CRGI

a progress report of the
Chattanooga Regional Growth Initiative

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THE NEW OPPORTUNITY

In recent years, Chattanooga has been riding a crest of civic optimism. Buoyed by a resurgent downtown and riverfront and the positive national press attention those developments have generated, Chattanoogans have reassessed themselves and their hometown. In large measure, they like what they see, and they believe their quality of life to be not only acceptable, but enviable.

Ironically, this grand civic pride has been counter-balanced by a sort of economic pessimism. If you asked citizens to draw a chart of business strength in this area, most would sketch something with a downward slope.

Some of that image may be unfair, influenced heavily by large cutbacks in a few big firms, without due credit to the smaller businesses that have arisen to absorb much of the losses. Still, it is at least fair to say that the region has had to run hard just to stay in place.

What's worse, though, is a generally helpless feeling, a sense that the region is buffeted by outside forces that give it no choice but to stall and stagnate as others pass by.

Helplessness is wrong.

There are indeed strong forces that present challenges to the region's economic life. But the transformation of so much in the nation's economy — in the world's economy, for that matter — means there is also great opportunity for change.

Chattanooga has transformed itself often in its history, most recently in its civic life. Now it has the chance to do so again. It has the chance to build anew on its present business base, to establish its special niches in the new economy, and to transform its business culture as well.

Change will require new thinking.

It will require a shift away from the old emphasis on low-cost criteria toward a new emphasis on high-quality inputs and productive processes.

It will require an acceptance of more competition in business life rather than less.

It will require a move from defending general business concerns toward promoting effective specialization.

And it will require more.

New thinking and new approaches, however, do not occur just because someone publishes a report. New thinking usually requires new experiences first.

A renewed business culture, one that honors both competition and collaboration, requires some groundwork. That has been, and is, the goal of the Chattanooga Regional Growth Initiative.

What's important about this progress report is not the words but the experience they represent. Groups of businesses in related fields, including direct competitors, have come together in recent months to explore the possibilities of new ways of doing things. Each of them has been impressed enough by the process to keep its group going and to begin work on action plans for mutual benefit. That process itself is a key element of successful change.

The result of this initiative, over time, should be greater innovation, enhanced productivity and new business formation. The key result should be a deeper, growing and sustainable prosperity for the Chattanooga region.

That means not just more jobs but better jobs. It means higher personal incomes, but it also means a better income distribution. It means economic achievement *and* economic opportunity.

This report outlines both the new thinking and the new processes. Parts of it are frank and bracing, and meant to be so. It is not a puff piece about how good we are, although there is much about us that is good. Instead, it is an outline of how we could be better, and in places therefore it highlights where we now fall short.

There is absolutely nothing permanent that is keeping the Chattanooga region from being a better place to do business. In fact, compared to many regions we have a striking record of achievement in improving other aspects of our community life. That example can apply just as well to our economic life.

The business world today presents new challenges. The process and goals of the Chattanooga Regional Growth Initiative present a new and promising opportunity for meeting those challenges.

THE PROCESS

The Chattanooga Regional Growth Initiative has its beginnings in the transfer of Chattanooga's economic development function to the Chattanooga Area Chamber of Commerce in 1999. For the previous 17 years the function had resided in other organizations; now it was back home in the Chamber, the logical and most common place to find it in most communities.

That almost automatically raised key questions, however: What do we mean by economic development? How do we go about it? Is there more to it than traditional industrial recruitment? How does existing industry fit in? What about entrepreneurship?

If you read authoritative sources on those questions, one name keeps recurring — Michael E. Porter, C. Roland Christensen Professor of Business Administration at the Harvard Business School.

Prof. Porter has consulted widely on competitiveness and economic development. His big projects in that area have focused on international regions, nations and eventually states. Chattanooga's approach to him came with just the right timing. The massive industrial database that underpins so much of his work in industry clusters and economic analysis had been refined down to the county level for this country, so for the first time he was willing to take on an American city or metropolitan region for this sort of study.

By good fortune, Prof. Porter was also aware of the renewed civic life in the Chattanooga region. An area like that, he said, was more likely to make good use of such a project, not allowing it to merely join the shelf of studies of others consultants over the years.

GROUNDWORK

In the fall of 1999, two groups began to lead the project here.

A Steering Committee of 25 members, including prominent business and government leaders, provided guidance and overall policy direction to the initiative.

A Core Team of business and academic persons, devoting substantial time despite other professional obligations, did the original research on local conditions, then managed the cluster team meetings as they progressed, and eventually produced this report.

(A listing of the Steering Committee and Core Team members appears at the end of this chapter.)

Additional support was provided by Chamber of Commerce staff and frequent analysis, comment and guidance came from Prof. Porter and his staff, notably Veronica Ingham, John Tudor and Danny Vasquez.

