

Part I. South Carolina's Roadmap to Economic Prosperity
--A Working Paper--

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The real challenge of our time is to complete the system we have given rise to—to build the broader creative society that can harness the creative energy we have unleashed and mitigate the turmoil and disruption it generates.¹

Richard Florida, *The Rise of the Creative Class* (2002)

Introduction

How will South Carolina fair economically in the future, especially in the long-term? Will the state be able to compete and prosper among its commercial rivals? Indeed, are South Carolinians prepared to meet an admonition—a headline—which appeared recently in China's *People Daily*—"Seize opportunity, meet challenge, and participate in economic globalization."² The answers to these questions, as this working paper will attempt to describe, may very well find their roots in a 2005 report.

On April 15, 2005, the South Carolina Competitive Initiative issued a comprehensive report entitled "A Strategic Plan for South Carolina."^{3 4 5 6} The Initiative⁷ was a private-public effort comprised of several persons and organizations who shared a common and concerned interest in South Carolina's economy.

More specifically, the Initiative was a union of South Carolina's prominent businesspeople, developers, governmental officials, and others who grouped together to look analytically and deliberatively at South Carolina's economic composition and performance in the year 2005. From this juncture, the Initiative articulated a strategic design or framework to expand and enhance the future economy of South Carolina.

In this working paper, the first of a two-part series,⁸ a summary of the Initiative's 2005 report will be presented. It is the author's sole purpose to restate and emphasize the Initiative's efforts which culminated in a document considered to be of both universal and relative significance.

The Initiative's bold strategic plan, as described commonly by the state's leaders in business and government alike, is viewed as essential to the transformation of South Carolina's economy, one which aims to achieve a sustainable prosperity. By all accounts, it is axiomatic and appropriate to describe the Initiative's report as "a roadmap for the future of the state's economy."

The Initiative: Its Composition, Roles and Organization

The South Carolina Competitive Initiative was actually formed in early May of 2004.⁹ The Initiative's participants were, on the whole, eclectic and took on differing roles and responsibilities.

Participants and organizations included, for example, the state's governor (an honorary member), various other state and local public officials, the South Carolina Department of Commerce, the South Carolina Department of Parks, Recreation and Tourism, the University of South Carolina, the South Carolina Chamber of Commerce, the *State* newspaper, and numerous CEOs of leading South Carolina businesses and companies, and other select individuals within a wide range of professions and occupations. Of note, according to the 2005 report, overall, nearly 500 business, university, government and development leaders contributed in some way to the Initiative.

Organizationally, the Initiative created the South Carolina Council on Competitiveness to carry out its work. The Council consisted of 52 members and was chaired by the Chairman and CEO of Blue Cross/Blue Shield of South Carolina.¹⁰ To manage and accomplish its work more efficiently, the Council formed an executive committee consisting of 12 members. The executive committee convened regular meetings and provided overall direction for the Initiative and acted as the decision-making group when the full Council did not meet. The Initiative also included a working or research staff as well as nine task forces and six "cluster"¹¹ committees (see Figure 1).

As enumerated in the 2005 report, each cluster committee and task force group mainly had the following six tasks:

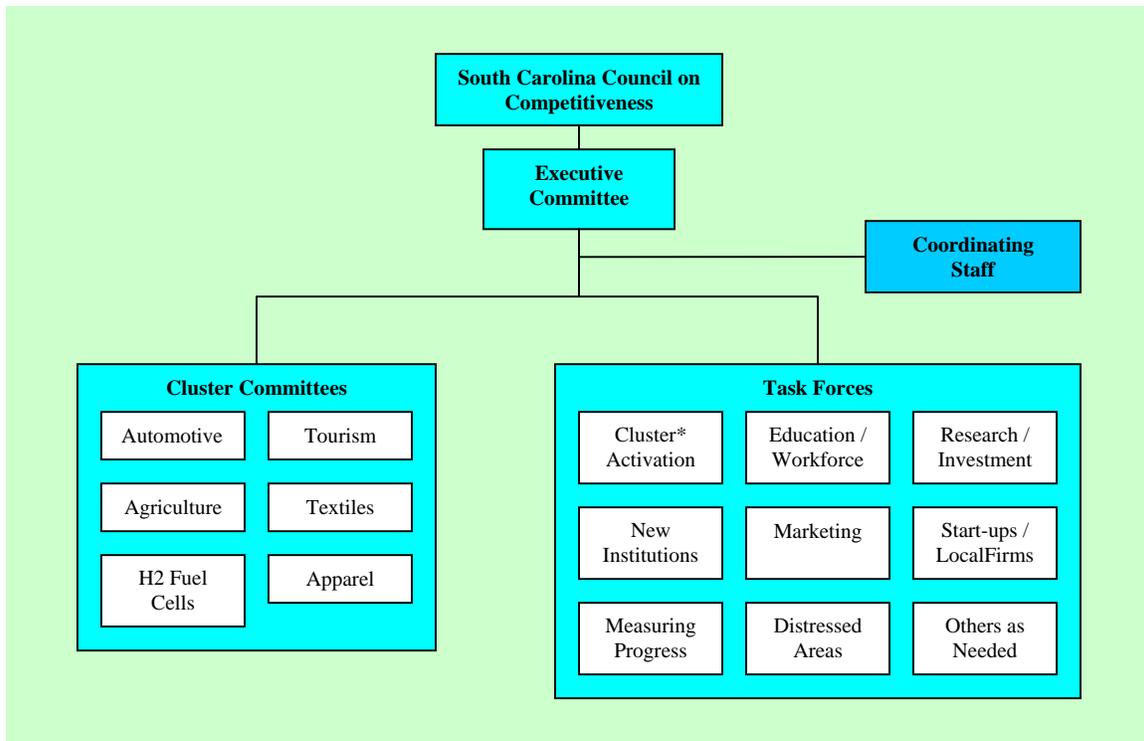
- 1) Defining its mission [goal] and objectives;
- 2) Developing a specific action agenda [plan of action];
- 3) Assigning responsibilities to individuals and groups;
- 4) Helping to identify appropriate metrics [measurements or indicators]¹² to track progress;
- 5) Clarifying the timing [schedule of milestones and completion dates] for implementing the action agenda; and,
- 6) Reporting progress to the leadership group [Council] and other groups at a later date.¹³ [*Bracketed wording added*].

