



# Critical Factors in Attracting New Business and Industry in Oklahoma

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Economic development concerns the creation, attraction, expansion, and retention of jobs and income. A community or region can pursue many avenues when attempting to encourage economic development. Economic development usually means improving or expanding existing business or attracting new business and industry.

There are several reasons why attracting new business or industry is a popular approach to economic development. [2]

1. New business or industry can provide needed expansion and diversification to a community's or region's economic base.
2. Recruiting business and industry, as opposed to assisting existing business development, is an easy concept for community leaders and the general public to understand and support.
3. New business and industry can have a quick, highly visible impact with new jobs, income, families, and potential community leaders.
4. Recruiting business and industry is an accepted, traditional approach that has an established support system in the development programs of state governments, utilities, and other organizations.

The emphasis in this fact sheet is on attracting industry (manufacturing), but much of the discussion also applies to attracting non-manufacturing type business. The objectives of this fact sheet are to review the:

1. elements of an industrial recruitment program
2. important factors in industrial location
3. changing national economy and new factors which will be important to industry and business location

## Elements of Industrial Recruitment

Industrial recruitment involves the attraction of manufacturing industries to a community or region to increase the local economic base. Leaders of many chambers of commerce, towns, and regions are pursuing a limited number of new or relocating industrial plants. For this reason, recruiting programs should be well thought out and this effort should be balanced with other economic development efforts. Since local economic development resources are often limited, recruitment efforts

should be targeted on industries for which the community has a comparative advantage.

A community's comparative advantage may be in one or more areas of production. A community with a large underemployed labor force may have a comparative advantage for labor intensive industry. Other potential comparative advantages may include abundant water supplies, electric power, transportation opportunities, location, natural resources, particular labor skills, educational facilities, etc. It is important for community leaders to be aware of situations giving their area a comparative advantage.

The bases of a recruiting program is a local economic development committee. To gain widespread community support, the committee should be made up of leaders from all facets of the community. The responsibilities of the committee are to:

1. Examine the advantages and disadvantages of the community as a location for new business and industry.
2. Identify potential industries and firms that are growing and would profit from locating in an area with location characteristics common to your area.
3. Prepare information — brochures, slide shows, etc. — that will help to sell the community to a potential industry.
4. Organize local resources — chambers of commerce, other business or industry groups or clubs, civic organizations, church leaders, etc. — into committees to aid in the economic development process.
5. Conduct the marketing and recruiting efforts.
6. Contact and coordinate with economic development organizations — department of commerce, sub-state planning and development districts, universities, etc. — to assist the community in its economic development.

## Important Factors in Industrial Location

A community or region must understand its strengths and weaknesses in attracting new business or industry. Many factors come into play and must be examined.

Industry evaluations of alternative locations involve a detailed analysis of not only factors contributing to production and distribution requirements of the plant, but also characteristics of a community as a place to live and work. Such personal and intangible factors typically include community

facilities and services, cultural qualities of the community, community leaders cooperation, recreational facilities, and quality of schools.

## Plant Location Factors

A systematic analysis of plant location factors is generally made by firms that are searching for a new plant site. The number and types of factors affecting location vary in each case and they sometimes run into the hundreds. However, the breakdown of location factors examined usually includes the following:

Markets	Industrial Site
Labor	Utilities
Raw Materials	Financial Capital
Transportation	

The importance of these factors varies widely from one industry to another. Moreover, with changing technology and economic conditions, their role will vary within a given industry and from one time period to another. They are interrelated and interdependent so that the desired location usually requires a compromise among factors. The important factors to a firm's location decision may be attainable in several places. In these cases, personal factors enter into making the final decision and can be influenced directly by activities of the industrial development committee in promoting their community.

### Markets

Geographic industrialization patterns of the United States reflect the importance of markets. Initially, market oriented industries were concentrated in the Northeast and the Atlantic Seaboard. As the population center of the United States shifted westward, manufacturing followed.

It is important in industrial development efforts to distinguish between consumer markets and industrial markets. Consumer markets are generally related to population concentrations and income levels while industrial markets are related to centers of manufacturing a specific product. The variety of goods and services in consumer markets is extremely wide and competition for a share of the market of products is national or even international in scope. The producer of a particular product for this market must recognize this fact since it directly affects his volume of sales and product price. Many new plant locations in the Southwest that manufacture goods for consumer markets are branch plant operations of existing corporations seeking to serve that growing regional market.

The needs of industrial markets are generally more specific than consumer markets. Industrial development should not overlook the market potential arising from the needs of new or existing local industry that may be acquiring production inputs from distant areas. Often these needs can be met more efficiently by a local source.

