

Growing and Diversifying the Economic Base of Hampton Roads: *Identifying Requirements and Restrictions for Growth from Interviews with Corporate Executives*



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INTRODUCTION

Hampton Roads business groups have performed a seemingly, endless number of studies over the past two decades examining the Hampton Roads economy. Those studies have shown, among other things, that the region is overly dependent on federal procurement, the region lacks a brand identity, the regional transportation network is insufficient and the region is severely disjointed both geographically and politically. To the lifelong Hampton Roads resident these findings are not shocking. However, how to address these issues has proven to be elusive.

In addition to the difficulty of addressing the issues, there is difficulty in getting at the true heart of the issues. It is one thing to mention transportation as an inhibitor of the region's growth, but it is much harder to identify exactly which piece of the transportation infrastructure is highest priority. Similarly, many believe the name Hampton Roads does not help identify the region to outsiders, but possible replacement names have not received much support either. So, while there is agreement on many of the broad issues facing the region, a level of nuance exists within each concern.

To get a deeper, bottom-up view of the problems facing the region, we interviewed executives at regional firms. The hope was that the executives would be candid and specific on how their firm was influenced by factors in the region, both positive and negative. The information from the interviews could then be used to develop a specific set of actions that would help grow the regional economy in the near term.

The results of the interviews pointed to a very clear set of concerns by business leaders, falling into two categories. The first category was what executives felt they needed to grow their companies. That list included:

1. The ability to cultivate, attract and retain the necessary workforce
2. An improved transportation infrastructure
3. A regional identity with serious coordination amongst the localities
4. An economy that is diversified

The second category of concerns encompassed what business leaders felt were current inhibiting factors to growth that would need to be addressed immediately in order for the economy to grow in the short-run. That list included:

1. An uneven quality of life across the region.
2. An unhealthy reliance on federal contracts by private industry
3. Locality in-fighting
4. An inadequate current transportation network
5. A lack of entrepreneurial spirit
6. A lack of critical mass in certain industries.

The two lists contain many of the same issues. However, business leaders see issues on the first list as long-term needs, while the issues on the second list are viewed as current inhibitors to growth needing immediate attention.

We hope the results of the interviews provide a unique insight into the way the issues inhibit growth in the region. For example, if one were to grab 50 regional residents off the street, 49 of the 50 will tell you that our transportation system is inadequate. However, in what ways is transportation, truly, impacting regional growth? None of us may like sitting in traffic to get to work, but we get there nonetheless and produce and work for the day. Inconvenience does not impede growth. Alternatively, if traffic inconvenience precipitates an outflow of quality workers to other metro areas, then that would impede growth.

The items on the two lists and the specifics associated with each will help to formulate an action plan for the region. The following section presents the methodology for the project. The remaining sections present an overview of each item on each list along with specific quotes from the business leaders regarding the issues. We end with a conclusion.

METHODOLOGY

The most important aspect of research is the data collection instrument itself. The entire interview protocol can be found in Appendix A. Here we present a brief discussion of the survey.

The interview contained 12 questions broken into two distinct sections. The first five questions asked about the business leaders' firm. In particular, we were interested in the firm's decisions to locate in Hampton Roads and the decision to stay in Hampton Roads. We were also interested in the growth potential for the firm and what factors might inhibit or enhance that growth rate. The second set of questions was similar to the first set, but executives were asked to think about the region and not their particular firm. The same set of questions was asked to each business leader and each interview was done face-to-face at the executive's place of business. Follow-up questions were often asked and those are also noted on the Interview Protocol in Appendix A.

Choosing the sample of executives is nearly as important as the interview protocol. So, we took tremendous care in picking a varied set of firms to interview. Our sample covered firms from all across the region. It included male and female executives and it included a nice mix of old established firms and younger firms. In choosing the industries of interest, we chose to interview firms that were in the industry clusters identified by the Hampton Roads Industrial Cluster Mapping Project. The clusters were:

1. Advanced Manufacturing (MAN)
2. Food and Beverage Manufacturing (BEV)
3. Ship Repair and Ship Building (SRB)
4. Port Operations, Logistics and Warehousing (PLW)
5. Life Sciences (LIF)
6. Business Services (BUS)
7. Information Analytics and Security (IAS)
8. Tourism and Recreation (REC)

Table 1 presents the breakdown of the sample by cluster and geographic location.. Southside was defined as all localities south of the James River and east of Suffolk.

Peninsula was defined as the localities north of the James River. Western contained all localities south of the James River and stretching from Suffolk to Isle of Wight County.

The goal was interview 6 firms in each cluster. Due to scheduling issues and a lack of prospects, we were not able to reach that goal. We were able to interview 45 total firms with MAN/BEV, SRB and IAS somewhat overrepresented and LIF underrepresented.

Interestingly, the sample largely reflects the strengths of each cluster in the region and the comparative advantages in each geographic location. Forty-five interviews were conducted in total, 24 of the sample interviews were with companies located on the Southside, 12 from the Peninsula and nine from the Western area. In terms of clusters, manufacturing provided the most responses at nine, indicating the prevalence of manufacturing firms (including food and beverage manufacturing the number rises to 12), while life sciences only had two interviews in the sample, showing its infancy as a cluster in the region.