The Council's responsibilities were wide-ranging and varied in complexity or detail. Generally speaking, however, the Council was predominantly responsible for the following:

- 1) Convening the task forces and cluster committees;
- 2) Providing input [mainly resources, coordination and direction] to them;
- 3) Supporting the specific action agendas they develop;

- 4) Holding them accountable for progress made [oversight]; and, equally important,
- 5) Networking with the many economic development organizations and initiatives across the state, in order to lend its support to these efforts as appropriate.¹⁴ [*Bracketed wording added*].

Figure 1. The South Carolina Council on Competitiveness Organizational Chart



* This task force's responsibilities included, but were not limited to, the following: assist individuals in seeding and supporting nascent clusters; create a network of individuals to facilitate communication and knowledge transfer; and, facilitate cluster assessment and development.

Source: Retrieved August 1, 2006 from <http://competesc.org/blog/wp-content/uploads/2006/01/StrategyDocument.pdf>.

Research and analysis was conducted by the Monitor Group, Inc.,¹⁵ a prominent management and financial services firm from the Washington, D.C. area. The Group was supported variously by the Palmetto Business Forum,¹⁶ the Palmetto Foundation for the Economic Development of South Carolina, the Palmetto Institute,¹⁷ the state Chamber of Commerce, the South Carolina Department of Commerce, and the South Carolina Department of Parks, Recreation and Tourism. Additionally, Michael E. Porter, a distinguished and renowned professor of economics from the Harvard Business School, was instrumental to the Initiative, providing oversight, analytical and advisory roles.

Rationale of the Initiative and Its Objectives

The Initiative was born out of increasing recognition and comprehension as regards South Carolina's economic makeup, status and performance. More exactly, it resulted principally out of the understanding of several business and government leaders in South Carolina that its traditional economic structures and processes were not keeping pace with the times. These traditional stratagems and practices were, and remain today to a large extent, fundamentally ones characterized as those placing particular emphasis on 1) a plentiful and flexible workforce, 2) a superior physical infrastructure, and 3) a responsive and pro-business government.¹⁸

While these traditional schemes¹⁹ were core strategies with proven records of success and reflected prosperity heretofore, a general consensus among the Initiative members was that *other* long-term and progressive approaches were called for with the emergence of the 21st century and the resulting circumstances of growing global competitiveness and innovation.

More particularly, South Carolina's business and political leadership recognized an unprecedented rapid transformation of the national and international economies. In the literature this transformation was and is today frequently termed "the emerging new economy," and is defined by globalization with an ever-increasing reliance on knowledge-based technologies, and highlighted by intense competition, creativity and inventiveness. As put by Thomas Friedman, in his best-seller *The World is Flat*, "in the late 1990s, circa 2000, there was enough movement of goods and information for there to be a global market, with global arbitrage in products and labor... This in turn was heightened by rapidly advancing technologies in personal computers and telephonic devices, boosted then further by new software applications, subsequently the Internet and e-commerce, and finally, deregulation and the proliferation of multi- and bi-lateral trade agreements... until the point of climax... a flattening of the economic playing field."²⁰

The Initiative's Council clearly acknowledged and accepted this economic phenomenon, and through cooperation and mutual interest, reflection, study and planning, believed firmly that the traditional approaches were out of synch, to some extent, with the new economy and that a new modern and comprehensive strategy was called for to stabilize and energize South Carolina's economic "engine." As such, the main Initiative participants—along with the Monitor Group and Professor Porter advising—set out five key objectives to be accomplished:

1. Bring together the relevant stakeholders—industry, academia, and government—to collaborate in developing a shared economic strategy for South Carolina;
2. Assess the competitive position of South Carolina and of the selected industry clusters in the state (i.e., automotive, chemical products, textiles, and tourism and hospitality²¹);

3. Identify key challenges, opportunities, and new strategic directions for South Carolina overall, as well as for the selected clusters;
4. Promote consensus on an economic strategy and action agenda for South Carolina; and,
5. Act on the findings from the analysis, and measure progress.²²

The Initiative's Methodology

The Initiative undertook a four-fold approach or methodology to achieve its stated objectives. First, a detailed web-based survey was administered to businesses and industries throughout the state and 443 executives responded to what was described “as a range of questions” about the business community in South Carolina. Of the respondents, 217 fell into business/industry categories or “clusters,”²³ principally those associated with hospitality and tourism, textiles, chemical products, and automotive production.

Figure 2. The Definition of a Cluster

What Is a Cluster?

Clusters are geographic concentrations of interconnected companies and institutions in a particular field. Clusters encompass an array of linked industries and other entities important to competition. They include, for example, suppliers of specialized inputs such as components, machinery, and services, and providers of specialized infrastructure. Clusters also often extend downstream to channels and customers and laterally to manufacturers of complementary products and to companies in industries related by skills, technologies, or common inputs. Finally, many clusters include governmental and other institutions - such as universities, standards-setting agencies, think tanks, vocational training providers, and trade associations - that provide specialized training, education, information, research, and technical support.

Source: Retrieved July 27, 2006 from <http://polaris.umuc.edu/~fbetz/references/Porter.html>.

Second, the Monitor Group conducted interviews with 126 persons consisting mainly of business/industry leaders and associates, persons in academia, and individuals in key governmental leadership positions. The interview questions were detailed and explored the prominent issues from the web-based survey. Additionally, some focus on “what were the views as related to priorities” for business and government were queried.

