

# *Accelerating Growth*

*Indiana's Strategic Economic*



STATE OF INDIANA  
Mitchell E. Daniels, Jr.  
*Governor*

**A Call to Action**

*Major Moves*

*Accelerating Growth*

*Accelerating Growth*

*innovation talent investment*

*Accelerating Growth*



# **Accelerating Growth**

**Indiana's Strategic Economic  
Development Plan**

# ACCELERATING GROWTH

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## **Accelerating Growth: Revamping Indiana's Economy for the 21<sup>st</sup> Century**

As soon as Mitch Daniels took office as Indiana's 49<sup>th</sup> governor, he began implementing his campaign promise to revamp the state's economy. He disbanded the former Department of Commerce and, in February 2005, established the Indiana Economic Development Corporation (IEDC) as the leader of the state's economic development efforts. Operating more as a well-run business than a traditional government agency, the IEDC is designed to respond quickly and definitively to economic opportunities and challenges while moving the state's economy into the 21<sup>st</sup> century.

This document is a strategic economic development plan, which provides a framework for moving Indiana's economy forward. Its recommendations are focused on giving Indiana's regions and communities the direction, support and flexibility they need to be competitive in today's global economy. Some of these recommendations are already in place, others have been proposed for legislative action, and still others are being prepared for introduction in 2007 and beyond.

The successful development and implementation of a statewide economic development plan requires extraordinary levels of collaboration among state, regional and local public institutions, as well as the strong support of leaders from the civic, business and academic communities. Therefore, building such collaboration has been at the forefront of the planning process from the outset. In developing this plan, the IEDC worked with the leadership of all state agencies that impact economic development including senior members of the governor's staff involved in economic development. In addition, input from more than 600 people from around the state, representing a wide range of stakeholders in Indiana's economic future, has been incorporated into the plan. The implementation of this plan will focus at the regional and local levels, with incentives provided by the state to achieve the collaboration necessary for success.

### **Accepting the Challenge**

The economic realities are daunting. For the past 50 years the state's economy has been in stealth decline, losing ground slowly enough to be off most radar screens. Per capita income, considered the best all-around measure of a state's economic health, has slipped from 106.4 percent of the national average in 1953 to 91.4 percent today -- the ninth steepest decline in the nation. Indiana now ranks 35th out of 50 states in overall economic performance according to the 2005 Indiana Chamber of Commerce Vision 2010 Report Card.

This plan is focused on reversing Indiana's decline in per capita income and moving Indiana into a pre-eminent position in the nation's economy. The overarching vision is:

## **Vision**

***To meet the national average in per capita income and average annual wages by 2020***

This goal may not seem particularly bold or aggressive. However, reaching it presents significant challenges.

First, to achieve this vision the state's economy will need to grow significantly faster than the nation's economy as a whole. Challenging? Certainly, especially in light of the economic realities facing Midwest states. Achievable? Absolutely. Since 1990, a number of states have experienced annual per capita income growth of at least 10 percent above the national average. In fact, Wyoming, South Dakota, North Dakota and Massachusetts surged to 20 percent or more above the national average. In the Midwest, Minnesota's per capita income has grown at least 10 percent above the national average for the last 10 years, and Iowa and Wisconsin have shown at least this much growth over the last five years.

Second, the timeline for achieving the vision is 2020. Therefore, in order to be successful, this plan must transcend administrations. Thus, the implementation phase of this plan must generate enough momentum that subsequent administrations will choose to continue its general direction. This requires that the plan be kept relevant and robust in the years to come as economic conditions change. The IEDC, working with the other state agencies, must aggressively carry out the plan and institutionalize the systems, processes and practices necessary to track progress and make inevitable mid-course corrections.

Third, to achieve this level of sustained economic growth over the next 15 years, Indiana must compete successfully within an economic framework that is increasingly defined by globalization, a process of growing interdependence and interconnectedness in economic activity across and between countries. This does not mean that all Indiana companies must be globally competitive and seek overseas markets to be successful. But it does mean that Hoosier businesses will be impacted by economic forces and pressures that are global in nature, a reality that must be acknowledged by the state's long-term economic development plan.