Table 1
Interviewees by Cluster

	MAN	BEV	SRB	PLW	LIF	BUS	IAS	REC	TOTAL
SOUTHSIDE	3	0	5	4	1	4	5	2	24
PENINSULA	4	0	2	0	1	1	1	3	12
WESTERN	2	3	1	0	0	1	2	0	9
TOTAL	9	3	8	4	2	6	8	5	45

The next section of the report presents the list of items that business leaders suggested were needs for growth of their companies and the region.

WHAT BUSINESSES NEED TO GROW

This section of the report summarizes the most common factors identified by businesses as necessary to grow in Hampton Roads. The main themes from the interviews included the ability to cultivate and retain a workforce, improved transportation infrastructure, diversification beyond the federal government, and regional branding/cooperation. We examine each of these issues and share feedback provided by business leaders during the interview process.

Ability to Cultivate, Attract and Retain the Necessary Workforce

A necessary factor for growth for almost any business would include the ability to both attract the necessary talent and retain those employees. Business leaders in Hampton Roads frequently mentioned the need to attract specific types of skilled workers to the region or to cultivate talent locally through educational programs. Some businesses have relationships with local public schools or community colleges to train in specific areas (e.g., the trades such as technical, mechanical, and electrical skills) but would like more emphasis and investment in these areas by the Commonwealth.

Some businesses report using the services of Opportunity Inc. to assist with workforce development. Other companies report that they cultivate and train talent on their own but would also like to see the state become the driver in these areas. For example, certain skill sets in the public schools need to be emphasized in order to prepare the workforce for post-secondary opportunities. In general, businesses would like to see additional training and educational programs that align with industry needs – and many of these needs are in the trades.

One business leader shared that in some countries in Europe, there are “two distinct paths...college or...trade and...it’s okay to go into trade...And it’s very early [when that decision is made]...it’s after seventh grade.” Similar educational models may need to be reconsidered as a viable solution in the US, and more specifically, Virginia and Hampton Roads. This may become an even more critical area of need as some business leaders pointed out the aging workforce within certain industries. Many of the business leaders in ship repair noted that the average age of their workforce was steadily climbing. As one of the executives noted, “our best workers are aging and the younger generation just doesn’t appear interested in jobs at the yards.” As

more and more skilled laborers retire, many businesses may be facing a talent shortage, particularly in skilled workers.

The talent issues are not just confined to the skills-based occupations. Some business leaders shared that there is a lack of available talent in the region for senior level or executive level positions. This requires businesses to recruit from outside of the area. However, attracting individuals to the region can be problematic. As an executive in logistics and shipping shared, “the maritime industry in the region is too incestuous and it is aging. We need to sell Hampton Roads as a great place to work so I can recruit great employees to our firm no matter where they currently reside.”

Importing talent can be especially challenging if there is a lack of critical mass of similar firms in the area. Employees who are relocating want to see that there are other options for employment in the region if the initial company is not a good fit for them. Many businesses (particularly in Information Analytics and Security) expressed a desire to recruit younger Millennials to the region; however, Hampton Roads is not always attractive to this generation as it lacks mass in certain industries. This suggests that the region could benefit from a clear business development effort to build corporate mass in some industries.

The feedback from area business leaders presents an interesting challenge. It is not just one type of skill that is lacking but rather skills in a variety of the trades as well as employees with more senior-level or executive-level managerial experience. While it is possible to “home-grow” the trades in Hampton Roads, it will require additional focus by both the public schools and the community college system.

However, cultivating senior-level or executive-level talent may be a bit more difficult if those skills are truly lacking in the region. An executive in the information technology cluster noted that workforce development might be too focused on the trades. “Too much money goes to the community colleges for skill-based workforce development in the trades. We need to develop more programs for on demand skill-based training in advanced skills.” The executive also noted that ECPI has been a big help, providing quick, focused course work on particular skills needed by the firm.

From the interviews it was clear that a quality workforce was the most important requirement for the growth of the interviewed firms. Achieving that would take both cultivation and education of the existing workforce as well as recruiting from outside the region. The general feeling was that internal workforce development efforts were too focused on traditional trade occupations, likely to serve the needs of the shipyards. However, opportunities existed for short, focused, skills-based programs to provide upskilling for older workers and/or new training for career switchers. Importing talent may be feasible in certain industries but barriers exist for this option. Barriers to attracting workforce from outside the region will be discussed further elsewhere in the report.

Improved Transportation Infrastructure

Almost all business leaders commented on transportation during the interviews. The ability to move people and products into and out of the region is critical to continued business growth. It takes a higher level of importance in Hampton Roads, as the port is one of the main economic drivers. However, many of the executives commented that the current infrastructure (and even some of the future plans for new infrastructure) were going to put our port at a disadvantage.

Interestingly, many of the business leaders recognize that transportation issues are relative and that we do not have the same issues as other metropolitan areas like Washington, DC or New York City. In fact, several leaders suggested that we are able to attract good talent from Northern Virginia since our commute times are much shorter. However, most businesses described the existing transportation infrastructure as inadequate in some way.

For example, some businesses mentioned road conditions in general and traffic congestion as barriers that need to be alleviated in order to better move people (e.g., visitors, employees, etc.) and/or goods. At least one business leader felt that the state should make a clear commitment to fund transportation projects in Hampton Roads and another discussed the need for high speed rail from Washington DC/Richmond to Hampton Roads. One executive hinted that road congestion was a factor in locating his business in Chesapeake. “Transportation is not an issue for my firm. My employees can get here (Greenbrier area of Chesapeake) easier than if I were in downtown Norfolk or Town Center in Virginia Beach.”