Third, a decade of economic performance and other data collected by the Harvard Business School’s Cluster Mapping Project²⁴ were analyzed by the Monitor Group. And finally, or fourth, the Monitor Group completed a comparative analysis of economic data and strategies of the contiguous states of Georgia and North Carolina, including the peer states of Alabama and Tennessee.²⁵

Theoretical Underpinnings of the Initiative

The underlying concepts which guided the research effort are important ones and were adopted by the Monitor Group and consequently the Initiative participants. These concepts are discussed in Michael Porter’s book entitled *The Competitive Advantages of*

Nations (1990) and are premised chiefly on what Porter calls the theory of “competitive advantage.” More specifically, this competitive advantage concerns a nation’s (or equally some other political subdivision or region) “positioning”²⁶ itself to compete successfully with economic rivals. As explained in a succinct review or summary of Porter’s 1990 book:

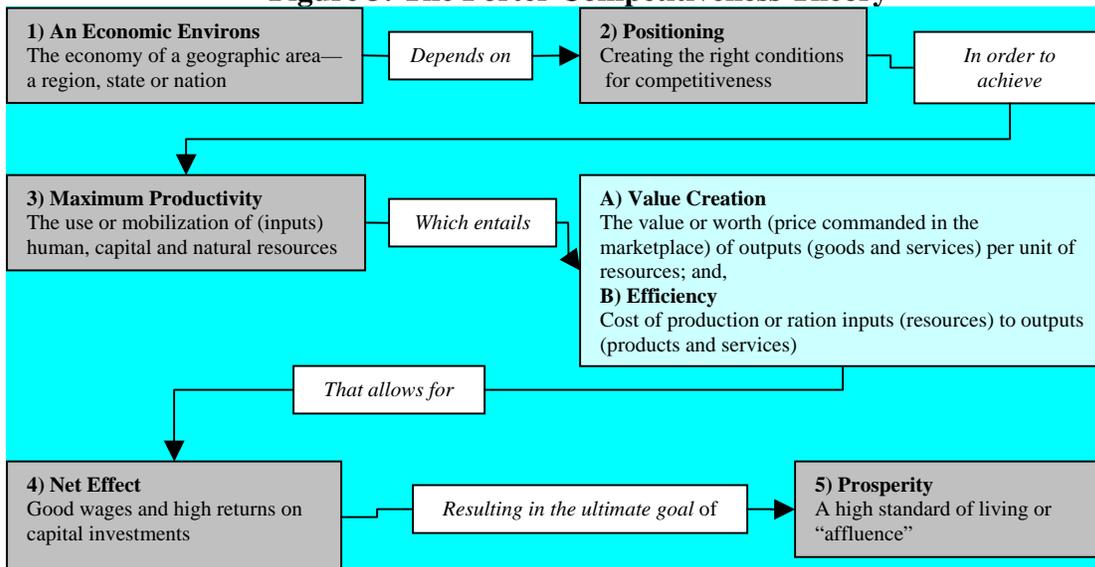
Achieving low costs or differentiation are two basic strategies for positioning. Porter identifies five forces of competitive advantage which influence the employment of either strategy: new technologies, new or shifting buyer needs, the emergence of a new industry, shifting input costs, and changes in government economic policies.²⁷

From this, Porter posits that a nation’s or defined region’s primary economic goal should entail the realization and sustainability of a high standard of living; i.e., one of relative affluence. Porter further believes that the principal determinant of such a quality standard of living or affluence is “economic productivity.”²⁸

Using these views, according to the Initiative’s 2005 report, and unlike popular economic interpretations associated with mere efficiency, productivity is therefore, in Porter’s view, equivalent to “value creation” and is measured by the value (price or relative worth) of products and services produced per unit of labor and capital.

In other words, generally speaking, productivity is a measurement—gauge or yardstick—in terms of output(s) per unit(s) of input(s). More importantly, however, productivity is the use or mobilization of human, capital and natural resources to create goods or services rendered in terms of “value added.” Thus, for Porter and the Initiative as well, productivity or value creation establishes the two chief components of a level or standard of living—namely, good wages and return on investment. (See Figure 3.)

Figure 3: The Porter Competitiveness Theory



Source: Retrieved August 8, 2006 from
http://www.iese.edu/en/ad/AnselmoRubiralta/Apuntes/Competitividad_en.html.

Accepting these definitions or premises, the challenge of a nation, state, or region (in this case South Carolina and/or areas of the state) is to create the right “soil conditions”—i.e., business environment—to attract or maintain industries or businesses that attain high-levels of productivity, especially ones which in the long haul are sustainable. Fundamentally, this sustainability is achieved by a company’s (companies’) creative adaptation to changing consumer demands, expectations and desires for certain products and services. Hence, products and services must be continuously invented, reinvented or improved by companies that stress and prize resourcefulness, creativity and innovation.²⁹

Michael Porter and the Initiative’s Analytical Framework

The main force or critical driver of value creation and innovation is what the Initiative termed “the quality of the business environment” or what has metaphorically been referred to earlier as the right economic “soil conditions” to grow businesses and industries. As conceived by Michael Porter and espoused by the Initiative, these soil conditions are embodied or categorized into four broad groupings or determinants, or if one prefers, settings, situations or circumstances.

- **Factor conditions.** Achieving high levels of innovation and productivity growth depends on the presence of high-quality and specialized pools of human resources, basic research, applied technology, infrastructure, and sources of capital that are tailored to the needs of particular industries;
- **Demand conditions.** The quality of local demand exerts a strong influence on the process of creating and improving products and services. Sophisticated customers in a region press firms to improve, and they offer insights into existing and future customer needs;
- **Context for firm strategy and rivalry.** The rules, incentives, and pressures governing the kind and intensity of local rivalry have a fundamental influence on productivity policies that encourage investment, protect intellectual property, and foster productivity growth; and,
- **Related and supporting industries.** Local sourcing from capable suppliers based in the region can enhance productivity and improve the capacity for innovation through allowing speedier and less costly communication, fostering the flow of ideas, and enhancing flexibility through outsourcing.^{30 31}

When combined, these determinants are clearly interrelated, reciprocally benefit one another, and taken together form a dynamic system. Most importantly, the inter-workings of these four broad areas or groupings—factor conditions, demand conditions, rivalries or competitiveness, and supporting industries—spawn the creation and advancement of clusters.^{32 33}

Of equal importance, these determinants form an analytical framework for evaluating certain aspects of the business environment or, more specifically, industrial clustering. In other words, taken together, these determinants form a schematic model that analyzes how and why clusters differ from location to location, thus explaining the reasoning as to success of some firms (or industries) and the failures (or shortfalls) of others. Additionally, such an examination is obviously useful for recommending sound strategies for economic improvements.