For Indiana to compete against not only other states but also other countries, it must emphasize the importance of high-wage, high-margin and high-growth businesses. The bottom line is wealth creation. Research suggests that regional economic growth rates are associated with increased entrepreneurial activity, higher levels of human capital and increased industrial diversity. Therefore, Indiana must strive to create an economic environment that fosters innovation and knowledge creation, while fully leveraging existing resources. Indiana's plan to accelerate growth will achieve its vision by addressing the following critical success factors identified by economists and economic development experts:







## PRO INNOVATION INITIATIVES

**Pro Innovation Goal:**      **Make Indiana a national leader for innovation and entrepreneurship in the global economy.**

*Issues*    *The key to future economic competitiveness for advanced economies such as that of the U.S. will be the ability to develop new ideas and inventions and translate them into new or enhanced companies, products and services that produce income and wealth for their residents. Indiana is home to great research universities and industries that are highly research and development (R&D) intensive, such as pharmaceutical, aerospace and automotive. But, the state must do more to (1) enhance the amount of R&D occurring at universities and within existing industries, (2) guarantee that the necessary infrastructure/incentives are in place to effectively move new technologies into new job creating opportunities, and (3) provide platforms and incentives to grow and attract companies that are R&D intensive.*

*The innovation process consists of three steps: Discovery - the creation of new ideas; Commercialization - the translation of new ideas into products or services; and Entrepreneursh*

*predicated on matching from state, local, university, business and foundation sources.*

**Target** Increase the growth of federal research dollars received by Indiana's universities, other qualifying nonprofit institutions (such as centers of excellence and federal labs) and private industry, by a sustained annual average of at least 10 percent.

**Initiative 1. Indiana R&D Growth Fund**

Create a multimillion dollar fund (target \$25 to \$50 million) to provide matching state money to be combined with foundation, business and university dollars aimed at capturing federal R&D grant opportunities available to Indiana's universities, research organizations and private firms. The Indiana R&D Growth Fund would: (1) leverage research initiatives led by private/public university collaborations requiring matching funds; (2) support the attraction of eminent scholars who bring with them additional R&D funding, a strong commercialization track record and/or recognized leadership in an area of interest to Indiana's leading industries; and (3) assist in the creation of research facilities required to pursue federal funding in areas that support key Indiana competitive strategies, such as orthopedics. Emphasis would be placed on projects with the greatest potential to create jobs for Hoosiers.

*Background* Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs, run by the federal government, are the largest source of early stage financing for technology start-ups in the nation, with more than \$2 billion in federal grants and contracts awarded each year. Ten of the largest federal agencies are required to set aside 2.5 percent of their R&D budgets to be directed through the SBIR program, and the largest five agencies must also set aside an additional 0.15 percent for the STTR program. These grants are awarded competitively in areas of "mission interest" to each of the agencies, not to general research. The programs are to help innovative small companies achieve commercial success while performing important research for the federal government. Historically, Indiana has performed very poorly in attracting such awards - mainly through lack of application. In 2004, Indiana businesses received 35 SBIR awards, with a value of \$12.6 million (compared to 21 awards in 2003 with a value of \$10.9 million). Despite the improvement, Indiana remains 43<sup>rd</sup> out of the 50 states in terms of awards received and 27<sup>th</sup> in terms of dollar value. In 2004, Illinois received 94 awards, Ohio, 239, and Michigan, 122; while Kentucky received only 16. The national leaders were California and Massachusetts with 1,328 and 840, respectively.

**Target**

### **Initiatives 3. Entrepreneur in Residence Program**

This program would establish a high-profile and prestigious Governor's Entrepreneur in Residence, with the IEDC and private sources collaborating to provide a modest stipend to a seasoned entrepreneur who commits to work on-site with budding entrepreneurs for one to two years. The entrepreneur in residence would be housed at a university or a Certified Technology Park that has an incubator and work with faculty, business/MBA students, existing Indiana firms and start-up companies to identify commercially viable opportunities. He/she would mentor innovators and companies, ultimately moving them out of the incubator to stand on their own, thus opening an opportunity for a new company.

### **4. Commercialization Fund**

This fund would provide payments directly to public or private universities, research organizations and/or approved research collaborations whose research is commercialized in Indiana. The fund would be used for attracting the best research staff, faculty and students and to support other R&D and commercialization activities. A \$100,000 payment would be made to university departments, schools, incubators or collaborations that successfully transfer job-creating technology to the private sector. The fund would allow for and encourage partnerships between universities, private firms and industry networks. Direct funding will provide a strong incentive to university and business researchers (who too often operate in isolation) to focus more effort on research commercialization.

