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**The Meaning of Economic
Diversification
in
Small Community Economic
Development**

by

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The Meaning of Economic Diversification in Small Community Economic Development

Introduction

The objectives of local economic development are diverse and a set of them should be different from community to community. Among them economic diversity is one of the most popular objectives. It is supposed to serve the stability of a local economy. However, diversification seems not always to be a high priority objective, especially in a small community. Sometimes specialization in one industry might be a good objective for small communities in a particular development phase.

This paper discusses about a theoretical meaning of economic diversification and its priority in economic development activities. Then the case of an affluent mono-industry economy is discussed and key factors of that community's successful economic development are examined.

Hypothesis

Like Darwin's thought on the evolution of species, fittest communities to the economic, social, and political environment seem to survive and to thrive. Adaptation to the environment is a key to the development of a community the ultimate goal of which is to provide human well-being to its members. Economic development is part of the community development activities. By the same logic, adaptation to the environment is an important factor for economic development, too. Adaptation is not a static

concept but a dynamic one since environment changes continually. Consequently, the ultimate goals of community development and/or community economic development deduced from the above concept are a) to adapt to the current environment and its foreseeable changes in short time horizon, and b) to maintain or to foster adaptability of the community, or community's economy, for future unforeseeable changes. From these ultimate goals, specific goals and objectives for particular communities are derived. In other words specific goals and objectives are categorized or characterized by the ultimate goals.

The way to achieve adaptation to the current environment and to changes is relatively straightforward. The local economy for accommodating prosperous basic economic activities is a typical one. A community which has prosperous basic economic activity(s) earning enough money to sustain the local economy may thrive at least for a while. Adaptability to unforeseeable changes may be improved by diversification. In a diversified economy, a broad base of entrepreneurs, a skilled labor force, and positive business leaders and financial institutions may exist and may provide vitality for the economy to adjust to the changes. In addition to diversity, to secure adaptability to work, the economy has to have a capacity to absorb adverse impacts. In this regard, the scale of the economy and its progress toward growth may be important.

In general, economic diversification is popular as a goal or an objective of community economic development. Hedging against the risk of a changing economic climate through the diversity of economic activities is understandable and widely accepted means to attain stability of a community. From the above points of view,

however, the importance of diversification's contribution to a local economy is with respect to adaptability.

Economic growth may have prior importance to economic diversity which means adaptability in this case. Without certain economic scale, growth, or prosperity, adaptability may not work to its full capability. If adverse economic conditions ruin essential local economic vitality, adaptability of the local economy cannot be expected. Also, economic diversity is not necessarily an engine for economic growth or prosperity. Prosperity comes from fitting industry(s) to the current environmental conditions. Infant industries which may do well in the future are not always profitable now, and obsolete industries are usually not profitable, either. Of course, an aggregate of unprofitable economic activities may not yield a prosperous economy.

Many small communities lack stable or strong base industry(s). In these communities, the concentration of their efforts to accommodate or nurture a strong and stable enough base industry(s) is essential. Because of their lack of resources for economic development activities, most small communities are compelled to concentrate their activities which may be a preparation of advantageous conditions for specific basic economic activities.

Furthermore, economic diversity correlates with economic growth in general. At least diversity is easy to achieve in larger economies. So, base industry-centered economic development can be a good step for economic growth and diversification.

As a consequence, pursuing diversification of base industries is not always a good objective for small communities toward achieve economic development. Economic diversification can be

disregarded at least for the short time horizon. Concentration of scarce resources to accommodate or to nurture a particular prosperous or prospective base industry can be an attractive option for small communities which have few valuable resources for economic development. Sometimes specialization in a particular base industry seems to be an adequate objective, or a key to success for small community economic development. Even a single company or single plant economy can be justified as a step toward or a leverage of, economic development.

Although this strategy quite possibly ignores the problem of a local economy's sensitivity to economic cycles, obtaining a strong basic industry is the first priority in the community without enough basic economic activities. Cyclical fluctuations hit a community with low level economic conditions more seriously than one with better conditions. It is desirable that a community attempt to accommodate the best mix of basic industries to absorb cyclical fluctuation. Without enough basic economy, however, a community can not deal with cyclical fluctuation.

Purpose of Economic Development

The reason community or local economic development exists is to serve community economic survival and human welfare or well-being. It should serve community viability by reducing vulnerability to external changes, such as a sudden shift in production technology, in the market environment etc. (Shaffer 1989). Economic development is characterized as a community activity to satisfy human well-being by providing adequate an economic base (adaptation to the current environment), and to maintain and/or to improve the level of human well-being by

enhancing resilience and/or adaptability to future environmental changes.

However, it is generally perceived as providing a stable sources of jobs, enhancing property and other tax bases, or creating favorable economic conditions for local businesses (Levy 1990). According to Blakely (1989) the goals of any economic development strategy are to: build quality jobs for the current population; achieve local economic stability; and build a diverse economic and employment base. These goals are derived from the above-mentioned ultimate or highest dimension goals. They seem to be universal goals, but they are not complete enough to be universal. They are induced from higher general concepts. Job issues all mainly under human welfare. Other issues are ways of achieving community economic survival or prosperity.

Objectives and approaches for accomplishing economic development are varied and diverse. They are dependent on a particular community, just as its own conditions and the effect of its environment are unique. They include job-creation, job retention, tax-base creation, increase in property values, retention of wealth, reduction of poverty, economic stability, economic self-sufficiency, etc. (Lyons and Hamlin 1991). Many of them can be applied to most of communities, but each community has to establish its own economic development objectives in accordance with their own resources, economic conditions, and the conditions and trends of their milieu.