Figure 4. States Focusing on the New Economy

Governors and Clusters of Innovation

"Governors understand that competition is now based on the ability of firms and individuals to innovate, exploit indigenous strengths or existing clusters and build knowledge-based activity." said John Thomasian, director of the National Governors Association Center for Best Practices. "They are utilizing the skills of the workforce and the capacity for innovation to enhance states' ability to compete in the world marketplace."

Most governors' new economic development initiatives focus on enhancing state and regional "clusters of innovation"—fast-growing groups of businesses that share markets, labor, new ideas and products.

Source: National Governors Association. (2006, May 16). Governors focused on boosting state competitiveness. [News Release]. Retrieved August 15, 2006 from <http://www.nga.org/portal/site/nga/menuitem.6c9a8a9ebc6ae07eee28aca9501010a0/?vgnextoid=0bd9987a45d3b010VgnVCM1000001a01010aRCRD&vgnnextchannel=759b8f2005361010VgnVCM1000001a01010aRCRD>. See Bayard, M. (2006, May 8). *Enhancing competitiveness: a review of recent state economic development initiatives—2005*. Issue Brief. Washington, DC: NGA Center for Best Practices. Retrieved August 15, 2006 from <http://www.nga.org/files/pdf/0604ENHANCECOMPIB.pdf>.

As outlined or summarized in Figure 2, clusters,³⁴ as conceived by Porter in the early 1990s, and continuously researched and refined to-date,³⁵ are key to economic competitiveness and development. Again clusters are specified location-foci or geographic environments (e.g., a nation, state, province or region) where interrelated businesses and industries and allied institutions—producing or supporting the production of similar products and services—in a particular area or domain (e.g., as relates to South Carolina; automotives, apparel, travel and tourism, etc.) concentrate and benefit from one another via resources and suppliers, competition, innovation, and customer demand. The resulting “clustering effect” is one that is vibrant and energizing, a sort of “critical mass” which leads to increased or high productivity.

Accordingly, the path to economic development and success—so believes the economic leadership in the Palmetto State and in particular the Initiative and the South Carolina Council on Competitiveness—is based on a strategy that aims to exploit, develop and nurture this clustering effect.

Clusters, the Gap and the Need for Value Creation

The 2005 “Strategic Plan for South Carolina” points out that the state has a fairly solid foundation for developing certain clusters. Parallel to the cluster committees charted in

Figure 1, these include six main areas under the rubrics 1) apparels, 2) automotives, 3) agriculture (e.g., forest products), 4) hydrogen/fuel cells, 5) textiles, and 6) travel and tourism.³⁶

What is problematic however with these clusters, as identified in the Initiative's report, is the comparatively low wages earned by South Carolina's workers vis-à-vis the United States overall. One noteworthy finding of particular importance is that "the mix of clusters in the state shows a 31% gap between South Carolina's average wages and that of the nation as a whole."³⁷

While there are other contributing factors to this gap, the upshot is that general prosperity, wealth and earnings are, relative to the United States, lower across all clusters, both geographically and demographically.³⁸ The Initiative's analysis found that the main explanation for this occurrence—i.e., gap in average wages; hence, prosperity—was that the value added per worker in South Carolina is considerably less than elsewhere. While there are various definitions attributed to the term "value-added," it is commonly meant to designate the enhancement of a product or service that warrants or brings about a significant difference between the costs of production or service provision and the price it sells for—viz., its worth. Wikipedia.org defines the term as follows:

Value added refers to the additional value created at a particular stage of production or through image and marketing. In modern neoclassical economics... it refers to the contribution of the factors of production, i.e., land, labor, and capital goods, to raising the value of a product and corresponds to the incomes received by the owners of these factors. The factors of production provide services which raise the unit price of a product (X) relative to the cost per unit of intermediate goods used in the production of X.³⁹

Thus the Initiative affirms that in order for South Carolina to achieve prosperity, "its workers must create more value." To do this, the business environment—again, South Carolina's soil conditions—in which persons work must be improved. Such improvement should be ultimately one of intelligent design as well as methodical and sustainable, in a word, *strategic*.⁴⁰