*Background* Indiana's economy continues to be heavily dependent on manufacturing - almost twice the national average - leaving the state vulnerable to downturns in this sector. In addition, continued global competition will likely translate to additional job losses in this sector, even while its economic value to the state remains strong. Therefore, it will be increasingly important for Indiana to diversify its economy by seeking out investment in new, high-value-added products and services. Growth in payrolls is a good indication of the net performance of high-value firms. Over the recent past, growth in nominal payrolls in Indiana has lagged the nation for both large and small firms, ranking 46<sup>th</sup> and 43<sup>rd</sup>, respectively. A concentrated focus on encouraging the creation, expansion and attraction of high-value employers with wages and margins well above state averages is an imperative.

**Target** Increase the number of high technology/ high R&D / high wage firms expanding in and coming to Indiana.

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**Target** Ensure that promising entrepreneurs know where to turn for mentoring, training and resources such as funding, legal and market information needed to build or expand a successful business.

**Initiative 6. Enterprise Indiana**

This plan proposes to overhaul the state's SBDC program in order to provide financial, managerial and technical support to entrepreneurs and growth companies. SBDCs must be able to provide information to small businesses and entrepreneurs regarding: (1) SBIR/STTR training/assistance; (2) 21st Century Fund resources; (3) affordable information and strategic intelligence (economic, business and market research); and (4) partnerships with university-based and other technical support programs (such as the technical consulting program provided by Naval Surface Warfare Center, Crane or Purdue's Technical Assistance Program) to provide technical assistance as well as faculty and student assistance, interns and co-op students, and access to potential employers.

SBDCs also need to be able to direct small businesses and entrepreneurs to the appropriate resources that can provide them with (1) support for the creation of peer networks among companies and commercial "communities of interest" to learn from each other; (2) mentoring and business plan advice; (3) legal and accounting assistance; and (4) a network/database of local businesses that could serve as a built-in customer/investor base for new entrepreneurial companies.

*Background* Indiana-based entrepreneurs face a serious challenge in obtaining early seed financing. There are very few local venture capital funds, and those that are based in Indiana focus more on later stage deals. As a result, Indiana's entrepreneurs are often forced to look outside of Indiana for funding. The results are: (1) longer periods to locate funding which can ultimately lead to failure (leading the entrepreneur to give up and go back to work at a steady income job), and (2) some entrepreneurs are forced to move their venture outside of Indiana due to the demands of the out-of-state venture capital fund.

*Venture capital as a percent of GSP is an indicator of the availability of high-risk, high-return investment capital. Indiana's persistent, relatively low ranking (31<sup>st</sup>) in total venture capital dollars relative to GSP is cause for serious concern.*

*Very few firms, even if high-performing, receive venture capital. Private angel and seed funding, followed by debt financing, are more common patterns of early stage funding. This type of funding is very difficult to*



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*measure and data is rarely collected in a form that can be compared to other states.*

but the state has never come close to reaching this total. When applicable, recipients of 21<sup>st</sup> Century Fund grants should automatically be certified as eligible companies in order to give them a leg up on fundraising. This program should be promoted as part of the SBIR/STTR program and in outreach efforts by the SBDC offices.

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*Consolidating 17 regions into 11 meaningful economic regions, freeing up approximately \$2 million in admin*

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financial aid information and a place for students to provide and review systematic feedback on service providers.

**Target** Create innovative funding mechanisms and incentives to improve the training and educational levels of the Hoosier workforce. Build key support structures to drive the return on investment of scarce resources.

**Initiatives** 6. **Introduce Employer Incentives to Encourage Education and Training**

Given Indiana's low educational attainment levels, the need for improved awareness of existing skills deficits and the need to ensure alignment between employee training and employer needs, Indiana should offer employers a state tax credit to subsidize post-secondary education in a limited fashion. More specifically, employers would receive a credit subsidizing their tuition costs for employees to pursue certificates and associate's degrees at select educational institutions. To help ensure fiscal viability, the credit could be focused on individuals with no post-secondary credentials, be restricted to certificate programs and associate degree levels, be limited to 50 percent of qualified expenses and be capped at employee and company levels. The credit could also be limited to incremental education and training expenses by offering it to only those company expenses in excess of a rolling average over the previous three years.

