



Community Economics

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Business Climate

by

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“Formal rules range from land use, signage and environmental regulations to work place safety and child labor laws. Informal rules are dictated by society and culture and speak to what is socially acceptable and not acceptable.”

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A phrase that is widely used in community economic development and seldom fully understood is *business climate*. The phrase, much like culture, has no clear definition although everyone knows what it means. The typical connotation of

environmental regulations to work place safety and child labor laws. Informal rules are dictated by society and culture and speak to what is socially acceptable and not acceptable.

Business climate speaks to both formal and informal rules. Unfortunately, because the formal rules are determined and enforced by government it is easy to focus attention on those rules. In essence formal rules are written down and can be easily pointed to in economic development discussions. Informal rules, or the culture of the community, are more difficult to pin down, debate and alter in the short-term, when business decisions are often made. For example, in some communities, failure is frowned upon and to fail breaks an informal rule. This type of informal rule can place a serious barrier on entrepreneurial activity. The research suggests that most successful entrepreneurs fail three to five times before their businesses are successful. If failure is unacceptable in the community what does this say about the business climate within the community?

Alternatively, for some communities the culture of success is ill defined. To rise above the average of the community is discouraged and success is not rewarded. There is a perverse peer pressure not to succeed. Communities where being average is expected have a poor business climate regardless of what the public sector does in terms of taxation and regulatory policy. These types of expectations within the community are powerful forces and can overpower any public policy.

A narrower way of thinking about the business climate of community hinges on the quality of the relationship between the private and public sector in pursuing community

business climate focuses on taxation levels and the regulatory climate. Generally, lower taxes and a weaker regulatory climate translate into a better business climate. In other words, the focus of business climate discussions focuses on the public sector's role in economic development and growth.

While taxation levels and the regulatory climate are important, they represent only a small part of the components that help define a community's business climate. In the broadest sense, a community's business climate speaks to the attitudes of the community toward change, experimentation, entrepreneurship, institutional capacity and communication levels. Business climate is a specific way to discuss what the Floras call entrepreneurial social infrastructure or Putnam calls social capital. This specifically relates to the rules that govern how a community functions. These can be formal rules that are established by governments and informal rules that are established by the culture of the community. Formal rules range from land use, signage and

economic development. What is the nature of the partnership? Is it harmonious or turbulent? While there is rarely complete agreement between business and government, high-quality business climates foster the situation where businesses accept their social responsibilities and government supports legitimate business needs. In essence, the business climate is but one small part of the overall culture of the community. Unfortunately, the fullness of this relationship is often collapsed into the simplistic tax burden issue.

Many communities have found that informal business visitation programs where a small team of elected officials visit with local business owners can vastly improve the business climate of the community. Here the visitation team simply introduces themselves to the business owners, extends their appreciation for the businesses contribution to the community and asks how the community can help the business. This builds a stronger sense of community, which in itself enhances the business climate. In addition, informal business visitation programs can identify potential problems within the set of formal rules that local public officials may be in a position to address.

In the end, business climate speaks to the social capital of the community, the ability of the public and private sector to work together, and the flexibility of rules, both formal and informal, to be adjusted when economic opportunities present themselves. Is the public sector willing to listen to the concerns of the private sector? Is the private sector willing to compromise on their plans if they impede of the well-being of the residents of the community? If there are barriers to change imposed from outside the community, such as federal regulations, can the public and private sectors form partnerships to address these barriers?

Within the business literature, this type of partnership is parallel to the relationship between workers and management. Do workers and management approach their positions as "us versus them"? There is a wealth of new age business management studies speaking to the importance of team work where workers and managers work in teams to improve the efficiency, productive and profitability of the business. In essence, the business climate of the community is an exact parallel to this notion of teams within business.

Rules are a key component of community economic development. In the most basic sense, they govern how we bring markets and resources together through decision-making across space. Rules are the social, political, and legal tenets that must be accounted for in the use of resources, in exchange, and in the distribution of rewards. They define what is possible, and what is illegal. Which behaviors are acceptable and which are unacceptable. Which benefits and/or costs are legitimate public issues and which are private. Rules and institutions define who receives the income generated from the use of resources, thus facilitating or hampering economic development. Economic institutions provide decision rules for adjusting and accommodating conflicting demands among different interest groups within society.

Unfortunately, this broad notion of business climate is largely immeasurable. We can tell in an ordinal sense if the business climate is good or weak and needs improvement, but in a cardinal sense, we can not measure it with any degree of accuracy. How does one measure community A's social capital compared to community B's or their respective attitudes on what defines success and failure? On the other hand, it is relatively easy to point to tax burdens and regulatory hurdles. I fear that it is our inability to numerically measure a community's business climate in a broad sense that leads us to mistakenly limit ourselves to discussions of taxes and regulations. This becomes a problem in and of itself in that we end up focusing our energies on the wrong issues.

The business climate of the community is a reflection of these rules, both formal and informal. More importantly, the business climate speaks to the ability of the community, both private and public sectors, to work together to alter rules where needed and identify common ground.

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