John Rottet/The News and Observer

Alvah Ward in his office.

Selling Industry on North Carolina — A Strategy in Transition

by Ken Friedlein

Framed color photographs and drawings of long, low buildings turn the white-walled offices at the N.C. Department of Commerce's industrial recruitment center into a sort of trophy room. Artists' renderings record the success stories. Captions at the bottom of each frame honor the state employee who helped sell the company on North Carolina. There's even a trophy for the boss, recalling his earlier days in the field:

Campbell Soup Co. Alvah Ward Jr.
Maxton, N.C. June 12, 1978

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"Campbell Soup could have gone, and almost did, to McBee, South Carolina," remembers Ward, now director of the state agency charged with bringing new industry to the state. "They could have gone to almost anywhere in the Southeast." Of all those places where the soil was right—porous enough to accept a soup maker's considerable effluent but dense enough to hold settling solids back from the water table—Campbell Soup chose Maxton, in west Robeson County. Cost, labor force, geography, and other factors being nearly equal in the three southern states, the site decision rested on less objective measures—such as the skill that Alvah Ward took to his job as a salesman.

With 24 "development representatives" and a $2 million annual budget, Ward runs one of the high-profile sides of North Carolina's economic development efforts. Functioning more like a commercial sales force than actual "recruiters" (as coaches recruit sports stars), Ward's staff collects site information, coordinates projects with local officials, and tries to supply as much information as possible to a potential new company. Rarely do these "recruiters" make blind calls—say to California trying to pick up rumors of an aerospace company that might consider coming to North Carolina. The high-profile industry "recruitment" trips by governors to Japan, West Germany, and New York are more of a sowing of North Carolina's good name than recruiting of specific companies. But this show of public relations can pay important benefits, sometimes years later.

"If ignorance paid dividends, most Americans could make a fortune out of what they don't know about economics."

—Luther Hodges

Often, industry representatives asking for information use only first names, and no company names. Or they work through relocation consultants—the middlemen in economic development—who guard their clients' names like patented trade secrets. Few businesses open their doors wide to solicitors. The secrecy and the economic realities make salesmanship all the more challenging.

"There are very few plants that can go *anywhere*," Ward says. At the same time, very few plants can go in only one place, or in only one state. The extras from a salesman can push the decision in North Carolina's favor. People in the business tell of the rush that comes with landing a big one, several hundred jobs, another trophy for the office wall. "Campbell Soup—that was my project," recalls Ward.

From Traditional Leader to Competitive Crunch

Southern states, including North Carolina, have been finding ways to lure businesses since the 19th century land and financial subsidies offered to the railroads. By the Depression years, local communities had turned their attention to luring industry. Enticements ranged from near larceny (one Tennessee garment plant was built by withholding 6 percent of the workers' wages) to constitutional sleights-of-hand (factories built with tax funds were called "municipal buildings for public purposes"). One Mississippi hosiery company got an educational tax exemption and rent-free building on a high school campus, where it "trained" its labor force in 40-hour shifts.[1]

In 1936, Mississippi inaugurated the modern-day industry hunt in the South with its Balance Agriculture With Industry (BAWI) plan. "By introducing a system wherein the state sanctioned and supervised the use of municipal bonds to finance plant construction, the BAWI program lifted the curtain on an era of more competitive subsidization and broader state and local government involvement in industrial development efforts," wrote Mississippi historian James C. Cobb.[2] Across the South, states and local communities, aglow with the fever, offered tax lures. Whether by underassessment or outright exemption, the willingness to forgo property tax revenue represented another stride in the pursuit of industry. Participating governments were, in essence, paying for jobs.

North Carolina, however, had little to do with broad scale enticements. With extensive furniture, textile, and tobacco operations in place in the early 20th century, its economy was far more diversified from agriculture than other southern states. Between 1900 and 1940, manufacturing grew faster in North Carolina than elsewhere in the South, employing more of the N.C. labor force than any other state's. But the labor force stayed close to the land. The early industries could scatter plants and grow, so industrialization didn't concentrate population. Consequently, the nation's most thoroughly factoried state remained, oddly, the most thoroughly rural.