The State's Strengths and Its Challenges

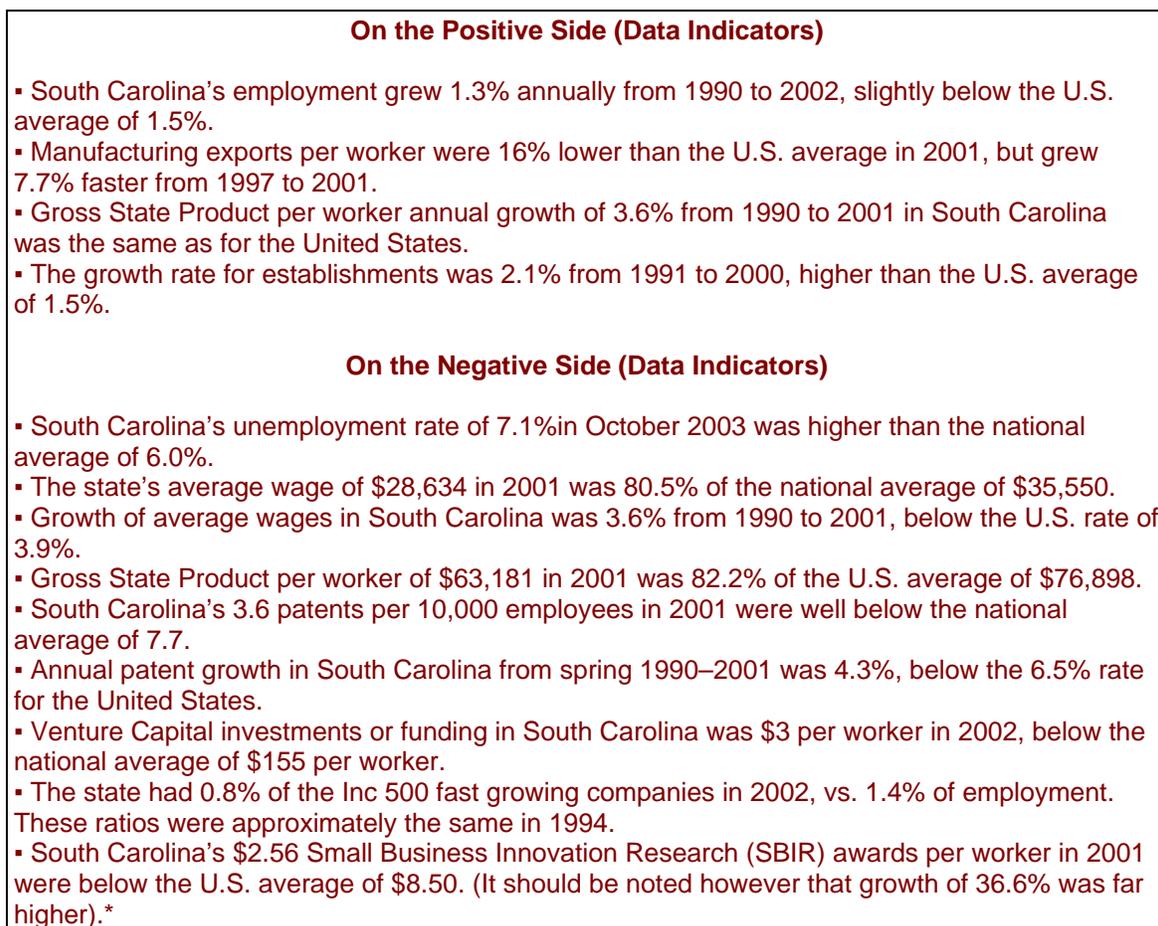
A SWOT-type⁴¹ analysis completed by the Monitor Group identified and detailed the strengths and weaknesses of South Carolina's economic or business environment. This analysis was important and represented a critical step in the formulation, and later the execution, of a valid statewide economic strategic approach.

Generally speaking, as outlined in the Initiative's report, the state's business environment is strong in six areas: 1) its technical post-secondary school system, 2) its road and interstate infrastructure (along with an excellent container port located in Charleston), 3) its "attractive cost structure relative to other states," 4) its three major state universities

involved increasingly in state-of-the-art research and development, 5) its federal institutional complexes, specifically the Savannah River National Laboratory and the Space and Naval Warfare System Center,⁴² and 6) its numerous organizations (at the state, regional and local levels) aimed at economic development.⁴³

Conversely, the state's business environment is weakened or hampered in a number of areas that pose challenges to overcome. For example, major problematic areas include: 1) a "below average" K-12 state educational system, 2) a workforce with limited knowledge and skill sets, 3) the absence of a "top-tier" research university (like those recognized by the Carnegie Foundation for the Advancement of Teaching⁴⁴), 4) a setting or situation not conducive, by and large, to small or entrepreneurial businesses, and 5) "a lack of cluster councils," and 6) university-business/industry partnerships and other similar linkages.⁴⁵

Figure 5. Assessment of South Carolina's Business Environment Data Indicators



* See determinants analysis or "Exhibit 10" of the South Carolina Business Environment by the Monitor Group on p. 29 of the Initiative's 2005 report at <http://competesc.org/blog/wp-content/uploads/2006/01/StrategyDocument.pdf>.

Source: Retrieved August 9, 2006 from <http://competesc.org/blog/wp-content/uploads/2006/01/StrategyDocument.pdf>.

A Focus on Four Clusters: Key Findings

In addition, the Initiative, via the Monitor Group and other supporting individuals and organizations, honed in on four clusters to complete its study with the intent to analyze and make specific findings as to their strengths, weaknesses, opportunities and threats. These clusters included areas associated with automotive products, chemical products, textiles, and tourism.⁴⁶

Further, and of particular importance, these clusters were chosen for detailed analysis for three reasons or criteria. These included: 1) their competitive positioning to other regional areas across the United States, 2) their number of employees, and 3) their location or geographic dispersion within the state's boundaries. Additionally, these clusters were meant to serve as "models to benefit other clusters in South Carolina."⁴⁷

Of interest, taken as a whole, the analysis of these four clusters presented a number of general findings applicable to the entire state. Four key findings underscored in the 2005 report included the following:

- The success in creating jobs and attracting capital investments, but also the low value creation and average wages;
- The flexible workforce and good physical infrastructure, but also the limited investment in education, skills, and research;
- The presence of sophisticated operations in several clusters, but also the difficult environment for start-ups and small local companies, and limited networking and collaboration across firms; and,
- The importance of government leadership in recruiting, but also the minimal participation of the private sector and universities in economic development.⁴⁸

The Initiative's Overall Strategy

In essence, the Initiative sets out in its 2005 report a multi-prong strategy to address the problematic areas statewide, as discussed earlier, and among the four clusters studied. This comprehensive strategy aims to achieve maximum economic performance and sustainability—in short—a competitive edge in the global marketplace. In summary, this strategic plan includes several vital components:

- **Activate and upgrade clusters.** Upgrade existing clusters by building critical mass and fostering linkages, and broaden cluster portfolio by seeding new clusters;
- **Continue to enhance education and workforce training.** Raise SAT scores and graduation rates to reach middle quintile of the United States by 2015, and leverage technical colleges to provide the workers needed for advanced processing;

- **Invest in research and the university system.** Increase investments in focused research areas aligned with the needs of industry, and ensure graduate level research and training capabilities commensurate with the needs of regional business and industry clusters;
- **Launch internal and external marketing campaigns.** Create a can-do mentality in South Carolina and position the state as a location ripe with opportunities for leading companies and talented people;
- **Create an explicit economic development program for distressed and disadvantaged areas.** Increase prosperity for all citizens of South Carolina;
- **Increase support for start-ups and local firms.** Create a supportive environment for start-ups and streamline regulations and policies to encourage expansions and upgrades;
- **Create new institutions to support economic development.** Collaborate and support existing institutions for collaboration focused on upgrading the local business environment, and create new ones as needed; and,
- **Measure progress in raising prosperity.** Define and track a set of metrics that measure progress towards prosperity, and provide direction for the above campaigns.⁴⁹