There may be two approaches to enhancing community viability other than adaptation to the current environment. One is to increase the community's capacity to absorb the impacts of change. The other is to enhance its capability of adaptation. Growth theories explain the first approach and development theories

explain the second (Maliza 1986). The first approach implies that the larger the size, the greater the adaptability. Even though size is large enough to absorb several external impacts, without adaptability the community will lose viability like the once viable dinosaurs did in the past. Usually developmental aspects such as diversity, quality, and resilience of the economy, are associated with growth. Growth theories take this association into account.

The Urban Size Ratchet

The hypothesis of the urban size ratchet (Thompson 1965), which contends that at a certain range of urban size works similarly to a ratchet to lock in past growth and preventing contraction, explains why larger economies have more viability.

Five possible structural characteristics, such as industrial diversification, political power, huge fixed investments, a rich local market, and a steady supply of industrial leadership, may almost ensure a larger urban area, continued growth, and fully ensure against absolute decline. First, industrial diversification associated with growth and size secures, or helps, the local economy to maintain its viability in the following ways:

- "Industrial diversity, and even a random blending of young, mature, and decadent industries," may absorb economic adversity and provide some time for reaction to adversity,
- Industrial diversification of the large size community contains "many small firms with extensive and complex linkages" which do not allow these firms to relocate easily.

Second is political power associated with the electoral strength by a larger population. A larger city can draw disproportionate federal and state financial aid and public works

projects. They help the local economy by insulating foreign money which plays the same role as basic industries' earned money from outside the community. This type of money is expected, at least, to enlarge a portion of the local economy which favors non-basic economic activities. Also they may help new basic industry development by increasing financial opportunities and providing relatively good loan or investment conditions.

Third, the tremendous investment of fixed capital in a large urban area makes public services and utilities cost less so that it can be competitive in these aspects and is not easily abandoned.

Fourth, since the greater proportion of industrial activity is oriented to customers rather than to source of supply, the population of a large urban area may attract more industries with customer orientation. Also transportation advantages are steadily enhanced as it becomes a transportation hub.

Fifth, a large urban area is more likely to give birth to new industries than is a small urban area. Even though greater industrial creativity in larger places is not ensured, at least a surer and steadier supply of invention, innovation, and promotion is to be expected in larger places. Because an entrepreneurial genius is a rare person, only communities with large populations can maintain a continuous supply of this type of person, while a small population may have a few of them scattered over a time period (if the probability is the same, the larger the population, the greater the occurrence). Moreover, these entrepreneurs who were born in small communities tend to migrate to larger cities. This is significant at critical points in the city's life cycle where it is at the brink of stagnation or decline. New industries rescue the area.

This hypothesis implies the importance of the diversification of industry and the adoption of new economic activities for a small community economic development. Among the five attributes of the urban size ratchet, diversification of the economy and the fostering of new industry seem to be the most viable for small communities to undertake. In general, the others may be difficult in terms of national or state political power, budgetary constraints, and limitations on population capacity.

Economic Diversification

According to the HarperCollins Dictionary of Economics 1991, economic diversification is defined as "the process by which a region, company, or individual tries to reduce risks associated with excessive specialization." An example for a region might be: "Government policies sometimes are directed toward reducing the vulnerability of an area whose economy rests, for example, on a single crop or industry."

In general, diversification of the economy and the employment base is regarded as a major factor for achieving economic stability. One reason is to avoid the vulnerability of a single firm or single industry economy (Blakely 1989). Another is that establishment of a mix of economic activities which are variously affected by the vicissitudes of the outside world can stabilize a local economy (Lyons and Hamlin 1991). As McLaughlin's study (1930) revealed, even though general diversification itself is roughly neutral, reactions of producers' and consumers' goods production industries to cyclical fluctuation are different.

However, we need to understand that specialization in cyclically sensitive activities such as durable goods industries and those making producers' equipment and construction materials

and components, makes a region especially vulnerable to cyclical swing (Hoover and Giarratani 1985).

Furthermore, we need to consider another important attribute of diversification, which is resilience (Hoover and Giarratani 1985). Since every economic activity may suffer arrested growth and perhaps decline or even extinction, either because the product itself becomes obsolete or because of a loss in competitiveness over time, a local economy inevitably faces such losses. A diversified economy can absorb the impact of such a loss, as it is unlikely that a major proportion of the total activity will suffer at any one time. On the other hand, a narrowly specialized economy suffers serious damage. Also, a diversified economy has more resilience in recovering from such a loss by developing new activities. Economic diversity develops a wide variety of skills and interests among the labor force, business entrepreneurs, bankers, and investors. It fosters a wider array of supporting local business services and institutions.

We have discussed mainly the diversity of basic industry. Another type of diversity of economic activity affects resilience of a local economy. This includes activities which support basic industry, such as business services. Development of external economies is important for resilience. If a local economy is specialized in activities characterized by large producing units, large firms, and absentee ownership, its external economies may be underdeveloped. This is because such large units are relatively self-sufficient with respect to most kinds of business services that smaller units tend to purchase from others. Also, business leaders and local financial institutions may be narrow-minded and focus their interests on these large firms. These conditions are less favorable for new and small businesses and new lines of

activity, compared to a region of similar size where the firms and production units are smaller, more numerous, and less self-sufficient. (Hoover and Giarratani 1985)

The economy with these external economies is not only favorable to new and small businesses, but also attractive to the businesses seeking alternative locations or locations, for expanded activities. So the possibility of attracting other extraneous economic activities to the places which were occupied by lost economic activities is high in these kinds of places. (Thompson 1965)

Another factor affecting resilience is overall growth momentum of a local economy at the time of the loss, and the characteristics associated with rapid growth. If the rest of the region's activities are growing vigorously, even a sizable loss may produce only a short spell of abnormal unemployment. Fluctuations from a sharply rising trend may not involve much absolute decline.