Such patterns helped place industrial progress among North Carolina's oldest and strongest ethics. The "progressive plutocracy" V. O. Key

described in the late 1940s included participation by the state's considerable business elite in a loose but effective economic oligarchy. "A sympathetic respect for the problems of corporate capital, and of large employers permeates the state' politics and government," Key wrote.[3]

Industrial recruitment began in earnest in North Carolina during the administration of Gov. Luther H. Hodges (1954-61), known as the "businessman's governor." Best remembered as putting together the public-private partnership in 1956 that launched the Research Triangle Park, Hodges made a more immediate mark as a 1950's scrapper for new factories. In October 1957, Hodges rounded up 75 citizens to hunt industry in New York, resulting in calls on some 250 prospects. Six months later, a similar expedition hit Chicago and seven months after that, Philadelphia. Then in October 1959, Hodges and company struck out on a two-week tour of western Europe. At the end of his term, Hodges touted the extent of investment in new and expanded plants ($1.1 billion) and jobs *expected* to result (140,233).[4] This numbers tradition continues today, despite important problems with using numbers based on company *announcements* as opposed to actual operations (see article on page 50).

The early presence and steady growth of nonagricultural ventures may explain why North Carolina was alone among southern states at the end of the 1960s in not offering industrial revenue bonds to finance new plants. Tax breaks, too, were scarce. But North Carolina didn't seem to need such outright lures, relying instead on the personal touch. "In the early days, there probably weren't a half-dozen states that had a formal industrial recruitment effort," says Ward. "We had it all to ourselves."

As the competition grew, North Carolina boosters began to realize it couldn't depend for success only upon personal contacts and its image as the "progressive" southern state. The administrations of Hodges and Terry Sanford (1961-65) laid the groundwork for the statewide community college system, which has evolved with its job training capabilities into a key element in the package of benefits North Carolina now has to offer (for more on community colleges and job training, see page 84).

During the administration of Gov. James E. Holshouser Jr. (1973-77), industrial recruitment became a high-profile business as the state began running slick ads in national magazines and newspapers. Gov. James B. Hunt Jr. (1977-85) had a new tool available to him in his recruitment efforts. After several false starts, local governments—with state approval—were finally able to offer industrial revenue bonds in 1977. Hunt inundated the media with announcements of new

Governor Luther Hodges, right, with businessman Robert Hanes, at 1959 press conference on the Research Triangle Park.

N.C. Division of Archives

industries coming to the state, all the while playing to the hilt the numbers game on *announced* new jobs begun by Hodges. Hunt also brought the state into the race for big microelectronics companies (see article on page 74).

In addition, Hunt led the state beyond a traditional reluctance to accept unionized companies. Local officials in towns such as Smithfield discouraged high-paying, unionized companies from coming to their towns for fear the plants would disrupt the prevailing low-wage market in their area. When Philip Morris, a unionized company paying high wages, announced interest in building a plant in Cabarrus County (in the heart of the low-paying textile belt), initial reactions were unfavorable. Hunt went to a public rally in Cabarrus County and made a speech supporting high-wage industries coming to the state. Local officials then gave the plant the support it needed.

Hunt's overall recruitment efforts evidently paid dividends. In 1984, for example, *Industrial Development* magazine reported that North Carolina led the nation in attracting new manufacturing plants. Also, the N.C. Department of Commerce reported that in 1984, $2.67 billion in industrial investments were *announced* by new and expanding industry. "This investment level represents both a new record, surpassing the previous record of $2.24 billion set in 1980, and a 25 percent increase over 1983's investment of $2.15."[5] North Carolina consistently ranked high in attractiveness to industries, and in 1984 the well-known management firm of Alexander Grant & Co. ranked North Carolina eighth in the nation in general manufacturing climate. The annual Grant rankings are based on 22 factors, grouped into government and non-government controlled factors. North Carolina ranked second in factors controlled by government.

Former Governor James B. Hunt, Jr.

"The business of America is business."

