Globalization and its repercussions have been important drivers in mobilizing leaders to use innovative approaches to improve regional competitiveness.

In many regions across the United States, cluster development efforts have proven to be an effective way to encourage collaboration among companies in the same or related industries and among the public, private, and academic sectors. Over the last few decades, cluster practitioners have gained significant experience in how to turn industry collaboration into better government policies and competitive advantages for firms. However, much of this experience resides with the individuals and organizations that have taken a cluster-based approach to economic development. “Mobilizing Oregon Clusters,” the first in a series of four Policy and Impact Studies developed as part of the U.S. Cluster Mapping Project and supported by the U.S. Economic Development Administration, is designed to share experiences and lessons from the Oregon Business Council (the OBC), a nonprofit business membership organization composed of the state’s largest and most established companies.

The Oregon Economy Historically and Today

For much of its history, from its days as a trapping and trading outpost in the late 1700s to the gold rush years of the mid-1800s to the surging domestic demand for food products, lumber, and ships
during World War I, Oregon has relied heavily on its abundance of natural resources. The post-World War II era marked the transition to Oregon’s modern economy, centered on Portland, the economic engine of the state. The mid-1940s ushered in the conversion of the timber industry to a diversified forest products cluster, as well as the rise of the technology industry. Some of the country’s early pioneer companies, such as Tektronix and Electro Scientific Industries, led the way to what would become Oregon’s high-tech cluster. While Oregon’s economy still depends on agriculture and natural resources, it also has established positions in electronics, software, food processing, clean energy, biotechnology, tourism, creative services, and sports apparel.

Underpinning this economic growth and diversification is a business environment with a number of attractive assets and a well-educated workforce. In 2009, Oregon ranked 17th nationally in the percentage of residents with at least a bachelor’s degree, and more than 10 percent of the state’s population had an advanced degree or higher. The state offers a high quality of life, with access to the outdoors, a vibrant arts and culture scene, many parks and greenways, and an affordable cost of living, especially relative to those in the technology hubs of its neighbors to the north and south. In addition to relatively low electricity costs, businesses are connected to the world via the Port of Portland, airports, railways, and ships that pass through the Columbia River and the Pacific Ocean from national and international destinations.

At the same time, Oregon’s business environment has several weaknesses. The state’s tax structure, which relies on personal and corporate income taxes, exacerbates budget deficits in recessionary times. As a result, during downturns, Oregon’s businesses not only suffer from weak national and global demand, but also from a decline in the quality and availability of state-level public services. In addition to tax structure, other regulatory issues—such as limited availability of shovel-ready industrial land and federal control of most of the state’s timber—tend to slow development. The state also has failed to keep pace with investments in higher education. While early-stage startup activity is healthy, limited capital and managerial talent make it difficult to scale up entrepreneurial ventures, and many leave the state in order to grow. Finally, for established firms, the local market is relatively small and major markets—such as California, eastern U.S. population centers, and Asia—are long distances away.

Based on this mix of strengths and weaknesses and the state’s industrial composition, Oregon has more or less tracked the economic performance of the United States. Recessions in the 1980s and 2000s hit Oregon hard, due to the associated steep downturn in housing and technology, and Oregon’s heavy exposure to these industries. Conversely, the state has grown strongly in the national upswings for similar reasons. The productivity of Oregon’s economy has steadily improved since 2000, and the state in 2011 had a higher average real per capita GDP than the United States. However, average compensation levels remain relatively unchanged from the tech bubble implosion from 2001-2002. Unemployment in Oregon also remains above the national level due to the 2008 recession.
Key Challenge and Solution

As Oregon’s economy diversified and became more complex, and as its economic performance tracked that of the United States—never pulling ahead despite the state’s strengths—it became clear that more sophisticated and effective policies and actions were needed to support economic development. In the mid-1980s, Oregon policymakers began to understand that across the state, even businesses in the same industry communicated infrequently and lacked a shared vision for long-term competitiveness. The fundamental key to driving economic development was not so much addressing the various specific challenges listed above, but rather improving communication among stakeholders to identify the key barriers to competitiveness over time and increasing collaboration across the public and private sectors in order to address them. With no mutual agenda, private industry’s messaging to policymakers inevitably came in the form of disparate, idiosyncratic needs. Consequently, state policymakers had little sense for how best to serve Oregon’s industries. It became clear to a few of the state’s key leaders that in order to improve the economy, they would first have to help Oregon’s businesses develop a common understanding about their shared priorities.

Clearly, many organizations were involved in accomplishing this end. One organization that was, and continues to be, deeply involved in these efforts is the OBC. Founded in 1985, the OBC was patterned after the national Business Roundtable and affiliate organizations in a number of other states. The mission of the OBC’s local business leader members is to “mobilize business leaders to contribute to Oregon’s quality of life and economic prosperity.”

Over time, the organization evolved and engaged in a range of activities. During the recession in 2002, Oregon U.S. Senator Ron Wyden and OBC President Duncan Wyse collaborated to initiate a summit of statewide business and elected leaders. Their discussions resulted in the creation of the Oregon Business Plan, an annual forum for shaping state economic development policies and promoting specific initiatives to support those policies. The Oregon Business Plan has evolved yearly since its inception and now represents a year-round effort led by the Oregon Business Plan Steering Committee—a coalition of business leaders from diverse industries and associations from across the state—and the Business Plan Leadership Committee, consisting of Oregon’s U.S. senators, governor, and senate president, and the speaker of the Oregon House of Representatives. Initiatives are updated regularly through interviews, surveys, and focus groups with the leaders of Oregon’s traded sector industries.