The labor force in a rapidly growing economy is relatively young because much of it has been recruited through recent migration, and is likely to be more occupationally mobile and adaptable and less afflicted by seniority and tradition. Other factors such as facilities and employers are new and flexible to change, too. These economies have a more favorable climate and expectations for growth and change. (Hoover and Giarratani 1985)

A single firm or single industry economy has contrasting characteristics which reduce resilience. This type of economy tends to forge the community structure, not only economic but also social structure, centered on the firm or industry. The community's reason for existence becomes only to support the firm or industry. The entire society is inclined to keep the status

quo. A high degree of entrepreneurship is not expected. The community discourages it. This type of economy is vulnerable to loss. (Stein 1971, Buder 1967, Hibbard and Davis 1986)

In a long time horizon, economic diversity in terms of not only basic industry but also external economies is important to the resilience of a local economy. Also, avoidance of a single firm or single industry economy must be understood as a means to increase resilience.

Economic Development Sequencing

The hypothesis of the five stages of urban growth by Thompson (1965) explains a typical urban growth pattern based on linkages among a) export industries and industries which have direct linkages to them, b) business and consumer service industries some of which may become export industries, c) other private and public services, and d) labor (personnel) pool and their families.

- "1. The Stage of Export Specialization: the local economy is under the strong influence of a single dominant industry or even a single firm; this initial stage gives way with growth and size to the next stage of the Export Complex.
2. The Stage of the Export Complex: the local production broadens to other products; and/or extending forward or backward linkages in production processes, by adding local suppliers and/or consumers of intermediate products.
3. The Stage of Economic Maturation (Local Service Sector Puberty): self-sufficiency of the local economy increases by replacing imports with new "own use" production; the local economy fills out in range and quality of both business and consumer services.

4. The Stage of Regional Metropolis: the local economy becomes a node connecting and controlling neighboring cities and the export of services becomes a major economic function.
5. The stage of Technical-professional Virtuosity: national eminence in some specialized skill or economic function is achieved; this stage may succeed or precede the status of Regional Metropolis."

This logical sequence of development may help in understanding economic development activities. The first stage is economic growth by currently prosperous base economic activity. Then, economic growth by expansion of basic economic activities which are related and/or not related to the first activity. This is diversification of basic industry. The third stage is growth by external economies to the basic economic activities and by other non-basic activities. Both of them take advantage of expanded demand by the basic activities and employees of these activities. This is another kind of diversification of economy. The next two stages may not directly relate to small community economic development.

A notable point is that diversification follows economic growth. This implies an aspect of diversification that makes it a result of, or associated with, economic growth. Diversification may associate with economic growth, at least to some degree.

Strategic Hierarchy or Priority

From the above arguments, the first priority for the economic development of a small community should be to economically adapt to the current environment for community survival at present. Then, economic growth and adaptability for future survival should be undertaken. The distinction that while growth theories focus

on the short-term horizon, development theories focus on the long-term horizon may help our understanding. (Malizia 1986) Immediate needs take precedent over preparation for future needs.

Since industries have their own locational preferences, a community pursuing economic development must prepare conditions to meet the preferences of the particular industry(s) taking its natural, social, political, and economic advantages. Although there are some universal factors and conditions that are common to a particular set of industries, attraction of a particular type of industries by a set of advantages is an important consideration for economic development.

In this regard, attracting prosperous and/or stable basic industry to the community may require some degree of specialization, especially in a small community which has fewer external economies of agglomeration. So the highest priority objective of the community that lacks a stable or prosperous basic economy may be to produce a condition that is attractive to these economic activities or prospective new activities.

A community which has a prosperous and/or stable basic industry(s) has two options which are not exclusive. One is to help current basic industry(s) to expand its(their) activities for economic growth for the enhancement of resilience and accommodation of other basic industries. The other is to increase in diversity to increase adaptability.

Case Study

The City of Frankenmuth, Michigan was selected as a case study of a successful mono-industrial city. A windshield survey, secondary data collection and research, and interviews with key

persons were conducted to obtain the necessary information and to measure economic success.

Frankenmuth is located 90 miles north of Detroit in Saginaw County. It lies between two major manufacturing cities: Saginaw and Flint. Saginaw is 12 miles north, and Flint is 25 miles south of Frankenmuth. Interstate 75 is the main express highway, with two access interchanges at Birch Run (Exit-136) and Bridgeport (Exit-144), seven and five miles away from Frankenmuth respectively.

The city which is surrounded by agricultural land is Michigan's number one tourist attraction drawing over three million visitors each year. Also it is a community with a reputation for a high quality of life, which attracts residents who commute to Saginaw, Flint and other areas. For the same reason, many doctors have their offices in this community, despite its relatively small size. Frankenmuth is an affluent city in an exurban setting, with both tourist attractions and a commuter's community character. (City of Frankenmuth Overview, Frankenmuth Master Plan 1983, and Interview with Executive Director of Frankenmuth Chamber of Commerce)