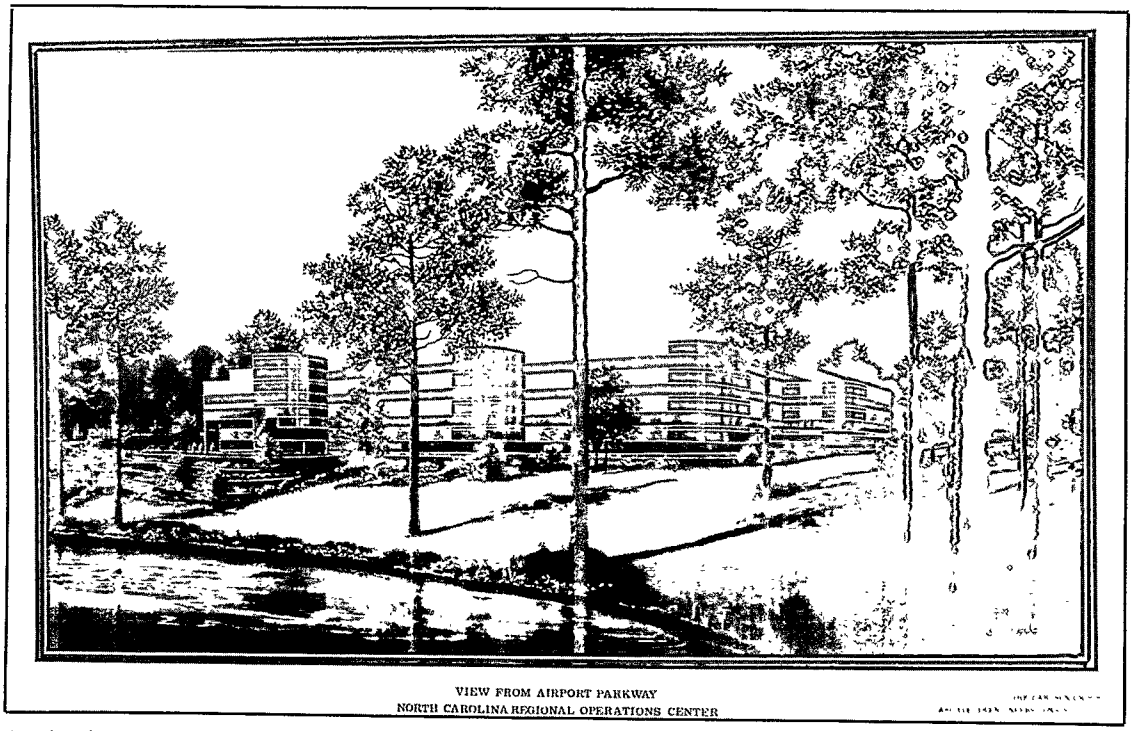
—Calvin Coolidge

In 1984, James G. Martin campaigned on a platform of tax relief to businesses. Martin's supporters pointed to such studies as that done by *Industrial Development* magazine, which ranked North Carolina last among the 50 states in financial assistance offered to industry by public agencies. In 1985, after many tries, the business community—with the strong support of Gov. Martin—persuaded the General Assembly to reduce the tax on business inventories (through credits on local property taxes). Businesses have never liked paying it, and industrial recruiters have never enjoyed explaining it to prospects who knew their inventories would be tax-exempt in, say, Tennessee and Virginia. (For a five-part series on these taxes, including pro and con articles, see "The Tax Debate of 1985," *North Carolina Insight,* April 1985.)

Despite the tax breaks, industrial revenue bonds, and slick advertising now used by North Carolina recruiters, the competition is more keen than ever—and the targets have gotten fewer. "Economic development is a competitive activity," says Dennis Durden, director of public policy at R. J. Reynolds Industries. "It's not how good you are. It's how much better you are than your competitor."

Alvah Ward describes the current recruitment battles this way: "It's no longer feasible to send large numbers of people on industry missions. It used to be you'd go to New York and knock on doors. Now you've got 10,000 communities knocking on the same doors."

But competition among recruiters tells only half the story. The other half lies in the changing economy itself. Adjusting to an economy rapidly shifting from the manufacturing to the service and trade sectors has prompted discussions about the value of industrial recruitment itself, in the traditional sense of the term. "Perhaps the fundamental flaw in current policy is our over-



The Carlson Group

Architect's rendering of the regional operations center that American Express is building near the Greensboro airport.

dependence on industrial recruitment for our economic salvation," writes George B. Autry, president of MDC, Inc., which specializes in research on employment policies. "Yankee plants are like the buffalo herds that roamed the West in the 1870s. There are not enough left, and the southern states may go bankrupt competing with each other for the last hide."

The New Face of Industrial Recruitment

The industrial recruitment business has gradually but fundamentally changed since the time Alvah Ward courted Campbell Soup. Certainly, the Martin and Hunt administrations have their differences in emphasis. Martin, for example, has broadened recruitment efforts to include small businesses, traditional industries, and retaining existing industries, while Hunt focused in his later years on microelectronics. An analysis of industrial recruitment as an economic development strategy, however, goes beyond the preferences of governors. Three important shifts are taking place that reflect the larger economy:

- from recruiting manufacturing firms to seeking service-sector companies;
- from recruiting new companies to encouraging expansion of existing facilities and to keeping existing companies from leaving North Carolina; and
- from a predominantly Raleigh-based effort to a more decentralized, local orientation.