Many business leaders are supportive of a third crossing for our area waterways. Others commented on the opportunity potential of light rail and how it could not only help with moving visitors around local cities but would also make Hampton Roads more attractive when recruiting employees from outside the region. One business leader suggested using the water to move people around to alleviate traffic congestion – basing it on a Boston Harbor model.

Air Travel: The opinions on air travel were varied. Many business leaders bemoaned the state of air travel in the area. As one executive put it, Norfolk International Airport “goes directly nowhere.” However, several commented that Norfolk International “gets us where we need to go, but it could be better.” General comments included improving the airport, having access to more direct flights, reducing competition between the two area airports, having light rail access to the airport, and reducing fares by adding more airlines to service the region.

The Port: At least one business leader in most of the industry clusters recognized the importance of the port and/or gave it as a reason for locating their business in Hampton Roads. There was some discussion by businesses that the port is being underutilized or undervalued by state and other leaders. As one business leader stated, “Whatever is good for the port, is good for everyone.”

A Note on Tolls: Tolls were implemented at the Downtown and Mid-town tunnels in early 2014. Most businesses were asked directly their views on tolls as they relate to their business and their employees. The responses were somewhat mixed. Some businesses feel that tolls are a fair and/or necessary way to pay for transportation improvements and said simply, “toll away.” Others feel that tolls are acceptable provided that the revenue is used appropriately and/or if they help alleviate congestion. Others described the tolls more negatively (e.g., “tolls kills us,” “commerce-slayers”) and as detrimental to both their business and their employees. Some businesses made the point that neighboring states, who are often our competitors, do not have tolls. A few business leaders recognized the negative economic impact of tolls on Portsmouth specifically.

A Diversified Industry and Economy Beyond the Federal Government

Business leaders were asked how much of their revenue is dependent on government procurement and if the regional economy has sufficiently moved away

from its dependency on federal spending. The percentage of business revenue based on government procurement varied quite a bit between industry clusters. Ship repair and ship building tends to be heavily government dependent while industries like tourism/recreation, advanced manufacturing and food manufacturing were much less dependent – if at all.

Many business leaders expressed the need to diversify the Hampton Roads economy beyond the federal government. There was recognition by some leaders, particularly in the ship repair industry, that the government and the military may always be “the gravy train” or the “goose laying the golden eggs” for the region. As one shipyard exec noted, “It usually takes 10 commercial contracts to equal just one good government contract.” In the case of ship repair, diversification will not be from government clients to commercial clients, but across the various government agencies. For example, some of the smaller, private shipyards in the region do work for the Navy, Army, Coast Guard and city-level harbor police.

At least one business leader expressed the need for help at the political level to move away from federal dependency instead of “just lip service.” Another business leader felt that “If companies focused on things outside of the military – things we do for the government but can be transferred to the private sector - that would be great.”

Leaders in advanced manufacturing, business consulting, and IT explained that increasing the critical mass of other industries could help attract both skilled workers and more businesses in these industries to the region. This would, in turn, help diversify the economy. Other business leaders discussed expanding the utility of the port and diversifying our economy via port-related businesses including developing bulk terminals.

In general, business leaders feel that there are insufficient supports and resources in place to diversify the local economy. As one business leader stated, “You must be innovative but do it without taking risk and without any money.”

Many business leaders expressed the need for more investment from state and/or local government to either grow their business or diversify the economy beyond federal spending. Suggestions included: an economic stimulus package for area businesses, tax incentives for businesses that are investing in Hampton Roads,

funding for educational programs in high schools, access to capital or venture funding, incentives/opportunities for companies that import goods, and incentives for innovation, startups or entrepreneurs.

Ultimately, the concept of and need for diversification differed by industry. For shipyards, diversification was defined as diversifying contracts across various government agencies. For suppliers to the ship repair industry, diversification meant pivoting sales toward commercial customers and away from government or government-dependent customers. For shipping and logistics, diversification seemed to be defined as a movement away from just handling containers and toward bulk and break bulk cargo. One executive in port and logistics suggested that, “the region should be one of the main agriculture port hubs in the world.”

For a large majority of the remaining private firms, the executives were suggesting that diversification was needed to help insulate the economy from contractions in government spending. But the motives behind the need for diversification included moving the region’s identity away from just being known as a military town. More on the strategic identity issue is presented in the next section.

Regional Cooperation and Strategic Identity

While business leaders were asked specifically about the need for regional policy coordination as a precursor to economic growth, at least one business representative in six of the eight clusters mentioned the need for regional cooperation or a consistent regional identity *prior* to being asked about it. There was a general consensus that the Hampton Roads region is lacking in a recognizable brand or identity. Further, developing a regional identity with the various cities cooperating amongst each other is critical to future economic growth.

Additionally, business leaders in six of the eight industry clusters named lack of regional cooperation or a regional identity as one of the top three issues affecting Hampton Road’s ability to attract and/or develop new businesses. “If you could get a synergy in this region, we have so much more potential as a powerhouse than acting individually.”