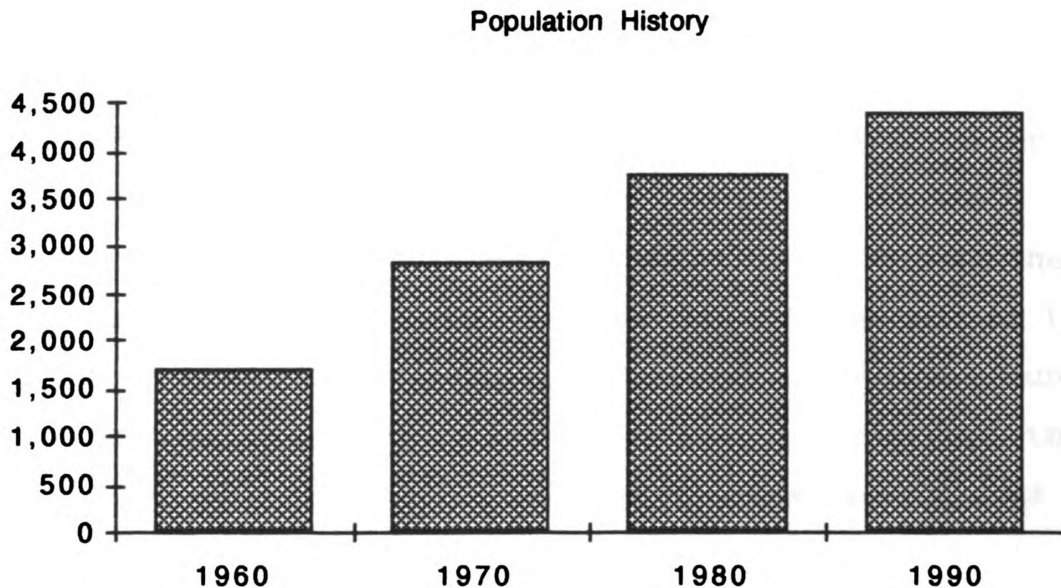
Total population is 4,408 by the 1990 census. The Population increase from the 1980 census is 17 percent. In the 1960s, the population of Frankenmuth increased 64 percent, and it increased by 32.4 percent in the 1970s.

Table 1 City of Frankenmuth Population History

Year	Population	Increase	Percentage
1960	1,728	-	-
1970	2,834	1,106	+64.00%
1980	3,753	919	+32.43%
1990	4,408	655	+17.45%

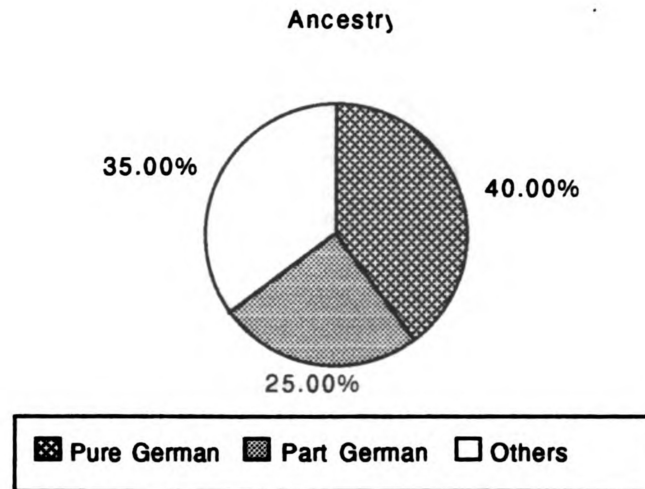
(Source: 1960, 1970, 1980, and 1990 Census of Population,
U.S. Bureau of the Census)

Fig. 1



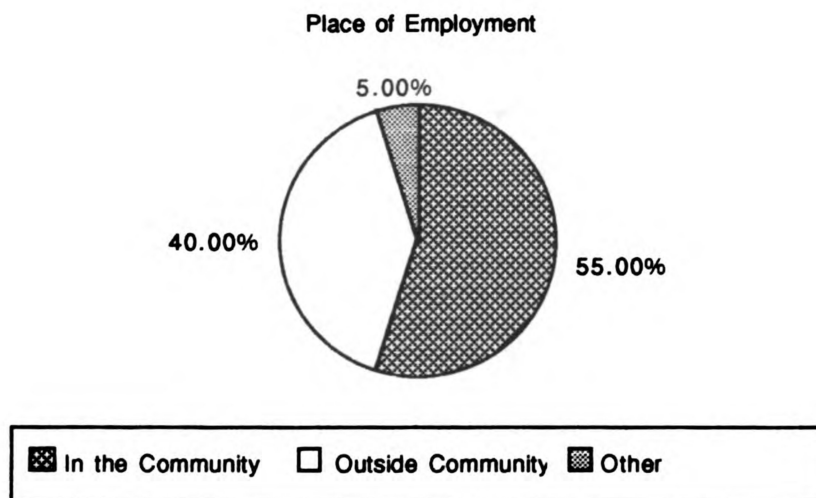
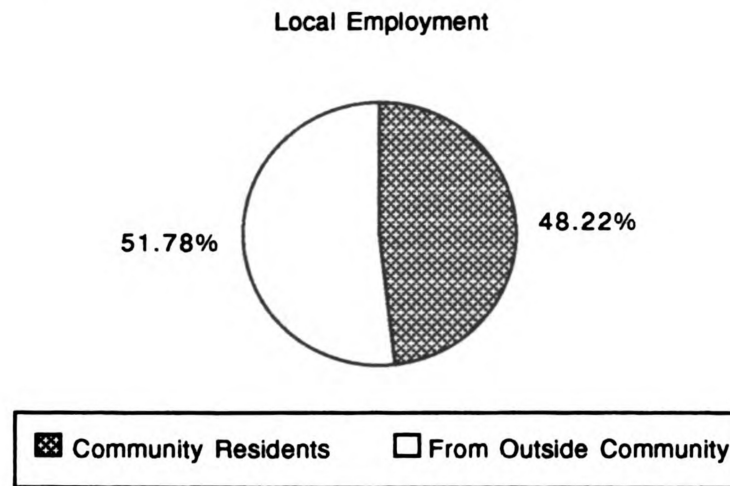
German ancestry is predominant in Frankenmuth. In 1980, 65 percent of the population had German ancestry. About 40 percent of the entire population had pure German ancestry and one quarter was at least part German (Frankenmuth Master Plan 1983).