Recruiting the Service Sector. In 1985, American Express opened a center near Greensboro that will employ 2,000 people to process credit card transactions and customer inquiries. The Greensboro center will be bigger than any of the manufacturing investments announced in 1984, the year N.C. industry hunters received a secretive call from the New York relocation consultant hired by American Express. In Charlotte, local recruiters got a similar call in behalf of an "industrial prospect," which turned out to be AT&T, now building an 800-employee data services center in the University Research Park.[6]

Until 1985, North Carolina didn't even publicize nonmanufacturing investment totals. The Department of Commerce, in its "Six-Month Economic Activity Report: January—June 1985," noted the addition of nonmanufacturing investment figures to better reflect "the full panorama of economic activity." In the same report, Secretary of Commerce Howard Haworth noted that the new administration's pursuit of the service sector will be in concert with "the state's continued commitment to attract high-tech industries."

To pursue the service sector at all, even in a broader-based effort that includes high-tech industries, the state will need more than community colleges and industrial revenue bonds.

Deciding factors in American Express picking Greensboro were the telephone system in place and a good airport facility. Before AT&T finally decided on Charlotte, University Research Park President Seddon "Rusty" Goode had to get a commitment from Billy Rose, then deputy secretary of the N.C. Department of Transportation, that the state would complete the construction of a ramp onto I-85.

Expanding What's Here—and Keeping It Here. A pronounced shift of investment from new plants to expansions of existing industries began during Hunt's second term. In three of Hunt's first four years as governor, investment by *new* industry exceeded expansion of *existing* industry. But in his second term, only one-third of announced investments were new industries; the other two-thirds were expansions. The trend continued into the Martin administration. During the first six months of 1985, new industry announcements accounted for only 17 percent of the investment total.[7]

In a recent industry recruitment trip to New York, Gov. Martin saw only companies that already have a facility in North Carolina. He did not call on a single industry about moving to the state. Martin describes himself as "working behind the scenes to recruit new industry." This may be an effective strategy if all the buffalo that North Carolina can bag are already here.

Recruitment at the Local Level. The state formally began to encourage local recruitment efforts through the Governor's Awards program for small towns during the Robert W. Scott administration (1969-73). Governor Hunt picked up the idea, making a volunteer or paid economic development effort a criterion in his Community of Excellence program. Today, according to Alvah Ward's count, North Carolina communities with industrial recruitment programs number around 340. A Department of Commerce computer printout lists many of these programs, according to where the local official is based in each county and municipality. For example, in 17 counties, the chamber of commerce is the official economic development office, while 58 counties have separate economic development councils or offices (see Table 1 for complete figures).

Urban areas have long maintained major economic development efforts, and now most rural areas have begun to organize local recruitment strategies. Tiny Clay County in the mountains, where two-thirds of the workers are employed across the county line, has prepared a 50-acre industrial park. The Kannapolis and Concord chambers of commerce jointly hired a professional recruiter for the new Greater Cabarrus Economic Development Corporation. The county in North Carolina most dependent upon agriculture, Greene County, has recently created a "Committee of 100" to seek new industry. And the Chatham County Industrial Commission in 1985 produced a dozen copies of a 12-minute promotional videotape (with the

Table 1. Location of Local Government Development Officials, 1984

Location of Official	No. of Counties	No. of Municipalities	Total
Economic Development Council or Office	58	28	86
Chamber of Commerce	17	34	51
Mayor	0	25	25
City/Town Manager or Administrator	0	23	23
Private Sector Person	3	11	14
County Manager	11	0	11
Bank	2	3	5
County Board of Commissioners	3	0	3
Electric Company	0	2	2
Housing Authority	1	0	1
Resource Management Team	1	0	1
Electric Membership Corporation	0	1	1
Airport Commission	0	1	1
Insurance Agency	0	1	1
Totals	96	129	225
Total No. of Counties/ Municipalities in North Carolina	100	490	

Source: 1984 North Carolina Economic Development Contact List, N.C. Department of Commerce, Industrial Development Division.

Table prepared by Ann Sternlicht

Maintaining and building new roads and bridges are critical for attracting new industry to the state.