In line with Prof. Porter's work, as outlined in the next chapter, the Core Team began work on a "diamond" analysis of the Chattanooga region as an economic setting.

Defining the region itself is not an exact matter, even in strictly economic terms, let alone with the addition of geographic features, political boundaries and local sentiments. Based on economic strengths and related issues like commuting patterns, however, the region was drawn as four counties in Tennessee (Hamilton, Marion, Rhea and Bradley) and four in Georgia (Dade, Whitfield, Walker and Catoosa).

The Harvard staff, in turn, began producing a first look at the industry clusters of the region.

CHOOSING CLUSTERS

Prof. Porter's database of industry clusters produced rankings of the 50 industry clusters within this region, showing their strength by employment and income and whether they had grown or contracted in recent years. For each cluster, a "location quotient" quantified the cluster's strength here compared to what might be expected if that industry were spread evenly across the country.

In no surprise, the Textiles and Floor Coverings Cluster, centered in Dalton but with related businesses elsewhere in the region, was by far the strongest cluster. The carpeting businesses also accounted for most of the strength in the second strongest cluster, Construction Materials.

This presented some problems right away.

First, the general textile industry has been strong throughout a band of the Southeast that essentially runs along both sides of Interstate 85. It has been strong in this region as well over the years, especially in North Georgia, and even today there are various examples of companies that have done well to adapt to the changes in that field.

Nevertheless, the Chattanooga region is on the edge of that traditionally strong area. In addition, by anyone's measure the textile industry is a declining one in this country, and trying to shore it up by strengthening its cluster seems a difficult task. There is a conscious effort in working with cluster development not to choose winners and losers, but it seems evident in this case that the global market is doing some rapid choosing of its own.

Furthermore, while textile and carpet producers may be relatively close to each other and may share some related services, there is also a history of some distance between them.

Beyond all that, there is a reluctance among many leaders in the Dalton carpeting industry to become involved in a Chattanooga-centered economic development effort. Some Dalton civic figures were interested in, and sympathetic to, a more regional approach. But by the time of this report, officials of the Carpet and Rug

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Institute had informed the CRGI staff that they would focus their efforts on Dalton itself.

This does not preclude cooperation between Dalton and Chattanooga on a broader basis in the future, but it does explain why the CRGI project did not deal directly with the obviously strongest cluster in our region.

Thus the project began with three clusters:

- Confectionery and Baked Goods
- Tourism and Hospitality
- Medical Devices and Health Services

The Confectionery and Baked Goods Cluster had shown up in third place on the Harvard location quotients. It also included a number of firms outside Hamilton County and a mix of local and national companies, providing an attractive diversity.

The Tourism and Hospitality Cluster was of natural interest, given the resurgence of that industry in recent years. Indeed, it was worth a close look in part because of the occasional criticism it drew for relying so heavily on low-skill, entry-level jobs.

The Medical Devices and Health Services Cluster was a more complicated choice, and a fuller explanation appears at the beginning of its own chapter.

In sum, though, the project sought variety — some old industries and some newer ones; some focused on products, some on services; some already well organized and some not.

CLUSTER TEAMS

Invitations to participate in the discussions about each cluster began with two sources. CRGI staff invited two to four leaders in each field for a meeting designed to produce the larger list. Additional names were taken from database lists of businesses in each cluster generated by Standard Industry Classification code numbers.

Persons on the combined list were invited to become part of the cluster team, doing their best to attend two-hour meetings scheduled once a week for four weeks. Additional persons were often invited to join the group after its first meeting, following suggestions by some of the original members.

The agenda for the teams was focused and essentially uniform:

- What are the conditions in this cluster, at this time and in this place? What is the “diamond” analysis for the cluster?
- What is holding the cluster back? Where are the opportunities for creating better inputs, sharper demand and high-quality related institutions? Are the problems with regulation, or the quality of the labor pool, or the physical infrastructure?
- What can cluster team members do about those issues? What legislation, or change in processes, or workforce development programs, could make the cluster better? Could there be cooperative efforts toward applied research or attracting complementary businesses to the region? How does the cluster get those changes made?

The immediate goal was a plan for action that went well beyond analysis. The ultimate goal was to accomplish change.

CROSSCUTTING ISSUES

In addition to the industry clusters, the initiative aimed to consider various crosscutting issues, the kind of overarching matters of infrastructure and situation that affect virtually all businesses in the region.

The most frequently mentioned topic was undoubtedly the quality of education/workforce skills. Different people meant different things when they raised the topic, however. Some were complaining that the basic skills of education were lacking. Some wished for more technically skilled workers. Some just wanted employees with better work habits.