Fig. 2



In 1984, slightly less than half of the total labor force (1,433 out of 2,972) employed by Frankenmuth employers were local residents (including Frankenmuth township). (Frankenmuth Master Plan 1983) In 1983, according to a community opinion survey, among all respondents who were full-time employees living in the city and the township, 55 percent were employed in the city or the township, and 40 percent were employed elsewhere in Saginaw County or outside the county. The city draws much of its labor from the surrounding area, while many of its residents commute to places outside the community.

Fig. 3 and 4



Sociopolitical Data

Cohesiveness and strong, and good, leadership are characteristics of the community. Business leaders and government officials seem to have shown good and strong leadership in order to foster and maintain the cohesiveness of the government and business community, and to guide them toward the future.

(Interview with the former consultant to the city)

From the beginning, Frankenmuth residents have had a system of shared values. They adhere strongly to values such as

self-reliance, pride, the work ethic, honesty, frugality, and a dedication to quality. These values have been reflected in the arts, crafts, and hospitality. They have become Frankenmuth's reputation and have paid off handsomely in the repeat business and referrals of satisfied customers. (Frankenmuth Master Plan 1983, Frankenmuth Marketing and Community Resource Study 1989)

In spite of its small community size, the Frankenmuth Chamber of Commerce is one of the ten largest Chambers in the State of Michigan, with a 1989 budget of more than \$600,000.00. It is the largest and most active Chamber of Commerce in the United States among communities with under 5,000 residents. The Chamber's philosophy, which reflects community characteristics, is that "no one business is so unique that it can survive without a healthy whole." So the Chamber seeks to insure that the "whole" stays as healthy as it possibly can. Its effort in that direction is supported by over 90 percent of Frankenmuth's businesses. ("Frankenmuth A Good Place to Do Business")

The Frankenmuth Economic Development Advisory Committee has a strong influence on economic development, in close cooperation with the Chamber and the local governments. This committee was instrumental in the strategic planning effort in 1988. The members consist of three governmental officials, a representative of the Chamber, and five indigenous and one quasi-indigenous business executives. They understand the importance of activities aimed at modest economic growth and diversification for the economic health of the community. The committee has virtual decision making power. The members are exerting strong influence in execution of major economic development activities to secure the community economic development goals. (Action Plan 1988, Interview)

The Community Opinion Survey undertaken by Michigan State University in 1983 indicates that some Frankenmuth residents perceive certain conflicts. Newcomers to the area mention feeling like "outsiders," even after ten years of residence. The cohesive social structure of Frankenmuth may be discouraging to newer residents. Other survey respondents refer to a narrow power structure within their community which for decades, have made many decisions that affect the whole. However, since the survey, there have been many public hearings and meetings which many residents attended and were involved in discussions of the community's present conditions and its future. The degree of involvement of community members in offering their opinions of plans was far more than that found in most communities. (Interview with the former consultant to the city)

Economic Data

The city's economy is characterized by a strong tourism orientation, with some manufacturing and office activities, as well. Diversification of the economy seems to be underway at a slow but steady pace. A tourism-related food processing industrial park called the agricultural park, which consists of a cheese processing plant, a pretzel plant, and a restaurant, has been established recently. A new electronics plant which is an expansion of an existing local firm is under construction.

In the early 1980s, there were 2,500 full and part-time employees. Of those 2,500 jobs, 1,800 were in the tourism industry (72 percent). 650 people were employed by over 70 smaller shops, restaurants, etc. ("Frankenmuth A Good Place to Do Business"). In 1989, the major employers in the city were two restaurants of 1,150 total employees, two other tourism-related

entities with 475 employees between them, three manufacturing and food processing entities with a total of 375 workers, insurance and banking offices that have a total of 380 employees, and 145 workers in the schools ("Frankenmuth Overview").

Fig. 5

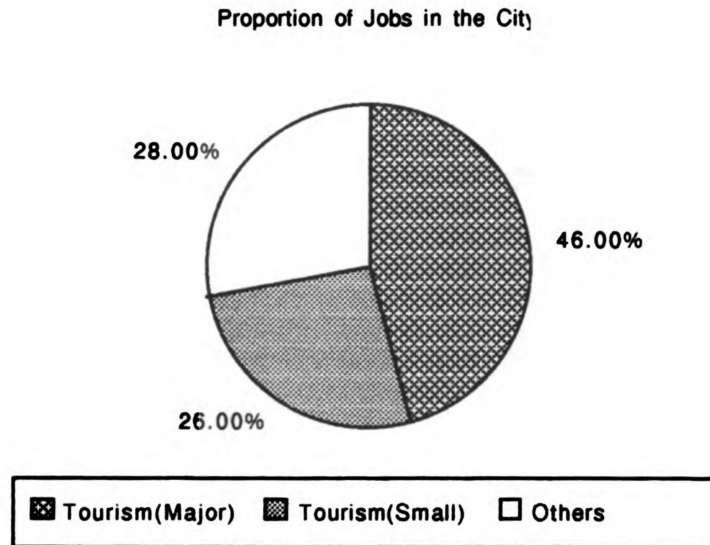


Table 2 City of Frankenmuth Major Employers

Company Name	Type of Business	Number of Employees
Bavarian Inn Restaurant	Restaurant	650
Zehnder's of Frankenmuth	Restaurant	500
Bronner's Christmas Wonderland	Attraction	300
Frankenmuth Mutual	Insurance	260
Universal Engineering	Cutting Tools	250
Bavarian Lodge	Lodging	175
Frankenmuth Schools	Education	145
Memtron Technologies	Membrane Switchboards	135
First of America - Michigan	Banking	120
Star of the West	Milling	65
	<u>TOTAL</u>	<u>2,600</u>