While business leaders tend to agree that regional cooperation is necessary, some were not very optimistic that it will happen – or happen quickly. “I don’t know how

it's going to happen. Have to replace a whole generation of political leadership. I think young people have to take over." Or as another business leader succinctly stated, "Regionalism will not happen in my lifetime."

Related to regional cooperation is the issue of regional economic development. Some business leaders recognized the efforts of local economic development groups and officials, but also pointed out that they are often competing with one another across localities or that they are focused on landing the bigger, more attractive firms like Google or Apple instead of trying to grow the businesses and industries that already exist and are successful in Hampton Roads.

One business leader suggested that localities "stop stealing from each other" when it comes to economic development opportunities while another suggested that we are "stuck in an old model." Another executive shared that "We can't compete against a Charlotte or an Austin, or any of these other areas where the local governments work as a region if we're...fighting each other for the same business. It's a losing proposition." A more cooperative economic development strategy could serve to improve the image of the region and benefit Hampton Roads as a whole.

Simply what to call the 14 Virginia cities and counties that make up coastal southeastern Virginia has been an issue of contention dating back to at least the 1980's and as recently as 2016¹. Many business leaders cited a lack of a regional brand and some had specific issues with the moniker of "Hampton Roads."

One non-native business leader called it a "meaningless descriptor" and would have assumed that Hampton Roads was affiliated with the Hamptons on Long Island. Other business leaders pointed out that the area has much to offer but if the businesses and employees we are trying to recruit do not know where "Hampton Roads" or "Tidewater" is on a map, then that is not helpful. Additionally, visitors to the region often do not see our "invisible lines" or political boundaries between cities.

¹ See the *Virginian-Pilot*: http://pilotonline.com/news/local/history/what-s-in-a-name-hampton-roads/article_099f6b90-aa5e-5853-9194-420aae51cea0.html and http://pilotonline.com/opinion/columnist/guest/ray-gregory-what-s-in-our-name-not-enough/article_41025c0c-aeaa-5151-8199-6b369b154899.html

As one leader pointed out, tourists visit the Children’s Museum but may never report going to Portsmouth. Another local executive expressed the need for a “destination identity” for visitors to Hampton Roads. A strategic and representative brand for the region will go a long way towards helping local leaders recruit other businesses and assisting local businesses to attract additional employees and customers.

Some business leaders offered insights into how we should brand ourselves and much of that centered around the geography of the region and related assets. “The region needs to come to grips with what it is and that’s water.” Another business leader suggested that we stop trying to be like everyone else: “We’re always looking over our shoulder trying to figure out how to be like ‘Joe’. Forget Joe, let’s be Hampton Roads.” This reflects the sentiment of many business leaders that there are many strengths and benefits to living and doing business in the region that could be better marketed to potential businesses, visitors, and employees.

Overall, the interviewees expressed a real need for a coordinated effort on branding and identity. That effort needs to transcend the issue of name as regional identity is more than just a name. If we want to move the region away from federal dependence, we need to market the region as possessing more than just businesses catering to federal agencies.

FACTORS THAT WILL INHIBIT/RESTRICT GROWTH

This section of the report examines factors identified by business leaders across Hampton Roads as potentially inhibiting and restricting their company's growth potential. These themes included the disproportionate quality of life across Hampton Roads, reliance on military and federal procurement, lack of regional cooperation and identity, inadequate transportation infrastructure, and the lack of workforce development and available talent in Hampton Roads. We examine each of these identified themes and discuss detailed information the business leaders shared during the interview process.

(Ine)Quality-of-Life

Hampton Roads is a region that offers beautiful beaches, parks, history, and other appealing assets. Unfortunately, the outstanding quality of life that is offered in Hampton Roads can vary significantly across jurisdictions. Public schools and cost of living are often relative to household incomes and dependent on the jurisdiction in which a resident resides. At first glance, Hampton Roads offers a reasonable cost of living, however, a closer look at certain jurisdictions reveals a significantly higher cost of living. Several business leaders we interviewed reported they felt the disparity of quality of life in Hampton Roads is often a factor when recruiting new employees. A business leader stated, "It is getting increasingly difficult to attract people to Newport News because of crime, school systems and housing costs."

This disproportionate regional equality across certain schools systems was a consistent theme mentioned among business leaders. Employers shared how their employees do not necessarily want to live in Hampton or Newport News, but instead prefer to live where the better school systems are located. A CEO stated, "They quickly see the cost of living is significantly higher in those cities with the better school systems." Some business leaders stated that they personally send their children to private school versus the local, public schools.

The unevenness in cost of living across Hampton Roads inhibits businesses' ability to recruit and retain employees. A business leader explains, "Cost of living can be a challenge. We try to recruit from outside the area and the housing costs often present sticker shock to those employees we are trying to bring in from elsewhere. Schools are seen as a positive but housing costs are much higher in the better school

districts.” At least one leader commented that the military presence in the area may be driving up property costs and general cost of living. Ideally, Hampton Roads would present itself as having a good quality of life across the board versus in specific jurisdictions only.

A business leader stated “We need to help the schools systems. It will require having to give up some money for the better of the weaker communities/schools. I know it hurts and no one wants to do it, but it will help the system as a whole. We need to make sure kids are put first. They are the future. If we take a holistic approach to help the region we will all gain in the long term.”