Additionally, institutions should be encouraged to offer tuition deferral programs to select employers. Under this program, tuition charges would be deferred until completion of the academic program or of the semester of enrollment, whichever comes first. Further, the employer would only be charged for employees completing the program with demonstrated competency.

**7. Launch Personal Reemployment and Career Advancement Accounts**

DWD, in coordination with the U.S. Department of Labor (USDOL), should launch "Personal Reemployment Accounts." These accounts, available to certain unemployed individuals, would provide a lump sum amount that could be used for training and education and would offer financial incentives through unused lump sum funds for participants to gain and sustain employment.

In the mid-term, Indiana should work with USDOL to fundamentally recreate the way in which training and education are funded via federal workforce dollars through the creation of "Career Advancement Accounts." Using today's multiple streams of federal workforce funds, these accounts would be available to workers entering the workforce or

transitioning between jobs and careers or incumbent workers in need of new skills to remain employed or move up the career ladder. Participating individuals would use their accounts primarily to pay for expenses directly related to education and training. Funds would be used for training in skills for high-wage, high-demand industries, to help individuals gain foundational workforce and academic skills and for work-based experience through a wide array of on-the-job training models including apprenticeships, internships and others.

## 8. Launch an Indiana Economic Intelligence Initiative

What is the quality of the available and appropriately skilled workforce in an Indiana region that is competing for a company relocation? What existing vacant jobs would be a good fit for skilled employees who were part of a substantial layoff? What customized training could be developed in advance of a potential mass layoff? Which Indiana graduates and employees are leaving the state and where are they going? What jobs and skills should our community college design its curriculum to meet? These are all questions that cannot be easily answered as there is currently no centralized effort to collect, analyze and communicate such meaningful intelligence.

DWD, other agencies and Indiana's education institutions sit on gold mines of data that are left virtually meaningless because they are not integrated and analyzed into intelligence. In order to provide meaningful and timely intelligence and guidance for policy leaders, local economic development officials, workforce development professionals and other key stakeholders, the Economic Intelligence Initiative should be created, initially within DWD. DWD has perhaps the largest repositories of under-tapped data and is currently pursuing strategies to make that data more accessible. This initiative, leveraging existing federal and new state funds and working in conjunction with Governor Daniels' statewide data initiative and the IEDC, would be responsible for the centralized collection, analysis and dissemination of meaningful economic and workforce intelligence.

**Pro Talent Objective 2** **Emerging workforce** - Build effective pathways for young Hoosiers to workforce competitiveness and sustainable employment.

*Background* *Indiana's educational systems historically have been structured from the institution out, operating on the assumption that the system's offerings match the economic development needs of the regions of the state, and on the basis that it is the students' obligation to fit in and find their way through the system. These both need to and can be reversed:*



- *High schools (and through them, communities' K-12 systems) must ensure that the vast majority of students graduate ready for college and/or work.*
- *Both individual institutional missions and resources and the state's overall system of higher education should be aligned more strategically to the economic development opportunities and needs of the state and its regions.*
- *In their middle and high school years, students should be able to see the learning paths they need to join the workforce of the state's existing and developing industries, not only in terms of the courses they need but also in terms of how they can move from high school to and through post-secondary learning to work.*
- *Companies with existing and potential investments in Indiana should be able to see clearly the system's capacity to provide them with a competitive advantage through an ongoing stream of educated workers.*

*Indiana faces serious educational shortcomings. High school graduation rates are only 74 percent, 20<sup>th</sup> in the nation. Of the college bound, Indiana ranked 37<sup>th</sup> on Advanced Placement scores and 37<sup>th</sup> on SATs. Only 21 percent of the population ages 25 and older hold a bachelor's degree.*

**Target** Effectively prepare our emerging workforce for success in the 21<sup>st</sup> century economy through education and training aligned with industry-demanded skills and competencies.

**Initiatives 9. Align Education and Economic Development Strategies**

The IEDC and DWD should coordinate with the Governor's Office and educational institutions to use economic and workforce development strategies for the state's regions and existing and developing industries to help align their regional educational institution's missions, structures, and curricula to improve opportunities for higher-wage employment for their graduates. For example, the effort will stimulate redesigned high schools that increase preparation for success in science, technology, engineering and mathematics; improve assessment mechanisms to gauge student readiness for success in post-graduation study; and provide performance data and feedback to high schools on student results after graduation.