(numbers are peak season employment)

(Source: "Michigan's Little Bavaria: City of Frankenmuth Overview." Frankenmuth Chamber of Commerce, Frankenmuth, Michigan)

Tourism-related firms occupied 62.5 percent of the major employers' labor force (1,625 out of 2,600). Data from the 1987 survey shows that a) among 177 firms (87 percent of all firms in the city) only 5.0 percent of the firms employ 41 or more full-time employment and 8.4 percent of firms employ 41 or more part-time employment , and b) among 149 commercial and retail firms only 23 firms (15.4 percent) were local customer orientated (more than 50 percent of their customers were residents of the city) ("Frankenmuth Business Retention and Expansion"). The

tourism industry's employment was supposed to be more than 62.5 percent of total employment in 1989.

Tourism related entities, manufacturing and food processing firms, and an insurance company are the basic industries in Frankenmuth (Interview with the former consultant to the city). The tourism industry accounted for 69.6 percent of basic employment (1,625 out of 2,335). The tourism industry's share of total basic economic activity might be higher than this percentage for reasons cited above. Tourism is the dominant basic industry in the local economy.

Another important issue to the local economy is that 40 percent of full-time employees among city residents commute to places outside the community. Part of the local economy is characterized as a bedroom community. The community labor force is the part of city's basic economy.

The city's prosperity is partly attributable to the fact that its municipal bond capability is rated "A" and that its total State Equalized Value (S.E.V.) has continuously been increasing (average S.E.V. of homes in the city was 38,650 in 1989). Major categories of S.E.V. are Residential (53.3 percent), Commercial (36.8 percent), Industrial (7.3 percent), and Other (2.6 percent). ("Frankenmuth Overview," "Frankenmuth A Good Place to Do Business")

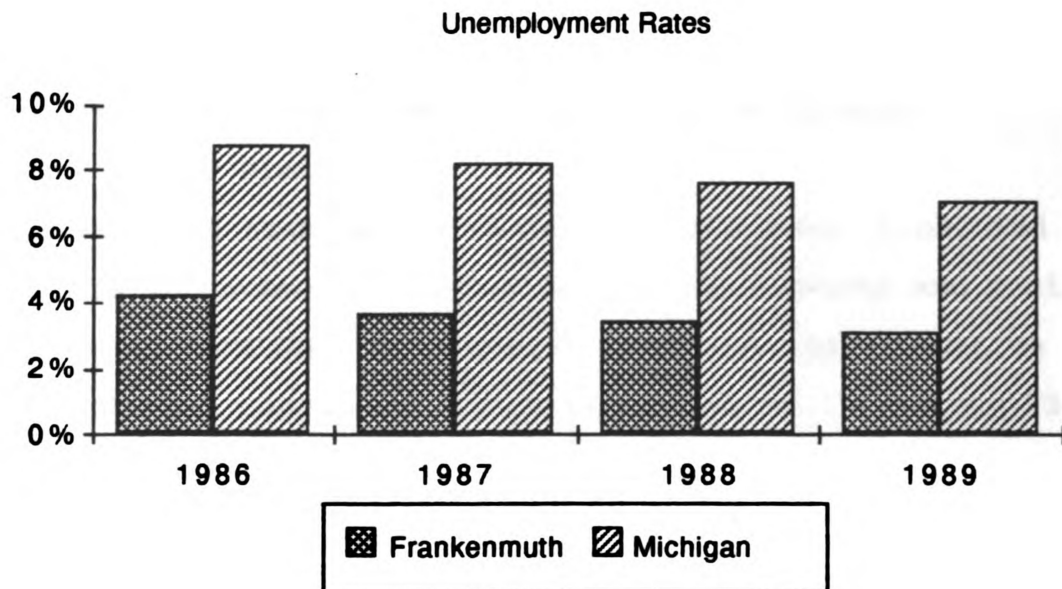
Its total labor force in 1989 consisted of 1,990 persons, of which 96.9% were employed. Unemployment rates have been steadily decreasing recently. ("Frankenmuth Overview," "Frankenmuth A Good Place to Do Business")

Table 3 City of Frankenmuth Employment History

Year	Labor Force	Unemployment	Michigan
	(rounded)	Rate	Unemployment Rate
1986	1,800	4.2%	8.8%
1987	1,825	3.7%	8.2%
1988	1,850	3.4%	7.6%
1989	2,000	3.1%	7.1%

(Source: City of Frankenmuth, U.S. Bureau of Labor Statistics)

Fig. 6



Factors of Success of the Local Economy

The success case of the Frankenmuth economy is a good example of successful small community economic development. A major factor in the success of Frankenmuth is said to be its adaptation to a particular change, which was improvement of the automobile

and national transportation system, and its continuous effort to enhance its competitiveness by adjusting to further development of national economic and social changes. Other factors enabling this adaptation and adjustment are local people's industriousness, continuous capitalization of local businesses, high morality, and steady efforts to realize quality of life. (Frankenmuth Master Plan 1983, Interview with the former consultant to the city)

In the late 1940s, formerly prosperous hotels in Frankenmuth began to decline. Improvement of the automobile and road systems, and the subsequent increase in travel distance per day, decreased the importance of Frankenmuth as a place to stay overnight between Detroit, Flint and Saginaw. At the onset of this crisis, these hotels wisely changed their main activity from accommodation to dining. They converted hotel rooms to dining rooms in which to lure customers with their already famous chicken dinners.