Reliance on Military/Federal Procurement

Naval Station Norfolk is the world’s largest naval base, therefore, military spending greatly impacts the economy in Hampton Roads. In addition to Naval Station Norfolk, one of the largest shipyards in the world is located in Hampton Roads. Norfolk Navy Shipyard is also the oldest and largest industrial facility that belongs to the U.S. Navy. The number of federal government jobs in Hampton Roads has dramatically declined since 2012. In 2015, Hampton Roads’ economy included 8.4 billion dollars of federal procurement. The amount of federal procurement in Hampton Roads in 2011 was 10.7 billion dollars. It is possible the amount of federal procurement opportunities presented in Hampton Roads will continue to decline.

The majority of businesses interviewed, who reported reliance on federal procurement, expressed their desire to continue to diversify their revenue and communicated that they expect little to no growth on the federal procurement side of their business over the next five years.

One executive noted, “We began doing government work about 10 years ago. It was an important lesson to learn; to not count on federal procurement. We were growing steadily for about 10 years and mainly because of government contracts. Now it has flattened out for the most part. We will not count on it as much as we have in the past. I hope it grows, but we are not planning for growth over the next 5 years with government procurement.”

As mentioned previously, the majority of business leaders in the region who participated in our study reported they did not believe the regional economy has sufficiently moved away from its dependency on federal spending. Almost all

suggested that this was going to inhibit future prospects for growth. The obvious direct effect comes from companies that are forced to downsize when federal contracts wane. The indirect effect is that the region gets tagged as a military centered economy with little else to offer in the way of work.

There is even a level of concern regarding the type of federal work that we do in Hampton Roads. A business leader stated, "Hampton Roads is really good at government contracting, but we need to try and compete for production of technology and not just technology consulting."

However, the majority of businesses agree that Hampton Roads should not ignore and turn its back on the funding opportunities that exist due to the heavy military presence in the area. "I think the region is slowing moving away from its dependence but we may not want to move but so far away. I hope we are not trying to stop attracting military or defense contractors just because we think we are too dependent. Those are all great for our area and regional economy. I think we have done a pretty good job thus far diversifying. The military has reduced their footprint across the US, but we still have to take advantage of being a major coastal city with the military footprint here and maybe we could do more to attract the defense related industry."

The general consensus of business leaders is that overall, Hampton Roads is doing a decent job diversifying its economy and not being so reliant on federal procurement, however, they hope to see business leaders continue to work towards better diversification.

Additionally, a few business leaders suggested Hampton Roads diversify the economy by examining missed opportunities in the port, such as expanding into bulk freight. A business leader stated, "There is a huge opportunity that exists in bulk freight. We have navigable rivers that are being underutilized. The port is too focused on just containers. We need some other terminals." Another executive shared how "We have a workforce for bulk, but we need a land commitment by cities. Most of the land on the rivers is blighted." These business leaders agreed Hampton Roads could greatly benefit from the port investigating other shipping opportunities in addition to container shipping.

Lack of Regional Cooperation

Regional cooperation, as well as a lack of a regional identity, continues to be of great concern among business leaders in Hampton Roads. Regional identity was mentioned in numerous interviews with business leaders. A few executives suggested the region consider consolidating into one larger region. One executive reported, “We do have an identification issue and I would like to see the region consolidate. All these names our region is known for is terrible and confusing. We should have one name that everybody can stick with and that is the name we promote.” Many leaders expressed frustration regarding how Hampton Roads cannot even agree on branding and what the region is called, let alone agree on other regional issues. There was a consistent theme throughout the interviews that the name “Hampton Roads” means very little to people outside of Hampton Roads.

Additionally, business leaders strongly feel the lack of regional cooperation has a significant impact on the region’s economic growth. A business leader stated, “Invisible lines do exist. We need to get rid of these lines and have regional cooperation and look at the region as a whole. It provides a more compelling case for businesses to want to move here.” Business leaders described how none of the cities in the region work together and they seem to all be fighting for the same resources. A CEO shared, “They are competing for state resources and competing against each other in bringing in new companies to the region.”

The site selection process was mentioned frequently as an area in need of improvement. Many business leaders expressed frustration with how the local economic developers operate exclusively and do not collaborate and work together across jurisdictions. An executive noted, “Regional policy coordination is absolutely necessary, however, there are too many cooks in the kitchen. Economic development in Hampton Roads is broken. There is no coordination at all and information does not get from one group to another.” Another executive stated, “It is a sea of mediocrity. We need to get the developers out of the regional politics. It serves such a short term benefit.” The example was given where developers only show potential businesses sites in their own city and not across the region as a whole. It was evident business leaders are in agreement and feel it is imperative that Hampton Roads works together for the betterment of the region. One CEO stressed, “Every city loses every day we do not work together. We only have short and shallow victories if we do not work together as a region.”

Many of the executives also complained about the lack of support for growing an existing company in the region. As one executive suggested, “City economic development officials seem to spend too much time trying to land the Googles, Apples, etc. and too little time trying to help grow what already exists.” Though articulated in different ways, this was a common theme across many interviews. Whether at the state or local level, there was a feeling that business incentive programs were not designed to expand high-potential firms in the region. In fact, only a handful of the firms interviewed had utilized state or local incentives in the past. Many of the firms were not even aware if they qualified for any of the existing programs, a very troubling result.