In turn, the Initiative enumerates, especially for the long-term, four “new” directional benefits that will accrue from the implementation of these strategic components, which differ from, yet strengthen “traditional approaches.” First, prosperity or wealth will be increased substantially from the establishment of high-paying jobs. Second, the business environment will be enhanced in such a way so as to establish businesses that create value-added products and services. Third, existing and emerging clusters will be upgraded to bring about increased economic activity and greater productivity. And fourth, synergy will be created among collaborative government entities, universities and companies.⁵⁰

According to the 2005 report:

South Carolina’s new economic strategy will help guide the state’s transition from a low cost location to a sophisticated manufacturing and service center, and finally to becoming an innovation leader. The state will become a nationally recognized center for a range of clusters doing advanced processing in manufacturing and services and will seek the position of a highly productive, cost-competitive U.S. location, well-connected to both innovation centers and sophisticated customers.⁵¹

Conclusion

Several states have embraced the microeconomic model or strategy detailed in the report of the South Carolina Competitive Initiative.^{52 53} While no definitive study of the outcomes or effectiveness of the cluster model among states can be found in the literature, based on anecdotal and other evidence, the clustering scheme is nevertheless considered a promising and significant starting-point among many experts.

As such, first and foremost, due credit must be given to South Carolina Initiative's 2005 report in that it presents a clear and accurate understanding of the current restructuring of the global economy. As such, the Initiative recognizes the changing nature of markets and competitiveness, and additionally, the importance of value creation and the establishment of conditions for sustained innovation output. This, in and by itself, is no small thing.

Furthermore, the Initiative via its report shows a high degree of acumen and forethought in taking steps to contend with these complexities of the escalating and vigorous new world economy. Its embrace of a strategic plan based on Michael Porter's paradigm is rational and practical given its 16-year history of theoretical maturity and practical application in numerous venues (viz., countries, states and regions).⁵⁴

Finally, when all is said and done, the Initiative's work and final report appears to make simply good sense. The 2005 report—its findings and plan of action—is based on reasonable assumptions, facts and thorough study. Properly and cogently implemented, the Initiative's strategic economic plan for South Carolina should bear fruit—a lively and prosperous way of life for all.

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Appendices

Appendix 1. South Carolina Council on Competitiveness (2005)

Mission

The Council seeks to develop and drive South Carolina's long-term economic strategy by working with companies, government, universities, economic development organizations, and other groups to identify and implement actions and policies that are aligned with the long-term strategy, and that will boost the competitiveness of South Carolina firms.

Objectives

- Create and support an organizational structure which will drive the state's long-term economic strategy, and which consists of an overarching Council, as well as Issues Task Forces and Cluster Committees;
- Develop and disseminate a detailed strategic plan, and coordinate with relevant parties (e.g. businesses, government agencies, the legislature, universities, technical colleges, economic development organizations) to implement that plan; and,
- Establish a process and "reporting out" system for the Task Forces and Cluster Committees and the Council, to encourage recognition and accountability for activities across the state.

Activities

In pursuit of its mission and objectives, the Council on Competitiveness's responsibilities are:

Create an organizational structure.

- Assess which issue agendas from the over-arching strategy for South Carolina are appropriate for immediate creation of Task Forces and Cluster Committees;
- Organize Task Forces and Cluster Committees through the appointment of chairs, and then work with chairs to appoint the remainder of the members;
- Create process for creating new Task Forces and Cluster Committees, and "sun-setting" existing ones; and,
- Put Council on sound footing by establishing stable financing and staffing.

Develop and disseminate a strategic plan.

- Develop a strategic plan based on the analyses of the *South Carolina Competitiveness Initiative*, and the deliberations of the Issue Task Forces and Cluster Committees;
- Create a full report of the *South Carolina Competitiveness Initiative*, including the strategy and the implementation plan for the Council on Competitiveness, the Task Forces, and Cluster Committees;
- Disseminate the *South Carolina Competitiveness Strategy* report to private sector, academia, public sector, the general public, and constituents outside South Carolina:
 - Publish and disseminate; and,
 - Conduct speaking tours around the state.

- Support the Task Forces and Cluster Committees as they implement their objectives and activities;
 - Advocate the strategy to relevant parties (e.g., legislature, tech colleges, universities, economic development organizations, etc.);
 - Develop a legislative agenda each year, which is aligned with the strategy; and,
 - Provide financial, intellectual, moral, and other support for priority activities.

Establish a process and “reporting out” system.

- Create a regular schedule for Council on Competitiveness meetings, with the mandate that each Task Force and Cluster Committee periodically report to the Council on progress;
- Provide input and suggestions to Task Forces and Cluster Committees as appropriate; and,
- Measure progress towards overarching objectives (e.g., prosperity, productivity, innovation, etc.), as well as progress against the work plans of each Task Force and Cluster Committee.

Source: Retrieved August 14, 2006 from <http://competesc.org/blog/wp-content/uploads/2006/01/StrategyDocument.pdf>.

Appendix 2. Cluster Activation Task Force

Mission

The Cluster Activation Task Force helps firms in related industries organize themselves so that they can better assess their cluster’s business environment, identify common barriers and opportunities, and work collectively to improve their competitiveness.

Objectives

- Identify nascent and existing clusters, reach out to potential leaders of these clusters, and support and encourage private-sector led efforts to collaborate across the cluster to boost the competitiveness of member firms;
- Inform business, government, and economic development professionals about the benefits of cluster collaboration to raise broad awareness of, support for, and participation in cluster building efforts; and,
- Facilitate communication among task forces and cluster committees to leverage expertise, transfer knowledge and experience, and create coordinated initiatives.

Activities

In pursuit of its mission and objectives, the Cluster Activation Task Force’s responsibilities are:

Identify and develop nascent and existing clusters.