In addition to the Business Plan, the OBC launched the Oregon Industry Cluster Network (the Cluster Network) in 2005. The Cluster Network was created to coordinate and strengthen statewide traded cluster efforts in pursuit of the same mission to grow the economy and create high-paying jobs. Through the Cluster Network, companies in a given cluster have been able to more efficiently
collaborate and address issues such as workforce development, access to capital, marketing and branding, policy advocacy, and research and technology transfer. Federal, state, and local policymakers are regularly engaged in Cluster Network meetings, providing yet another opportunity for traded sector clusters and regional economic development champions to shed light on their key issues.

### Outcomes

By participating in the Cluster Network, public and private leaders make new connections, share best practices, and learn new tools for enhancing industry growth. In some cases, participating clusters have become more sophisticated and strategic in their approach because individual company leaders have joined together with their competitors to develop cluster-level strategies. While in other cases, trade associations have expanded beyond their role as lobbying organizations and have taken on the role of cluster conveners, creating new initiatives related to workforce development, innovation, marketing, and buyer-supplier networks. In addition, statewide elected officials and economic development practitioners now have a much broader and deeper understanding of Oregon’s industry clusters, their competitiveness challenges, and the ways in which the public sector can help support their growth.

Companies are positively affected by these cluster activities in multiple ways, both large and small. Examples of these successes include:

- The Northwest Food Processors Association (NWFPA) has transformed from being a traditional industry association to using a forward-thinking and innovative cluster approach. In the seven years since commencing aggressive cluster activities, the NWFPA has improved member plants’ energy efficiency by 5 percent, has saved $13.1 million through operational efficiencies, and has created 560 jobs.

- New business partnerships have formed because of connections made through Cluster Network activities, as exhibited by Floating Power Incorporated, a joint venture to commercialize and manufacture floating power plant technology that generates electricity from waves and wind.

- The 2012 *Oregon Investment Act*, which will improve access to capital for growth companies in clusters such as bioscience, was largely prompted and influenced by a series of Cluster Network meetings that engaged the governor’s office, Oregon’s treasurer, and the state legislature on the topic of new business formation and financing.

### Lessons Learned

While the Oregon Business Plan and Cluster Network maintained the same basic structure and goals in 2012 as they did at their inception, much has been learned over the years. In retrospect, the following elements have been essential to the OBC’s ability to effectively play the role of cluster catalyst and
convener:

1. **Private sector leadership.** As a membership organization with a private sector board of directors, the OBC has always counted on a high level of involvement from Oregon’s private sector leaders. Without close ties to Oregon’s business leaders, it would have been difficult to effectively respond to Oregon’s industry challenges.

2. **Openness of the cluster organizations.** It is important that all self-identified clusters participate in discovering shared value and improving competitiveness. The nature of cluster organizations varies. Sometimes, they are government-led industry working groups; at other times, they are trade associations. Building cluster efforts around the realities of such existing structures enables faster impact and the mobilization of all available resources.

3. **All clusters are good.** Rather than focus on targeted industry sectors, the OBC has chosen to support cluster development for all traded sector industries and encourage clusters at all stages of development to become more self-aware, better organized, and more strategic about defining their shared interests and opportunities for growth.

4. **A shared resource base for cluster efforts.** The OBC works with leaders from existing cluster development initiatives or trade associations to help them mobilize resources or share best practices for such activities. Although the OBC is not a cluster organization itself, it enables such cluster organizations to emerge and helps them to tap into a common knowledge and capability base. This structure enhances efficiency, creates more openness for new cluster efforts, and naturally positions the OBC to anchor the cluster activities in a broader economic development strategy for the state.

5. **Diversified funding sources and operational efficiency.** The OBC’s cluster and economic development work has been supported by a number of revenue sources, including companies; foundations; business associations; and federal, state, and local governments. With an annual operating budget of under $100,000, the Cluster Network has remained lean and has relied primarily on a team consisting of one consultant, OBC administrative support staff, the Oregon Business Plan project manager, and many volunteers.

6. **Staff characteristics and responsibilities.** A significant contributor to the success of the OBC has been its reliance on staff and volunteers who see the value in networking, convening, and connecting. By employing “salespeople” or “networkers” who are naturally good communicators and connectors, the OBC has been able to serve as the conduit for Oregon’s many organizations focused on industry competitiveness, economic development, and general business climate issues.
Conclusion

Policymakers can learn from Oregon’s adoption of clusters as an organizing principle, its focus on collaboration between the public and private sectors, and the integration of cluster priorities into a broader statewide economic development strategy. They can learn from the OBC’s experience in helping cluster efforts to emerge and operate, and in the choices it has made to support organizational structures that fit the realities of the state. However, each location needs to devise the right competitiveness strategy to leverage its unique mix of industry clusters and business environment conditions, and in turn, increase business growth, productivity, and new business formation.

i “Mobilizing Oregon Clusters” was prepared for the Oregon Business Council by Elizabeth Redman, IHS Global Insight. The full report can be found at http://www.clustermapping.us/resources/regional-and-cluster-studies/lessons-learned-policy-and-impact-studies.

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