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It is either a massive topic or many different topics. It also leans heavily on the current low level of unemployment nationally, which makes companies virtually everywhere complain that they cannot find the right people with the right skills. In the current circumstance, it's not entirely clear how different Chattanooga is from any other city in this regard.

Other suggestions for relevant topics included air service, research facilities, the role of the university, access to venture capital, entrepreneurial opportunities, Tennessee/Georgia relations, and the business culture itself. All came up during one cluster meeting or another, most of them in every cluster.

Eventually, the project staff focused on information technology for its first crosscutting issue topic. It seemed to be of manageable size, while still affecting business broadly. Unlike some of the other topics, it had not already been the focus of debates and discussions over long-running years. Furthermore, information technology seemed to offer economic opportunity that merited some quick conversation.

The format for the crosscutting issue team was essentially the same as for the industry clusters, except that certain elements of the diamond analysis were not appropriate in the broader context.

Caveats

A few words of caution are in order.

First, this report focuses on economics. There are other perspectives as well that must be considered by a full community.

For instance, in a strictly economic world, education would focus keenly on technical skills and vocational relevance. But there are other implications for education too. Much that is not technical or vocational about education can add greatly to a person's enjoyment of life and role as a citizen. Those are real concerns, and they must be balanced with the economic instincts.

Second the initiative to date does not match what has come to be known as the Chattanooga process in the civic sphere. There have been no community-wide meetings, nor a series of neighborhood meetings. There has been no broad solicitation of opinions, and a reasonable person might object that as a result there has been only narrow community engagement in the process.

Granted. The process proceeds from two key assumptions that almost guarantee such a result:

- It aims to build on what the community has in place, not on a wish list of what it would like to be.
- It does so by enlisting those who do business in existing businesses and in existing clusters of businesses.

At first, that does not cast the net widely. Broad inclusion will require time, as one cluster after another and one issue after another are addressed by the process. Inclusion will be cumulative, not immediate.

Finally, and following from the second point, this is a linear process. There is much work yet to be done. There are more clusters to examine, more crosscutting issues to address.

The process must touch more people, reaching into the neighborhoods to ensure that economic opportunity is a real option for all people. And it must touch more people broadly, reaching into the farther areas of the region to include those often left at a literal fringe.

Those special efforts require some general beginnings first, however. If the initiative had tried from the very start to target special concerns, it is likely that it could not have approached its general task as well, and it is almost certain that it would have failed in its specific projects. But those special efforts will come.

Economic equity is a genuine issue. The key first step toward improvement is to raise the general level of the regional economy, and the initiative is just the first inch of that first step. But the general level does not mean the average level, if the only increase occurs among those who were better off to start with. As the region makes economic progress, it will have to include further efforts to make sure the rewards and opportunities are fully distributed.

THE PROGRESS REPORT

The next chapter, Chapter 2, provides an introduction to the analytical approaches of Prof. Porter's work. Chapter 4 applies a diamond analysis to the Chattanooga region's economy and sets the background for the industry cluster analysis. Chapters 5-8 then report on the discussions of the cluster teams and the information technology team.

Each cluster chapter begins with an introduction and a "map" of the cluster, laying out the relationships among various business components within it, followed by a statistical profile of the cluster here, based heavily but not exclusively on Prof. Porter's research.

Some of the statistical material may seem almost falsely precise when it comes to matters like exact employment levels over ten years. That critique is an accurate one, and the numbers are meant largely as guideposts to magnitude rather than absolute measures of conditions. Many of the figures have changed somewhat since the last available data anyhow. Care should be exercised in trying to use the numbers too literally.

In addition, the analysis of clusters often leads to misleadingly large totals. For instance, box manufacturers in the Chattanooga region are part of the Confectionery and Baked Goods Cluster, for that is part of the statistical template of the cluster. Box manufacturers are often found near candy and snack makers. The full employment level of the box manufacturers is counted in the local cluster, then, but clearly not all of the box production goes toward boxes for candies and snacks.

The statistical profile is then followed by a "diamond" summary that reflects the remaining analysis of the cluster.

That portion of the text diverts sharply from the strictly statistical approach. The diamond analysis is not exactly minutes of the cluster team meetings, but in many cases is quite close to that. The diamond text is an analysis and an action plan by those who are in the industries right now.

The analytical comments are not the product of independent research. Some are therefore impressionistic, with no footnoted data to back up many of the assertions made. But they do reflect the thinking of the team members themselves and thus represent the reality upon which they act every day in their business lives.

Each cluster chapter ends with highlighted summaries — key messages and action-plan points developed for Prof. Porter's appearance at the Convention & Trade Center on July 12. These lists were developed by a small number of cluster-team members well after the four or five full cluster-team meetings, and a few points reflect thinking that had progressed beyond the text report of the meetings.

Chapter 9 concludes the report with a look at future directions in the initiative.

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