- Develop criteria for identifying important clusters to organize and build-up;
- Meet with potential leaders of existing industry concentrations and assist them in conducting a cluster assessment to identify key barriers to, and opportunities for, boosting competitiveness;

- Identify cluster-focused organizations in South Carolina with which to coordinate strategies and activities for existing clusters, and establish contact with those organizations to help facilitate the cluster assessment and development process; and,
- Meet with individuals interested in seeding and supporting nascent clusters, assist them in assessing cluster needs, and help them implement an agenda to boost competitiveness;

Inform individuals on benefits of clusters.

- Create informative documents that can be given to potential cluster leadership to help them understand what clusters are, the benefits of clusters, and why and how clusters form; and,
- Deliver speeches and conduct seminars for individuals interested in cluster development to discuss their potential clusters, their questions and concerns, and examples of successful cluster formation.

Facilitate communication between Task Forces and Cluster Committees.

- Create a network of Task Force and Cluster Committee leaders that will allow for the smooth transfer of knowledge and open communication between related clusters and issue groups.

Source: Retrieved August 14, 2006 from <http://competesc.org/blog/wp-content/uploads/2006/01/StrategyDocument.pdf>.

ENDNOTES

- ¹ Florida, R. (2002). *The rise of the creative class*. New York, NY: Perseus Books Group, p. xv.
- ² Retrieved August 15, 2006 from http://english.people.com.cn/200112/19/eng20011219_87044.shtml.
- ³ Also see earlier document (published 2003, December 8) available at <http://www.scommerce.com/teamspdfs/press/pdf/Monitorprez.pdf>.
- ⁴ See additionally South Carolina Policy Council. (2004, March). *Clusters and competencies: workforce development and South Carolina's economy*. Prepared by Stuart Rosenfeld, Regional Technology Strategies, Inc. Retrieved August 31, 2006 from <http://www.rtsinc.org/publications/SCReport.pdf#search=%22dri%20wefa%20clusters%22>.
- ⁵ See additionally Palmetto Institute. (2002, September 16). *The South Carolina challenge: regional economic analysis*. Prepared by DRI•WEFA. Retrieved August 31, 2006 from http://www.engenuitysc.com/client_resources/Resources/palmettoinstitutereport.pdf#search=%22%22annual%20average%20wages%22%20south%20carolina%20%22.
- ⁶ See additionally Governor's Economic Development Task Force. (2003, March 17). *Final report*. Columbia, SC: Author. Retrieved August 14, 2006 from <http://www.state.sc.us/scsl/scedoc/G7463Econo/000109.pdf>.
- ⁷ The South Carolina Competitive Initiative effort's resulted in the creation of an organization called the South Carolina Council on Competitiveness and later New Carolina. The chief aim of New Carolina is to implement the strategic plan as prescribed by the 2005 report of the Initiative. See <http://newcarolina.org/about>.
- ⁸ In Part II, to be published at a later date, the author will examine the actions and progress in the implementation of the Initiative's strategic plan.
- ⁹ Love, A. (August 24, 2006). From New Carolina, as retrieved by telephone inquiry.
- ¹⁰ The CEO of Blue Cross/Blue Shield of South Carolina was, and remains at this time, M. Edward Sellers.
- ¹¹ See Figure 2. Additionally see Appendix A of South Carolina Competitiveness Initiative. (2005, April). *A strategic plan for South Carolina*. Columbia, SC: Author.
- ¹² Measurement of the Initiative's efforts is obviously important to determine progress and the re-alignment of tasks. Of interest, see http://www.scchamber.net/docs/BASC_02_06.pdf and <http://www.ipspr.sc.edu/scip/default.asp>.
- ¹³ South Carolina Competitiveness Initiative. (2005, April). *A strategic plan for South Carolina*. Columbia, SC: Author, p. 14.
- ¹⁴ Ibid.
- ¹⁵ See <http://www.themonitorgroup.com>.
- ¹⁶ The Palmetto Business Forum, according to New Carolina, is "an organization comprised of chief executive officers concerned about South Carolina's business climate and its citizens." Retrieved August 3, 2006 from <http://newcarolina.org/about>.
- ¹⁷ See <http://palmettoinstitute.org>.
- ¹⁸ Op. Cit., South Carolina Competitiveness Initiative. (2005, April), p. 17.
- ¹⁹ See South Carolina Department of Commerce. (2006). *South Carolina*. [A business climate publication.] Columbia, SC: Author. Retrieved August 14, 2006 from <http://www.scommerce.com/teamspdfs/DOC%20OppMotion%20Broch.pdf>.
- ²⁰ Freidman, T. *The world is flat*. New York, NY: Farrar, Straus and Giroux, pp. 9-11.
- ²¹ The Initiative's examination of industry clusters, for study purposes, was ultimately narrowed to these four clusters.
- ²² Op. Cit., South Carolina Competitiveness Initiative. (2005, April), p. 17.
- ²³ Of interest, it should be noted that a 1987 study completed by USC College of Business Administration found that the "market forces lead to clustering (economies of agglomeration) of certain types of economic activity." The study additionally found that the "results of such clustering allow for higher wages and the divergence of incomes across regions." See Phillips et al. (1987). *South Carolina: an economy in transition*. Columbia, SC: USC College of Business Administration, Division of Research, Chapter 5, p. 9.
- ²⁴ See <http://www.isc.hbs.edu/index.html>.
- ²⁵ Op. Cit., South Carolina Competitiveness Initiative. (2005, April), p. 18.

²⁶ “Porter argues that strategy is about competitive position, about differentiating yourself in the eyes of the customer, about adding value through a mix of activities different from those used by competitors. In his earlier book, Porter defines competitive strategy as “a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there.” Thus, Porter seems to embrace strategy as both plan and position.” Retrieved August 24, 2006 from

http://home.att.net/~nickols/strategy_definition.htm.

²⁷ Brown, V. et al. (n/d). “Book review: *The competitive advantage of nations*” by Michael Porter. Retrieved July 7, 2006 from http://beatl.barnard.columbia.edu/dye/book_reviews/book_review13.htm.

²⁸ Op. Cit., South Carolina Competitiveness Initiative. (2005, April), p. 19.