Coordination of development efforts, not just between localities in the region but also between the region and the state, seems to be paramount for future growth of the region. In addition, there appears to be a need for information sharing on a regional level. A consistently updated list of available commercial sites across the region might be helpful when an internal firm is considering an expansion or an external firm is considering a relocation.

Inadequate Transportation Infrastructure

Hampton Roads offers the benefit of living near water and all the recreational and leisure activities that come with having access to water. However, living near water also has its disadvantages when it comes to the effect it has on traffic and road infrastructure. Bridges and tunnels are unavoidable in Hampton Roads and because of the necessity of these bridges and tunnels, there is greater traffic congestion. Transportation infrastructure was one of the top factors mentioned when business leaders were asked what state and local factors would affect their company’s growth potential in the Hampton Roads region. Traffic congestion was also identified as a factor that is currently inhibiting business growth across Hampton Roads. As one business leader stated, “Transportation is huge. It is the biggest disadvantage in Hampton Roads. Traffic is beginning to affect our business between recruiting and having difficulty getting to places for service appointments.”

Numerous business leaders shared how traffic congestion and the lack of public transportation options make it more difficult to recruit new employees. A CEO stated, “People want to feel like their community is being progressive and solving

for today and tomorrow. A good public transportation system sends that message. For our area to not embrace light rail appears to be negative and non-progressive.” Another business leader shared, “Many of the young Millennials are looking for a metropolitan type environment, which often includes a public transportation system with rail service.” At least two business leaders discussed the lack of public transportation as an issue for their workers who do not live in the same city as their employer. Public transportation is not a feasible option for those commuting employees in part because the travel times are too long.

Business leaders who suggested that transportation infrastructure was an issue for their company’s potential growth were also asked about their views on using tolls for improving transportation infrastructure. The majority of businesses leaders who mentioned transportation as an issue feel that tolls are a fair tradeoff. “There is nothing wrong with tolling if it moves things along. We need a third crossing and a toll to pay for it.” Employers whose employees are not currently affected by tolls shared that their “employees wouldn’t mind paying tolls if it makes their commute easier.” Other business leaders shared how they believe tolling is “the new normal, as long as they are reasonable. It can be a perception thing. Tolls are good if they lessen congestion. It takes two hours to get from Virginia Beach to Norfolk using the bus system.” Overall, the response to tolls from business leaders were that they were important to pay for transportation and some leaders suggested employers consider assisting their employee with the toll fees.

Lack of Entrepreneurial Spirit

This is easily the most complicated factor to summarize. Almost all of the executives mention entrepreneurship as a critical need for the region. However, none were really able to verbalize reasons why an entrepreneurial culture has not emerged in Hampton Roads, in spite of cultivation efforts. Several of the interviewees were founders of their respective firms and those leaders were asked questions about the creation and evolution of their firm. It was noted that the startup environment in the region was too focused on services and not on technology creation. Borrowing an earlier, but apropos quote, “Hampton Roads is really good at government contracting, but we need to try and compete for production of technology and not just technology consulting.”

When we were able to interview a firm's founder, we found that often the firm came to be located here by happenstance (exiting military, hometown, etc.). None of the firms actively pursued the region as a location for their business. In addition, nearly all of the founders of younger firms had entertained the possibility of moving in the last 5 years. The more established firms in the region had not considered a move. Furthermore, the firms in industries of strength in the region (ship repair, port and maritime and advanced manufacturing) had not thought of exiting the region recently. In fact, many of those firms have expanded their regional operations in the last 5 years. Entrepreneurship in the region seems serendipitous. That is disconcerting. However, once a firm is established or if the firm operates in an industry of regional strength, it appears that firms are more likely to expand than leave the area.

One possible insight to the lack of entrepreneurship in the region was proposed. An active entrepreneur and CEO mentioned that the region focuses too heavily on Millennials with startup efforts, "We focus too much attention on making 20-year olds entrepreneurs. Venture capital does not want to invest in a bunch of 20-year olds. There is too much risk. We need more 40-year olds with a product and experience as the face of entrepreneurship in the region."

Indeed, there is some empirical evidence that cluster expansion requires entrepreneurship by an individual(s) currently operating within the cluster. Research on the Silicon Valley semiconductor industry and the auto industry in Detroit shows that most of the early entrepreneurship in each region was a result of the leading firms diversifying their production or by individuals at leading firms starting their own venture (spinoffs). The results from the research suggest that diversifiers and spinoffs have much higher success rates than true startups.²

We do not have any specific data on what type of startups dominate in Hampton Roads. However, some of the comments from business leaders regarding the age profile of a typical entrepreneur in the region suggest that most new firm entrants are likely to be pure startups and not diversifiers or spinoffs. One executive commented that this seemed odd given the presence of federal labs in the region. "We must improve tech transfer from our federal facilities. We commercialize very

² This research was conducted by Dr. Steven Klepper, Carnegie Mellon University. Please see, "The origin and growth of industry clusters: The making of Silicon Valley and Detroit", *Journal of Urban Economics*, 2010 for the full paper.

little from the federal labs located in the region.” That same frustration was voiced in a number of the interviews.

Ultimately, the lack of entrepreneurship and the lack of research and development in the region were clearly two sides of the same coin. Whether new firms were created from diversifiers branching into other industries related to their existing strengths or spinoffs from existing firms, a focus on production, innovation and/or manufacturing seemed vital. Being a service-dominated region was not seen as a recipe for success.