**10. Effective Pathways to Education and Skills**

In order to reduce the number of high school drop outs, increase the progression of students to post-secondary learning, and provide job-relevant exposure for those not immediately bound for higher education, DWD should work with the IEDC, the Department of

Education (DOE), the Indiana Commission for Higher Education (ICHE) and the state's regions and their high schools and post-secondary institutions to devel

*colleges and universities. Indiana ranks 2<sup>nd</sup> nationally, after Pennsylvania, as a recipient state for first-time freshman (net in-migration). But we do little to entice this talent to remain in Indiana. Consider the following:*

*45 percent of Indiana public post-secondary graduates leave the state after graduating.*

*Indiana exports a third more graduates than it imports or retains, ranking 40<sup>th</sup> and trailing such neighboring states as Illinois, Michigan, Ohio and Wisconsin.*

*During the 1990s, Indiana had a net loss of 96,000 college graduates, with only Ohio and Pennsylvania losing more.*

*Technically trained majors (such as engineering/technology, math/science) who graduate from major research campuses have the lowest rate of retention, with approximately two-thirds leaving the state after graduating.*

*Hoosiers ages 22 to 28 are six times more likely to emigrate than Hoosiers ages 29 to 36.*

*Changing course and keeping a larger share of this talent upon graduation, and tapping into that population currently employed elsewhere to work in or move to or start companies in Indiana, represents an opportunity that few other states can match.*

**Target Attract top global talent to Indiana companies and educational institutions to support economic development and business growth.**

**Initiatives 12. Launch the “Hoosier Comeback” Program**

Indiana is home to some of the world’s finest public and private universities and colleges. These institutions produce some of the finest graduates who, when they all too often leave the state upon graduation, represent critical lost potential for Indiana’s economy. For the graduates who leave, research shows that there are changes in life circumstances, such as marriage or the birth of a child that might inspire them to come back to Indiana. The “Hoosier Comeback” program would make it easy and appealing for graduates to come home by connecting them to opportunities and resources that could assist in their transition and career pursuits. The following are important key elements of the program, which can be expanded later:

“Hoosier Comeback” Scholarships – These “scholarships” would be available to science, technology, engineering and mathematics skilled Hoosier graduates and other talented individuals who are interested in returning to Indiana to start a business in high-wage, high-demand industries or to join a small company in these industries. Scholarship funds,

comprising state, private foundation and industry contributions,

### **13. Launch the “Indiana-to-Indiana” Internship Program**

Post-secondary internships, co-op programs and apprenticeships have more potential in graduate retention policy than is generally recognized. Successful internship programs would help employers’ efforts to improve their workforces and would build better relationships between colleges and the business community. Employers participating in an internship program could get an early opportunity to evaluate students who eventually will become highly educated, valuable employees. The state could play three roles in helping match Indiana interns with Indiana employers:

Provide incentives, in the form of tuition reimbursement funds, for small and mid-sized firms in high-wage, high-demand industries to offer internship opportunities for undergraduate and graduate students;

Work with Indiana universities and colleges to devise and/or expand internship and co-op programs, particularly those programs that enable students to earn credits without significantly increasing time to graduation; and

Create an internship portal as part of the DWD’s new job-matching service that links into university and college career placement offices and allows companies of all sizes to post internship opportunities.

### **14. Cultural Support**

Culture matters for economic growth. Ironically, in today’s global economy, local factors have never been more important. The ability of a community to generate knowledge capital and leverage local resources will help determine its global competitiveness.

Entrepreneurship and innovation thrive in cultures that are willing to take risks, share new ideas and reward creativity. Like other Great Lakes states, Indiana has a remarkable history of pragmatic entrepreneurship. We can build for the future by rediscovering the excitement of Indiana’s past. Fort Wayne, for example, has a long history of innovation, from the television to the pocket calculator. At the same time, Fort Wayne is continuing to innovate with 159 patents issued to inventors there last year.

DWD and the IEDC should encourage a rediscovery of Indiana’s strong traditions of entrepreneurship and innovation. DWD and the IEDC can cultivate collaborative university-based entrepreneurship programs, promote entrepreneurship courses in primary and secondary school, encourage business plan competitions in every

community and link entrepreneurship networks across organizational and political boundaries. Equally important, DWD and the IEDC can promote Indiana communities as creative places and act as a catalyst for regional place-making programs to develop cultural, recreational and other quality of life amenities that are consistent with attracting and retaining skilled workers and their families.