²⁹ For an interesting discussion of the role of innovation, which offers a countervailing viewpoint, see “Economic focus: venturesome consumption,” in *The Economist* (2006, July 29), p.70.

³⁰ Op. Cit., South Carolina Competitiveness Initiative. (2005, April), p. 19.

³¹ For discussion of the “diamond” model or analysis (Diamond Factor Model, Porter, 1990) see Ketels, C. (2003, November 26). *The development of the cluster concept—present experiences and further developments*. Retrieved August 15, 2006 from

http://www.isc.hbs.edu/pdf/Frontiers_of_Cluster_Research_2003.11.23.pdf.

³² This is sometimes referred to as Porter’s “Industrial Cluster Theory.”

³³ According to Pender, M. (1997, November), “the cluster hypothesis in its economic sense is based Alfred Marshall’s *Principles of Economics* (1920), who explained the development of industrial complexes by the existence of *positive externalities* within agglomerations of interrelated firms and industries. These externalities are caused by three major forces: (a) knowledge spillovers between firms, (b) specialized inputs and services from supporting industries, and (c) a geographically pooled labor market for specialized skills. Using modern terminology, Marshall’s cluster hypothesis basically states the existence of *dynamic complementarities* within a system of interdependent economic entities that influences specialization patterns in production: for the reasons given above, innovation and growth in one of the economic units can exert positive impulses for innovation and growth in other parts of the system as well. Therefore, a cluster of industrial complexes as a whole is expected to perform better than the sum of its individual units in case of a more scattered distribution. It is worthwhile to note that this idea considerably extended conventional economic wisdom, which relied solely on exogenous *comparative advantages* or *internal economies of scale*, respectively, to explain specialization and concentration of economic activities. Marshall’s analysis does not stop at that point, but gives equal weight to two fundamental economic causes that work against too highly specialized industrial locations: (a) Differentiated skills within the local labor markets also call for a certain spread of skill requirements and associated sectoral structures; (b) A differentiated sectoral composition within a location also offers a greater spread of risks associated with exogenous shifts in demand or input prices which are specific to individual industries.” Retrieved August 30, 2006 from <http://www.oecd.org/dataoecd/34/16/2098045.pdf#search=%22Alfred%20Marshall%20%20Michael%20Porter%22>.

Further, according to Desrochers, P. and Sautet, F. (2004), it should be noted that “Porter’s view of clusters, however, is said to be more inclusive than the older notion of ‘industrial district’ developed by Alfred Marshall (1920) at the turn of the 20th century. While Marshall focused on very similar firms, Porter’s clusters are not limited to single industries, but encompass an array of linked industries and other entities important to competition. They therefore often extend downstream to channels or customers and laterally to manufacturers of complementary products or companies related by skills, technologies, or common inputs. Furthermore, in Porter’s framework, this geographic scope can range from a region, a state, or even a single city to span nearby or neighboring countries.” Retrieved August 30, 2006 from http://www.gmu.edu/rae/archives/VOL17_2-3_2004/6_Desrochers.pdf#search=%22Alfred%20Marshall%20%20Michael%20Porter%22.

³⁴ See discussion and reference links at Harvard’s Institute for Strategy and Competitiveness at <http://www.isc.hbs.edu/econ-clusters.htm>.

³⁵ See biographical summary of Michael E. Porter at http://dor.hbs.edu/fi_redirect.jhtml?facInfo=bio&facEmId=mporter&loc=extn.

³⁶ The Initiative’s analyses focused generally on the state and the study of four clusters: automotive, chemical products, textiles, and tourism.

³⁷ Op. Cit., South Carolina Competitiveness Initiative. (2005, April), p. 10.

³⁸ Ibid, p. 11.

³⁹ Retrieved August 7, 2006 from http://en.wikipedia.org/wiki/Value_added.

⁴⁰ Also see South Carolina Chamber of Commerce. (2005). *Annual report*. Columbia, SC: Author.

⁴¹ An acronym used for an “environmental scan” or a situational analysis of the strengths and weaknesses of an organization, entity or other thing, including an analysis of external threats and opportunities (typically called a “SWOT”). This includes also a “stakeholder analysis” which is an analysis of persons, groups or organizations whose interests and concerns are of key importance to the overall strategic process.

⁴² See respectively the following websites for more information on these organizations:

<http://www.srs.gov/general/srs-home.html> or <http://srnl.doe.gov>, and <http://sscc.spawar.navy.mil> .

⁴³ Op. Cit., South Carolina Competitiveness Initiative. (2005, April), p. 11.

⁴⁴ See <http://www.carnegiefoundation.org/classifications>.

⁴⁵ Op. Cit., South Carolina Competitiveness Initiative. (2005, April), p. 11.

⁴⁶ For full analysis and discussion of these four clusters—automotive, chemical products, textiles and tourism—see <http://competesc.org/blog/wp-content/uploads/2006/01/StrategyDocument.pdf>, starting on page 33.

⁴⁷ Op. Cit., South Carolina Competitiveness Initiative. (2005, April), p. 33.

⁴⁸ Ibid, p. 11.

⁴⁹ Ibid, pp. 12-13.

⁵⁰ Ibid, p. 53.

⁵¹ Ibid.

⁵² See Bayard, M. (2006, May 8). *Enhancing competitiveness: a review of recent state economic development initiatives—2005*. Issue Brief. Washington, DC: NGA Center for Best Practices. Retrieved August 16, 2006 from <http://www.nga.org/files/pdf/0604ENHANCECOMPIB.pdf>.

⁵³ See <http://www.oregonclusters.org/additional.html#states>.

⁵⁴ See Woodward, D. (2005, July 1). *Porter’s cluster strategy versus industrial targeting*. Based on a workshop presentation (2004, December 3) in Orlando, FL. Columbia, SC: University of South Carolina. Retrieved August 21, 2006 from http://www.nercrd.psu.edu/Industry_Targeting/ResearchPapersandSlides/IndCluster.Woodward.pdf#search=%22cluster%20model%20among%20countries%2C%20states%2C%20regions%22.