(Frankenmuth Master Plan 1983)

It is supposed that mainly because of this adaptation, and the continuous enhancement of their quality of services and social conditions, they were able to manage further seemingly negative conditional change, including the construction of Interstate 75 in 1958. I-75 passes five miles away from the community which means major traffic flows are away from the community. Despite this disadvantage, Frankenmuth has attracted more and more visitors by its unique atmosphere and Bavarian tradition.

(Frankenmuth Master Plan 1983)

The community's significant economic development efforts during the 1950s to 1970s (listed below) are mainly improvements to their attractiveness as a tourist destination. They illustrate the community's endeavors to specialize in tourism. The adoption of Bavarian architecture for the Main Street buildings started in

1958 with Zehnder family's redecoration of the Bavarian Inn. The organization of the Civic Event Council for the Bavarian Festival is also notable. Their collective efforts generated agglomeration effects for attracting tourists. The results of these efforts were beyond a simple sum of all activities.

- "- 1950s A dike built along the bank of the Cass River controlled annual floods allowing expansion of the downtown area.
- 1951 Bronner Christmas Wonderland founded.
- 1958/59 Zehnder family redecorated the Bavarian Inn in the Bavarian architecture.
- 1959 City of Frankenmuth incorporated.
- 1959 Bavarian Inn grand opening (later develops into annual Bavarian Festival).
- 1960 &
Current More buildings adopt Bavarian architectural style.
- 1961 Civic Events Council formed to organize and manage Bavarian Festival.
- 1962 Frankenmuth became third city in America to join the People-to-People program. Frankenmuth chose Gunzenhausen, West Germany, as Sister City. Twenty-five years of visits and programs celebrated in 1987.
- 1969 Location of Bavarian Festival moved to Heritage Park.
- 1976 Bronner Christmas Wonderland built new building on south end of Frankenmuth.
- 1977 Marv Herzop and Harold Mitas organized the first Summer Polka Fest.
- 1977 A Main Street Historic District was formed to encourage preservation of existing architecture and use of Bavarian architecture in new construction.
- 1978 Chamber of Commerce opened its new Tourist Information Center Downtown."

The direction chosen was correct, as tourism is still a growing industry. Many of attributes of quality of life are

compatible with tourism. Quality of service, accommodation, infrastructure, local people's hospitality to visitors, amenities, etc., are important factors in keeping Frankenmuth's position as a tourist destination. In general, as tourists' daily quality of life increases, their requirement for quality of attractions, services, and overall condition of destination places increases. So the community's pursuit of quality in various aspects has become an advantage for tourist attraction. (McIntosh and Goeldner 1984, Inskip 1988) Safety, cleanliness, quality of service personnel and tasteful appearance of the community are the top four amenities offered by Frankenmuth. (Frankenmuth Marketing and Community Resource Study 1989)

Furthermore, tourism's complexity of its activity which consists of diverse socioeconomic, cultural and other human activities might have served to enhance the vitality of the local economy. The Frankenmuth community's spontaneous tendency to pursue quality of life has reinforced tourism's competitiveness and, as vice versa, awareness of importance of quality in tourism may have enhanced the community's quality of life.

As an economic activity tourism occurs beyond the framework of a single commonly acknowledged industrial sector and consists of divergent activities. Strength of tourism's development drive is revealed by input-output analysis. Tourism in its production phase is a service, but at the time of investment it should be understood in connection with an urban type of infrastructure and superstructure. Generally, tourism can flourish only using this infra- and super-structure. Frankenmuth's flood prevention dikes, Bavarian architectural style buildings, investments in water supply and sewerage systems, well maintained pedestrian side

walks, and adequate parking spaces are good examples of these infra- and super-structures.

Even in its production phase, because of its different series of services, tourism is heterogeneous in its complexity and in its reduction to the unit. Since most activities entail a transformation and a value-added typical of manufacturing, industrial, or other transformational activities, tourism requires planning ahead and establishing a certain quantity of agricultural, food, and industrial production, as well as production of an other commercial nature such as energy consumption and transportation service. Frankenmuth's tourism industry embraces diverse economic activities including restaurants, lodging, a golf course, museums, food processing activities, souvenir shops, handicrafts, boat tours etc. (Fletcher 1989, "Frankenmuth 'Michigan's Little Bavaria' <Tourist Brochure>," Frankenmuth Economic Development Action Plan 1988)

At the same time, its quality of life attracted many commuters to the community. They created the bedroom community character of the city which is not as famous as its tourism, but important.

Strategic Planning in 1987 and Present Economic Development Status

In 1988, the Frankenmuth Economic Development Committee completed a strategic plan, called "Frankenmuth Economic Development Action Plan, 1988" with the assistance of a consulting firm. It was co-Sponsored by the Frankenmuth Chamber of Commerce and the City of Frankenmuth.

The economic goal of the community is "To promote long term economic and fiscal stability through steady, carefully planned

and diversified economic expansion."

Objectives are as followings:

- "- To create new jobs each year equal to at least three percent of the previous year's work force.
- To retain existing businesses and promote their expansion.
- To promote the agricultural industry as a viable economic entity and to maintain local ownership to the degree possible.
- To promote the creation of at least one new business venture per year, either as a spin-off of an existing firm or as a start-up firm.
- To attract at least one business in a targeted business activity (clean, light industry, research activities or office firms) into the community each year.
- To insure that a broad spectrum of professional and entrepreneurial opportunities exist for all residents or former residents of Frankenmuth who choose to stay in the community or to return to Frankenmuth during adult life.
- To maintain its current level of accessibility to the outside world via expressway interchanges.
- To insure that all economic growth is compatible with the existing high quality of living in Frankenmuth, which is considered to be its most important long-term economic asset."