Jack Betts

financial assistance of Carolina Power and Light).

Thomas G. Long Jr., director of economic development for Chatham County, showed the slick videotape to a packed meeting at the Triangle J Council of Governments last October. "We have already sent off a copy of the videotape to a new industry," Long said after the showing. The videotape, called "Chatham: A Carolina Masterpiece," combines state-of-the-art graphics and filmwork with a script that echoes such familiar recruitment phrases as North Carolina's "hard-working and conservative people."

What Future for Recruitment?

The increased sophistication of counties and small towns in recruiting jobs to their areas has created a new level of competition *within* the state. Desperate communities compete to find jobs for displaced textile workers. Rural areas try to out-hustle their neighbors, piecing together a better deal with industrial revenue bonds, Urban Development Action Grant funds, and free extension of water and sewer lines for a facility that might employ farmers who otherwise face bankruptcy or dislocation.

One inherent weakness in industrial recruitment as an economic development strategy is the ultimate outcome of simply moving jobs around—from the northeast United States to North Carolina to Hong Kong, or from the Silicon Valley to North Carolina to Japan. An emphasis on keeping the jobs that we do have seems to make sense in a rapidly changing economy.

Economic development analysts more and more are realizing that recruitment tends to *follow* the overall economy. At any given time, certain industries are in a period of expansion, regardless of who happens to be governor and what his industrial recruitment priorities are.

"The companies make the location decisions, not the communities," says Ward. "We do not have the capacity to direct industry where we want it to go. Companies locate for reasons that are in their best interests — not because it is in the interest of the governor and not because of pressure tactics from the state development staff."

Because the low-paying textile, apparel, and furniture jobs have long dominated the manufacturing sector, North Carolina has ranked near the bottom among the 50 states in average industrial wages. Consequently, industry hunters, especially during the Hunt years, made the recruitment of higher-paying industries a goal. But if companies follow primarily their own self-interest, what can the state do?

"An important part of our job is to point out to companies the advantages of locating in North Carolina," explains Ward. In addition, says Ward, even within economic constraints, specific industries that are experiencing periods of growth can be influenced.

In a 1982 study, Joseph T. Hughes Jr. developed a "desirable" industry index, based on three factors: economic (high capital intensity and wages), environmental (low chemical use and hazardous waste generation), and worker health (low illness and injury rates).[8] Hughes found that certain industrial sectors are more desirable to recruit than others, with the printing industry coming out at the top. The next group, in order of desirability, included transportation, machinery, petroleum, tobacco, electronics, measuring instruments, and food. Without such a priority of industries, Hughes contends state recruiters tend to ignore environmental and worker health issues — or even high-wage considerations — just to get more jobs, *any* jobs.

The Department of Commerce has recently emphasized targeting its recruitment efforts. The department has contracted for a private study of its economic development priorities. Fantus Inc., a national consulting firm, is conducting the study. "We asked them to look at the possibility of targeting certain industries, particularly the services sector and defense," says Deputy Secretary of Commerce Kevin Kennelly. "Let's monitor how the economy is changing and adjust (our recruitment) appropriately. We're asking them (Fantus) to tell us what we ought to go after."

Kennelly cautions, however, against believing that the state can go out and recruit specific companies. "First, we have to get on *their* list," he says, referring to desirable companies. "That happens because North Carolina is a very attractive state. Then we go head-to-head with our competition. At that point, by virtue of being a good salesman, you might be able to persuade a company to come to North Carolina."

FOOTNOTES

[1]James C. Cobb, *The Selling of the South: The Crusade for Industrial Development, 1936—1980*, Louisiana State University Press, 1982.

[2]*Ibid.*, p. 5.

[3]V.O. Key Jr., *Southern Politics*, Alfred A. Knopf Inc., 1949, p. 211.

[4]Luther H. Hodges, *Businessman in the Statehouse: Six Years as Governor of North Carolina*, University of North Carolina Press, 1962, p. 78.

[5]N.C. Department of Commerce, *North Carolina Economic Development Report — 1984*, p. ii.

[6]Bea Quirk, "University Research Park: Growing With Industry Giants," *Business: North Carolina*, January 1985, p. 35.

[7]Figures from Department of Commerce publications.

[8]Joseph T. Hughes Jr., "Targeting Desirable Industries," *North Carolina Insight*, Vol. 5, No. 1, May 1982, pp. 27-35.