Lack of Critical Mass of Certain Industries in the Region and Related Talent

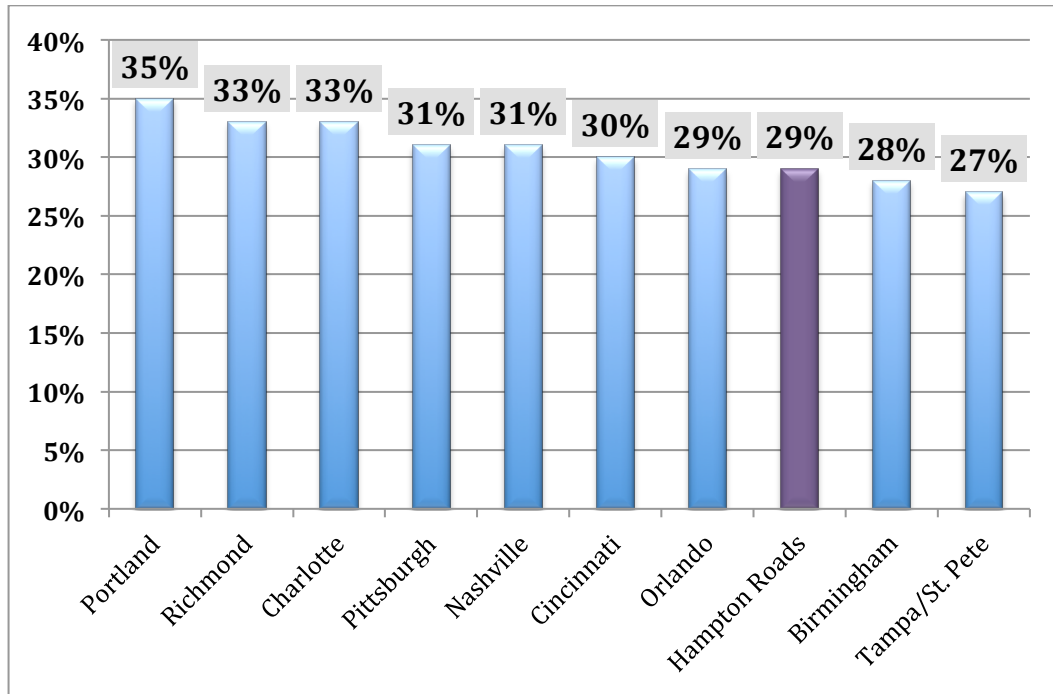
Business leaders across all clusters, with the exception of tourism and recreation, identified a lack of workforce talent as a growing concern for their business and industry. A business leader shared their view about the continuing problem, “I am not sure we have a problem with recruiting, however, I do think the region has a problem with producing qualified candidates. I do not think the region and the state are taking a very disciplined approach to the lack of qualified workforce talent.” In addition, specific clusters reported great concern about the absence of critical mass in their industry within the region. Both of these factors have been identified as not only inhibiting current business but also affecting business growth across the region within the next five years.

Particularly interesting were the number of complaints about a lack of young, college-educated professionals. This particular group could become the next generation of senior executives at regional firms. Figure 1 verifies this complaint. Here we show the share of individuals 25 years of age and older that have a bachelor’s degree or higher for Hampton Roads and a set of peer regions. Hampton Roads lags all but 2 of these regions.

Multiple reasons were suggested as to why Hampton Roads is not producing a talented workforce. One business leader believes “We do not have the human capital to draw in new businesses.” Another business leader shared how Hampton Roads “needs to do a better job of capitalizing on transitioning military talent. We need to figure out what they are good at.”

Figure 1

Share of Individuals Aged 25+ with Bachelor's Degree or Higher



Source: 2014 American Community Survey

Business leaders also discussed the ongoing issue regarding the military and their higher standards for contractors working on their installations. An executive shared, “It is difficult to get hard working, U.S. citizens to pass a background check, security clearance, drug tests and have a clean record.”

Another systematic problem acknowledged in the recruiting process across most clusters is the difficulty in recruiting outside of Hampton Roads. As one CEO stated, “It is hard to get people to relocate here because it is not much of a metropolitan area compared to where they are coming from. They are used to having the infrastructure in place and having the convenience of a large city.”

Workforce development was an additional concern shared by the majority of business leaders who reported having a difficult time hiring and retaining employees. “The industry is aging and there is no coordination among the training programs to produce a consistent workforce to replace the retirees.”

There is obviously a lack of talented workforce in Hampton Roads as well as the added concern of the aging workforce. There is a perception and valid concern

among various business leaders that it will grow increasingly difficult to recruit blue-collar workers in our region. As one executive stated, “No one wants to do blue-collar service work. We have folks in their 60’s with all of this knowledge but they are retiring and the young folks don’t want to do that kind of work. They want computer and desk jobs. Recruiting is one of the top challenges we will face in the next 10 years.”

Another business leader suggested the region do a better job embracing technical skill and trade jobs. He continued, “These are great American jobs with a high school education that pays good salaries, anywhere from \$35,000 to \$140,000 a year. They are good, safe jobs and not the sweaty, awful work of yesteryear.” The business leader went on to share frustration with how the region should be leading the charge of embracing these skilled careers. He explained, “The region should not think that everyone should be sitting in an office somewhere counting other people’s money.”