### Labor

Though a supply of labor is fundamental, the importance of labor in location decisions varies widely from industry to industry. But, few firms will be indifferent to labor considerations.

A firm will normally wish to be assured of an adequate supply of the kinds of labor required for its process in a prospective location. By locating in an area with an existing labor pool, the employer also finds other essential amenities such as housing, schools, and community services.

It is important to recognize that wage levels may not be the only, or even the main, labor consideration. Of equal importance are such factors as labor attitude, turnover rates, fringe benefits, absenteeism, and competition from other employers. All these affect productivity and employers are primarily concerned with balancing the productivity of labor with labor cost.

An important job for the community industrial development committee is to identify and accurately describe the area labor force. This involves much more than the physical existence of labor. The type of labor, its age and sex structure, and skill levels are all important considerations that need to be analyzed and documented. A labor survey will provide much of the needed information. Ideally, the "labor image" to be created is one of an adequate supply of productive labor at a reasonable cost to industry.

### Raw Materials

In recent years, raw materials have been less important than markets and labor in attracting industry to a particular site. This is because most recent economic growth has been in electronics and service industries. Moreover, modern, efficient transportation systems have increased the feasibility of transporting raw materials over longer distances.

Nevertheless, raw materials remain an important factor in location decisions for certain types of industry. Throughout the South, the local availability of agricultural products, forest resources, minerals, natural gas, and petroleum have been significant in past industrial growth.

### Transportation

Transportation costs have always been an important part of the location decision for new industry. New transportation technology and changing cost patterns have tended to improve the advantages for certain areas in recent years. The development of truck transportation, which has had a revolutionary impact on transport costs and transport patterns, has tended to decentralize industry in the United States. Deregulation of the trucking industry has aided this decentralization. Other innovations such as "piggyback" and "seatrail" service, air transportation, extension of waterways, and pipelines have broadened market areas for local industries.

Two transportation objectives are important to business when selecting a plant location - low cost and satisfactory service. Where transportation costs are of major significance and competition among firms is active, an attempt will be made to locate where the cost of assembling materials and delivering finished products are at a minimum. In less competitive industries, pressure to reduce transportation costs may be less although rising fuel costs and adoption of "just in time" inventory management have increased the concern for transportation in virtually all industries.

Quality and dependability of transportation services are sometimes more important in the location of industry than achieving lowest possible transportation costs. Location of plants may be conditional upon the availability of regular

shipments with certain time limits. Fortunately, the two transportation objectives are usually consistent.

One aspect of transportation, sometimes given inadequate attention, is transporting business executives by air. Executives are making extensive use of air transportation using both commercial and private aircraft. This is especially important to light manufacturing and service industries. Transportation by air of both executives and cargo will become more important in the future, and local availability of airport facilities may be a significant consideration for local industrial development.

### **Industrial Site**

A building site must be available in the community to attract new industry. The site must be either owned by the community or contractual arrangements must be in place to obtain the property once the location decision is made. The site must be well drained, attractive, accessible to utilities, transportation, and other services. The industrial site should be well maintained and available for viewing by industrial prospects at any time.

Many communities have existing available empty structures that may be attractive to industry. Information about the structures should be a part of the community's economic development marketing package.

### **Utilities**

The availability of adequate energy, water, and waste water treatment at a reasonable price is basic in attracting new industries. Availability of electricity or natural gas at the industrial site, utility rates, anticipated future supplies, and policies for line extensions, and fire protection and insurance rates are all considerations for managers seeking new plant locations.

Water is the most widely used natural resource in industry. It may be incorporated into the product, used in processing, in steam generation, in cooling, and in normal sanitary uses. The main concerns are with the quantity and quality of the water supply. In recent years, strict federal and state standards relating to environmental consequences of water use and waste water disposal have had an effect on industrial water considerations. For instance, an increasing number of industries that normally consider treating their own waste water are looking for locations where public sewage disposal systems are adequate or can be constructed to meet their needs. Or, they seek an open space location where they will be responsible only for their own waste water treatment. The attractiveness of a community can be greatly enhanced by providing industry adequate water supplies and effective waste water treatment.

### **Financial Capital**

Financial capital to build and operate a plant must be assured before a plant can be built. All other factors may be in favor of a particular location, but if the capital is not available it will be located elsewhere. Financing a new industry is a complicated process requiring the services of a qualified industrial financing specialist. Possible sources of funds include the state and federal government, private investors, and local investment pools.

## **Other Factors**

The factors on industrial location discussed above are some of the more important areas, but certainly not an all inclusive list. Among other factors for the industrial development committee to consider are: local and state taxes, laws that may affect the industry being recruited, and any special inducements for industry that may choose to locate in the community.

