

# ***POLICY BRIEF***

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## **Rethinking Industry Recruitment**

Doing the same thing the same way over and over and expecting improvements in outcomes is a near-perfect description of the industry recruitment strategy in Pennsylvania and the Pittsburgh region. This strategy focuses first on the plentitude of grants and incentives available to entice companies to locate here. Second, the strategy endlessly extols all the wonderful cultural and recreational amenities like new stadiums. They do these things while downplaying or glossing over factors such as a poor labor climate, high taxes, and a stifling regulatory environment.

Well guess what. According to a recent survey done by Deloitte Consulting LLP on behalf of the National Association of Manufacturers (NAM), Pennsylvania and Pittsburgh region industry recruitment efforts are largely a waste of time and resources. The NAM survey, which showed a majority of firms have plans to expand over the next three years, offers a very clear indication of what the state and region ought to be doing if they really want to be successful.

NAM's survey of key decision makers at 220 firms found the most important objective in plans for new facilities is cost reduction. When asked about the most important factors in choosing a location for a plant or other facility, the respondents listed several related items. Namely, the ability to hire general, skilled and technical labor; operating costs, including the ability to contain labor costs; access to markets; ease of doing business; and the tax environment. A critical factor for about half the respondents is the quality and reliability of utilities. Other crucial factors, although cited by fewer respondents than reliable utilities, are labor relations and unionization, which go directly to the issue of cost containment.

Meanwhile, in a repudiation of the practice of local marketers trying to persuade companies to locate in Pittsburgh because of the rich array of cultural, recreational and entertainment facilities, the respondents to the NAM survey indicate these amenities are not important in choosing locations. Likewise, they list air service and development incentives among the elements that are not important in location decisions.

The significance of these findings is borne out by the regional destinations chosen as most likely for a company expansion as reported by the key decision makers. Bear in mind that about half of the large firms surveyed plan overseas expansions while about 80

percent of the mid-sized and small firms plan domestic expansions. A look at domestic expansion plans reveals a very interesting pattern.

Consider that only 17 percent of the firms surveyed are headquartered in the Southeastern states. Yet nearly 30 percent of companies indicate the Southeast is the most likely destination for their expansions plans. By the same token, while 48 percent of the surveyed firms are headquartered in the Midwest, only 30 percent of the planned expansions are likely to occur in that region. Similarly, the Northeast is home to 18 percent of the surveyed firms but is the most likely destination for only 15 percent of expansions. Thus, there is clear evidence that a firm's home region does not automatically get the nod when it comes to expansions. Clearly, companies in significant numbers are leaning southward to invest in new facilities.

One of the most substantial differences between the Southeast and the two other regions is the presence of Right-to-Work, a major constraint on the ability of unions to force labor costs above market levels. Then too, the Southeastern states have far lower percentages of public sector unionization than Midwestern and Northeastern states, which in turn, help hold down the cost of government and taxes.

All this suggests that rather than trying to make Pittsburgh more attractive by pouring hundreds of millions into stadiums and other taxpayer funded amenities and incentives, lower taxes and a more business friendly climate would be far more effective in helping recruit industrial firms to the area.

Granted, this lesson is not a new discovery. But it is instructive to listen to what decision makers are saying about what is truly important in deciding on where to put new facilities and what isn't. Eventually, state and regional leaders might decide to pay attention. Sadly, however, past experience is not encouraging.

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**Jake Haulk, Ph.D. President**

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