Numerous business leaders shared the belief that the region needs to focus its attention on skilled labor and advanced manufacturing jobs across clusters. Business leaders described how they would like to see more high school internships and partnerships with universities and technical institutes. A business leader shared how “We should start talking to the kids about trade labor and its importance in middle school. We cannot wait until high school.” This sentiment was substantiated by another business leader sharing how the advanced manufacturing industry “would like to see a continued progression of workforce development and it needs to begin earlier than high school.”

Furthermore, business leaders shared their concern with the absence of critical mass within their industries in Hampton Roads. Multiple business leaders across several clusters stated they would like to see additional businesses within their industry and discussed how this lack of critical mass not only affects their current business but will also affect their company’s potential economic growth. The lack of critical mass especially affects businesses’ ability to attract and recruit employees to this region. A CEO stated, “We would welcome more companies like ours here because having other companies here similar to us would make it easier to recruit. There have been people who have turned us down. They liked the area, climate, schools and really the only reason was because they couldn’t uproot their family to move here and hope it works with our company. There are not many places to go if

it doesn't work out with us." Another business leader stated, "We will have to import workers in our sector and they don't want to go to a location where there are only a few firms. Workers moving into this area want redundancy."

Additionally, numerous business leaders in the advanced manufacturing cluster shared the concern of lack of critical mass and how "There is not sufficient manufacturing in the region. We need to attract more advanced manufacturers to the region. It provides similar training for employment so people can change jobs and stay in the region. They are able to move to other companies without leaving the region." There is concern that Hampton Roads is not viewed as a manufacturing region and instead viewed as a military region, which makes it difficult for Hampton Roads to attract manufacturing businesses.

CONCLUDING REMARKS

There is, perhaps, no better way to understand our regional economy than to talk with those that are doing business here everyday. We interviewed 45 business leaders across the region and across various industries.³ We asked the interviewees about growth prospects for their individual firms and their thoughts on the growth potential for the region. The results illustrate a group of regional business leaders that are bullish on their firm's growth prospects in the region. However, those interviewed were less bullish about the region as a whole. The concerns of the group included both short-term inhibitors to growth as well as more long-term needs that would stimulate consistent growth in the future.

None of the concerns in this report are new. However, we felt that the responses delivered some new insights on the impact of these issues. With these new insights, can come a set of policy recommendations to better address the issues. For example, all respondents saw diversification of the economy as a priority. However, a majority of respondents also conceded that government contracting and procurement would always play a major role in the regional economy. Indeed, government contracting was one of the region's comparative advantages. So, the need for diversification was as much about broadening the regional identity as it was about buffering the regional economy from future government spending cuts.

This insight might lead to a different kind of policy recommendation. As an executive in Information Analytics and Security suggested, it is possible that an aggressive regional marketing campaign showcasing non-government activity could be equally as beneficial to the region as a large, expensive grant program that incentivizes companies to pivot their firms away from federal contracts. A full set of policy recommendations, based on the interview results, can be found in a companion report authored by Dr. Steve Fuller.

Ultimately, the results illustrate that policy coordination and efficient information transfer at a regional level is most important for increasing the pace of short-term

³ It should be noted that the sample contained only export-oriented firms. This was by design. We were not trying to ignore the employment or economic impact of local retail or local health services, for instance. It was recognition that exporting firms provide an influx of new money to the region. So, growing existing exporters and attracting new exporters to the region should be top priority. Growth of firms in non-traded industries will follow.

growth and for providing a stable environment for consistent growth in the future. While we recognize the difficulty in achieving this goal, we also hope the report stresses its importance. Even small improvements in this area may yield large returns for the regional economy.

Appendix A – Interview Protocol

Instrument: Interview Questions

Firm-specific

1. How did your company come to be located here? What factors drove your decision?

2. Do you expect your company to grow (in terms of employment or revenue) in this region in the next 5 years?
 - 2a. Does your company export its goods/services to other areas outside of HR? If so, where?

3. Which state-level factors, if any, will affect your company's growth potential in the Hampton Roads region? *(if necessary, prompt: tax policy, transportation spending & infrastructure, regulatory factors, capital access, financial incentives)*
 - 3a. *If transportation/traffic mentioned – what do you think about tolls for improving transportation infrastructure? What is your sense of the tradeoff of improved transportation compared to costs for employees?*

4. Which local (county/city/neighborhood) factors, if any, will affect your company's growth potential? *(if necessary, prompt: taxes, traffic congestion, land use/development policies, school systems)*
 - 4b. *Follow-up question about amount of government procurement as part of their revenue and diversification over next 5 years.*

5. What state or local economic development programs has your company used? *(if necessary, prompt: such as training, grants, investments, tax incentives)* Have they been useful? Effective?

Region-specific

6. Thinking beyond your own company, what factors do you believe will affect business growth in your industry in this region over the next 5 years?

7. What do you see as the top three issues that affect the region's ability to attract/develop new businesses?
8. What would be your top three policy recommendations to state and local leaders?
9. Do you think that regional policy coordination is necessary in order to accelerate regional economic growth?
10. Do you believe the regional economy has sufficiently moved away from its dependency on federal spending?

Ending

11. Are there any other topics that affect your business in the region that you would like to discuss?
12. Are there other business leaders in the region who you would recommend we speak with?

Thank you.