**Target** Reduce the costs and improve the quality of healthcare for Indiana businesses and workers.

**Initiatives** **5. Focus on Policies That Increase Access to and Encourage the Use of Primary Care and Disease Management**

Indiana's health care system is oriented toward higher rates of institutional care - more hospital use, more nursing home use and more high-end expenditures compared to preventative primary care. Policies to encourage greater access to and use of preventative and primary care services should be explored. These policies should include a continuation of the shift in long-term care from the nursing home sector to home care.

**6. Explore Incentives for Hoosier Businesses and Workers to Adopt Healthier Lifestyles**

Eliminate provisions of the "Smokers' Bill of Rights" law that prevent employers from offering health insurance premium discounts to employees who do not smoke.

Allow employers to offer similar discounts to employees who meet certain health goals, such as weight loss or keeping blood sugar or blood pressure at healthy levels.

Encourage communities to adopt smoke-free policies.

Continue efforts to promote and expand adoption of the governor's InShape Indiana initiative by Hoosier businesses.

**7. Increase Medical Effectiveness and Reduce Errors**

Medical care is becoming more advanced and more expensive. Medical errors and inefficiency create significant system costs that will grow unless corrective actions are taken. More advanced medical care applied in error can produce tragic results.

Indiana should build on the Medical Error Reporting legislation developed by the governor and passed by the legislature in 2005 by encouraging the development of:

Electronic exchange of clinical information among care providers, Electronic Medical Records (EMR) and other Health Information Technology (HIT) to improve communication between inpatient and outpatient settings; and

Artificial Intelligence systems that can avoid errors by checking for drug counter-indications and conflicting treatments/orders across multiple physicians and care delivery systems.

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**9. Intermodal Strategy**

Accelerate and build on Major Movesa

Support development of a statewide, user-friendly, Web-based, economic development information system which would provide current strategic information to Indiana's businesses and support informed state and regional economic strategy and policy development. The state's impressive ranking in digital government does not extend to local government and does not encompass the critical role of readily available strategic intelligence for both sound policymaking and economic growth.

## **12. Broadband Communications**

Telecommunications is a critical component of infrastructure for the 21<sup>st</sup> century, and access to high-speed broadband digital communications networks is essential for economic competitiveness. Indiana's telecommunications laws are in need of revision to reflect the new technological and competitive realities of communications markets. Rather than focusing on controlling the market power of providers who are no longer monopolies, the primary objective of state telecommunications law should be to encourage and promote rapid and aggressive investment by telecommunications suppliers in the expansion of their high-speed broadband networks and the provision of new services for businesses and consumers.

For Indiana to remain competitive in this increasingly global and "wired" economy of today and tomorrow, it is essential that the state's businesses and consumers have adequate access to such broadband networks. The best way to ensure such access, especially during a period of dynamic technological change, is for the private sector to provide it. Encouraging such investment and competition from providers offering a range of technological platforms, from fiber optics to wireless to broadband over power lines, and providing a "level playing field" for all participants, are the most appropriate roles for public policy. To achieve these goals, Indiana must free telecommunications providers from the burden of unnecessary price

## **Build a Foundation for Progress - Regional Growth Strategies**

Accelerating growth depends first and foremost on the support of Hoosiers across the state who will collectively determine Indiana's economic future. It is not enough for the state to provide a vision and identify tools for success that encourage economic growth. The initiatives outlined in this plan will be useful only if they are supported by a broad base of regional partners and industry networks. Together, Indiana's regional economies and their networks of high-growth industries, supported by countless innovative Hoosiers, will build a foundation for future economic progress.

### **Regions for Economic Growth**

Hoosiers need to think, plan and act regionally. There is a clear consensus among economic development experts that economic growth and competitive advantage occur at the regional level, rather than at the state or local levels. Being competitive today



## **From Networks to Clusters**

Businesses often locate near a beneficial natural resource, a needed factor of production or a unique critical mass of human capital. Where such resources exist, businesses from a certain industry sector often congregate due to the nature of the particular assets. The resulting positive economic climate can lead to innovation and collaboration within an industry, sharing knowledge and the further attraction of businesses and their relevant suppliers. As this process matures, industries develop regional networks of collaboration. Such networks are powerful drivers of enhanced economic activity, and, in particular, for nurturing innovation, new product development and new market penetration in the fast-moving, complex world of global competition.