According to the plan, the people of Frankenmuth want to preserve what they now have, but most people understand that preserving the current way of life requires that new employment and opportunity continually emerge, and that the community must reach out to the rest of the world in its business endeavors. To achieve this the community must make an effort to diversify its

economic base to protect itself from outside business cycles, and diversify its tax base to insure its local government's sound fiscal position.

The plan was formed by discussions among the members of the the Economic Development Advisory Committee, based on a variety of both formal and informal inputs from the community.

Present economic development activities are executed along with the Frankenmuth Economic Development Action Plan, 1988. Objectives of the action plan emerged from three elements: economic growth, diversification of the economy, and preservation of the quality of life and community characteristics. A similar guideline was established by the comprehensive plan in 1983. In these plans, both growth and diversification are perceived as serving the stability of the local economy. At the same time, however, they could be interpreted as concepts of continuous adaptation to the current or foreseeable environmental changes and to future unforeseeable fundamental changes. (Frankenmuth Master Plan 1983, "Frankenmuth Marketing and Community Resource Study 1989")

Most of the significant events selected by the community are related to economic growth through tourism activities. They represent adaptation to current changes, which is very reasonable because the tourism market is still expanding. They are contributing to tourism by increasing capacity, improving quality, and diversifying attraction. ("Frankenmuth A Good Place to Do Business")

- "- 1980 Zehnder's Holz Brucke (covered bridge) constructed.
 Largest covered bridge built in America in 75 years.
- 1980/81 Old St. Lorenz School/Frankenmuth Middle School
 converted to School Haus Square shopping mall.

- 1982 Nickeless-Hubinger Flour Mill opened, third Flour Mill on that site.
- 1982 Zehnder's Restaurant opened newly expanded bakery area.
- 1982 Edelweiss addition added to the Bavarian Inn Restaurant.
- 1984 Zehnder's of Frankenmuth purchased Frankenmuth Golf and Country Club.
- 1987 Roof Garten Lounge and Doll & Toy Factory addition added to the Bavarian Inn Restaurant.
- 1987 Janson & Elbers organized Frankenmuth Festival of Polkas.
- 1988 Zehnder's of Frankenmuth purchased of Bavarian Haus Motel.
- 1988 Bavarian Inn Lodge phase 2 opening
- 1989 Opening of Frankenmuth Riverboat Tours
- 1990 Opening of Frankenmuth Agricultural Park
- 1990 Reestablishment of Horse Carriage Tours
- 1991 New expansion of Bronner's Christmas Wonderland"

Other recent activities derived from the Saginaw Area Growth Alliance (SAGA) fact sheet, field survey, and interviews are listed below. (Frankenmuth Action Plan 1988, Interview, SAGA Fact Sheet)

- The Fischer Opera House relocation and renovation is underway.
- Improvement of the Birch Run Exit of I-75 is underway
- Frankenmuth Golf and Country Club extension is underway.
- The Frankenmuth Military and Space Museum established.
- Memtron Technology's expansion plant construction is underway.
- Expansion of the insurance company's office completed.

Main economic activities, other than tourism and related, include the expansion of indigenous firms. These expansions are indicators of the companies' strength and health. Even though tourism is the dominant industry in the local economy, other industries are vital and growing. They satisfy both growth and diversification (increase in proportion of economic activities other than the main one, but not diversity itself). The fact which should be underscored is that "Memtron Technology" is under the same family's capital and management as one of the largest tourism attractions in Frankenmuth, "Bronner's Christmas Wonderland."

Interesting activities include the founding of new food processing firms and the expansion of existing firms in the field of food processing. Their products are specialty quality food, items aimed at a regional or national market niche, as well as the enhancement of tourism. At the same time, they have an independent basic industry aspect apart from tourism. They contribute both to the enhancement of the city's main industry and to diversification of basic industry. They are a good example of an incremental approach to diversification. The city seems to have increased the emphasis on diversification recently.

Conclusion

The case of the Frankenmuth's economic development illustrates a good example of economic development sequencing. The economy has been following the first two stages of Thompson's hypothetical urban growth stages, i.e., "The Stage of Export Specialization" and "The Stage of the Export Complex." After a long period of concentration of its efforts on tourism development with fruitful results, the economy seems to be successfully

diversifying its activities to tourism related ones which can be independent from tourism and non-tourism activities. Capital accumulated through tourism has helped investments in diversification of the economy: Zehnder's expanded to include food processing activities; the Bavarian Inn started handicrafts; and the owner family of Bronner's Christmas Wonderland is operating an electronics company. This capital is also a great help for the community's investment in the improvement of quality of life. Entrepreneurship in the Frankenmuth economy seems to be vital.

Economic diversity may associate with economic growth, at least to some degree, though it requires vigorous and firm efforts. Without a stable or substantial economic base, accommodation of these activities fostering diversification is difficult. Most of small communities may not have enough resources to provide all-purpose attractiveness for industries. They have to concentrate their resources and efforts to obtain competitive attractiveness for a particular business or a particular type of industry. For these reasons, establishment of an economic base through a specialized economy can be a good option for small communities. Accommodation of a prosperous industry as a growth engine should be the priority mission for communities aiming for economic development, especially if those communities lack substantial economic base.

Diversification of a local economy is an objective for long-term economic development, or for a relatively advanced and/or affluent economy. It is a good objective for a community which can afford efforts toward diversification. A community with a poor economic base may be better advised to pursue development of a particular type of economic activity to which the community can afford advantages. The concentration of resources is a key to

the success of small community economic development. Accumulation of capital for a growth engine, and an impetus for growth itself, may help efforts for diversification.

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