In a presentation at Oklahoma State University concerning government action to facilitate attraction for food processing industries to Oklahoma, Ronald Decker, Vice-President of the Fantus Company, emphasized many of the same factors noted above. [1] Decker concluded that Oklahoma communities should "continue efforts to recruit market-driven food products manufacturing industries, but only as part of their overall recruitment efforts." Decker listed 11 elements of a successful community economic development recruitment effort: an effective development organization; established long-term goals; a realistic program; broad community involvement; effective use of money and manpower resources; cooperation among individuals and groups within a community; continuity of organizations and actions; established incentive programs such as financing assistance; suitable sites; informed leadership; and confidentiality when dealing with an industrial prospect.

## **Personal and Intangible Factors**

Several communities may remain in the running at the end of the plant location evaluation process. It is at this point that the personal and intangible attributes of communities under consideration come into prominence. These attributes can be described best in terms of community leadership and attitudes, housing, schools, recreation, shopping, and overall community image. Most large companies are also concerned about their corporate image, and they want to be a good corporate neighbor. Their impressions of a potential location can be greatly enhanced if community leaders create an image of acceptance, cooperation, and fairness. This is a much easier task if community leaders can exhibit a history of creating a favorable environment for existing industrial plants. This is one factor that a community or area has a great deal of control.

Personal factors have become increasingly important in recent years with the shift in industrial organization away from owner-manager firms and toward the corporate structure. In modern corporations, management and ownership are separated. Corporation owners (stockholders) do not make location decisions, managers do. Managers live with the plants, owners do not. Clearly, corporation management must select plant locations that will be profitable and earn sufficient net revenues for long term growth of the firm and to yield stockholders a satisfactory and competitive return to their investments. Beyond this constraint of a satisfactory profit, corporate managers may tend to emphasize personal factors rather than maximizing profits. The modern decision-making framework tends to increase the influence of desirable characteristics of plant location as a place to live and work more than would be expected in the owner-manager framework of the past. Worker productivity is always affected by these personal factors and can lead to attracting quality labor and management to a particular geographic area. Management is aware of these factors when considering plant location.

Making a community more attractive to industry also creates a better place to live for existing residents. Thus, even if a new industry does not come, the community reaps the benefit of its efforts.

## The Changing Economy

Our economy is growing more rapidly in services and in what is loosely termed "high technology" industries than in traditional manufacturing, assembly line types of industry. What does this mean for economic development in rural Oklahoma? First, just because service and high-technology industries are growing more rapidly than traditional manufacturing, new and relocating traditional manufacturing plants are being built. Thus, rural areas should not overlook traditional manufacturers that may be looking for locations with conditions similar to what they have to offer.

The rapid growth of service and high-technology industries does have some implications for economic development in Oklahoma. Perhaps the most important implication deals with the potential work force. Service and high-technology industries demand skilled and/or trainable productive labor. With Oklahoman's quality work-ethic and an outstanding vocational technical education system, rural areas are in a good position, given favorable critical factor readings, to attract service and other industries.

## Summary

Regardless of the type of industry that may be recruited, some very basic items are important in attracting new industry. Traditional costs associated with production, transportation, and marketing will continue to be critical for many industries. The availability of financial capital will also be crucial. Local, State, and Federal sources of capital will have to be explored

and utilized to their fullest potential. Cutting "red tape" is also becoming important for small business and industry. New entrepreneurs often have little patience or ability to work through complex regulations and forms. Assisting these businesses with a one-stop center may aid in development. Finally, "incubator" space may also aid new firms by absorbing some of the overhead expenses involved in starting a new business. "Incubators" usually include low cost buildings and some centralized services, secretaries, accounting, etc.

Local leaders should approach industry recruitment efforts with enthusiasm and with a realistic assessment of the facts. Advantages and disadvantages of local areas as they relate to the industrial location factors discussed in this paper should be reviewed. Warner [3] notes the many strengths the state has, including a central location in the United States with excellent transportation, favorable labor conditions, low taxes, especially at the local level, and a state government that has adopted a very pro-business, pro-economic development posture. Local areas should build on these strengths and identify their own areas of advantage.

## References

- [1.] Decker, Ronald, "Government Action to Facilitate Food Processing Industries in Oklahoma," Conference Proceedings, Expanding Food Processing in Oklahoma, Oklahoma State University, MP-124, Barbara Dayvault and Daniel Tilley, Editors, December 1987, pp. 84-98.
- [2.] Tennessee Valley Authority, RedArk Symposium on Economic Development Leadership, Workbook developed for RedArk Development Authority, Ada, Oklahoma, June 5-6, 1986.
- [3.] Warner, Larkin, "What's Good About Oklahoma?" Free Inquirey in Creative Sociology, V. 15, No. 2, November, 1987 pp. 221-224.