Over time, regional networks can attract new investment and workers drawn to the entrepreneurial spirit and tacit knowledge generated by the networks. The end result is an industry cluster, a place where a critical mass of skills, resources, information, dynamic collaboration and innovation collectively build a sustainable location-based competitive advantage. There are both “hard” and “soft” benefits to clusters. Hard benefits are derived from more efficient business transactions, smarter investments and shared overhead. Soft benefits are gained from the learning, benchmarking and sharing of information that generates tacit knowledge, increased innovation and knowledge spillover. These benefits are particularly important in a global economy where establishing a location-based competitive advantage is increasingly challenging.

A recent study aimed at identifying and measuring the competitiveness of potential clusters located in Indiana recognized five active clusters: advanced manufacturing, chemicals, advanced materials, biomed/biotech (life sciences) and advanced logistics. Every effort should be made to support the advancement of these and other existing clusters while at the same time encouraging the formation of new industry networks that may develop into new clusters.

Some states are pursuing strategies that explicitly target certain “desirable” industry clusters. This plan does not propose such a strategy for Indiana as it is not appropriate for government to try to pick “winners” in the game of economic competition. Rather, free markets should determine the fate of both individual enterprises and even whole industry sectors. Moreover, clusters cannot be created from the top down. Instead, they emerge from mature networks of innovation and collaboration. Although the public sector cannot establish clusters, it can help to create an economic environment that is conducive to network proliferation and, thereby, to eventual cluster development in the private sector.

Once a cluster develops, for example in life sciences, a coordinating organization may be desirable. In 2002, BioCrossroads was formed to support basic science, attract new business and research opportunities and to create more entrepreneurial activities to help accelerate job creation in Indiana’s life-science cluster. The organization is a voluntary collaboration of 13 public university, corporate and government organizations drawn from the leadership of Indiana’s life science and healthcare industry.



Organizations such as BioCrossroads should and do help attract new employers to the state by generating leads and working with state and local officials to attract new companies and opportunities to Indiana. In addition, these organizations should promote the growth of existing Indiana companies by reinforcing the need for members of the cluster to buy their products/services from Indiana firms rather than out of state. These organizations help leverage the competitive advantages created by such “critical masses” of companies and their supporting “infrastructure” of suppliers and customers.

**Target Accelerate investment in sector- and industry-specific economic development initiatives with demonstrably high income and wealth potential, led by industry partnerships and coalitions.**

**Initiatives 3. Promote industry-led collaboration and strategic alliances among firms to nurture innovation, joint workforce programs, new product development and new market penetration**

Encourage existing and emerging industries to form Industry Innovation Networks and support such efforts with modest

multiple agencies before they can apply for what they need. Too often this process scares businesses away from valuable training, financing, research and technical assistance provided by the state. By reorganizing the Small Business Development Center system, launching the Information for Indiana campaign and developing the Hoosier Partnership for a Competitive Workforce, businesses will have one-stop access to business development resources, up-to-date economic development data and customized human capital enhancement.

Additionally, the state will support cluster development and expansion by allowing clusters to tap into an infrastructure intended to support high growth. World-class roads, broadband communication and energy sources will allow clusters to move goods to market faster, receive information quicker and produce products that are cheaper and cleaner.

## Getting Started

It is essential that Indiana begin moving forward to implement this plan as soon as possible. There is no time to waste. Building momentum in the early phases of implementation is critical, and the IEDC has taken an important initial step to do so: the creation of a new Interagency Implementation Team comprising senior leadership from all state agencies involved with economic development, as well as from the Governor's Office. The Team's roles include:

Coordinating the actions of state agencies to ensure that all economic and workforce development activities are consistent with the goals and objectives of the plan;

Working to identify and secure the financial and human capital resources necessary to support the plan's initiatives;

Monitoring the implementation process by setting milestones and measuring performance;

Adjusting and/or developing new economic development initiatives that will meet needs not adequately addressed by the current plan; and

Engaging regional and local leaders to advance the plan and ensure statewide ownership.

However, state government cannot effectively execute this economic plan without the help and engagement of all Hoosiers. Community leaders across the state must come together to form a broad implementation network that embraces the vision put forth in this plan, uses the incentives it provides and establishes local strategies that will further leverage its successes.

There is a clear consensus among economic development experts that economic growth and competitive advantage occur at

**INDIANA**