Skill Services in Rural America
September  Bridging the Gap in Rural Healthcare
October  An Update on Rural Broadband
November  Top Ten Ways to Reinvent Rural Regions
December  FAQs about Mad Cow Disease and Its Impacts

---

Center for the Study of Rural America Staff

Mark Drabenstott, Vice President and Director
Jason Henderson, Economist
Bridget Abraham, Research Associate

Stephan Weiler, Assistant Vice President and Economist
Nancy Novack, Associate Economist
Sarah Low, Research Associate

www.kc.frb.org