From the Desk of Representative Ed Diehl

HB 5024A

External Business Recruitment:

Are businesses leaving Oregon, and if so, why?

Photos courtesy of EDCO

January 2025 Final Report

Prepared for
Business Oregon
775 Summer St., NE, Suite 200
Salem, Oregon 97301

Prepared by
Institute for Policy Research & Engagement
School of Planning, Public Policy, and Management
University of Oregon

University of Oregon | Institute for Policy Research and Engagement

Executive Summary

Evidence exists that Oregon businesses are being actively recruited by out of state organizations. Yet, little is known about external recruitment activities and their impacts on Oregon businesses. Key questions that emerge include what businesses are targeted, from where the solicitations originate, and the effectiveness of the efforts. This study seeks to answer those questions based on a survey of 393 Oregon traded-sector businesses and more than 30 interviews with businesses and economic development organizations.

Background

There is ample evidence that many U.S. states are actively competing to attract businesses and investments away from Oregon. This inter-state competition for economic development poses a potential threat to Oregon's economy, as the loss of businesses and private investment could lead to job losses, reduced tax revenues, and slower overall economic growth in the state.

Business attraction and recruitment involve actively encouraging and facilitating the relocation or expansion of businesses to a specific area. Business attraction strategies aim to create an environment conducive to investment and collaboration, which may include offering incentives, building infrastructure, and fostering innovation to make a community an appealing destination.

The loss of businesses and private investment could lead to job losses, reduced tax revenues, and slower overall economic growth in the state.

The extent and impacts of these business recruitment efforts targeting Oregon are not well understood. Quantifying the degree to which other states are successfully luring Oregon-based businesses or investments away, as well as the economic consequences for Oregon, is crucial for policymakers, state agencies, and local economic development organizations (EDOs) to develop effective strategies to retain and grow the state's business and investment climate.

The purpose of this project was to assess the mechanisms out of state entities are using to recruit Oregon businesses and talent. Business Oregon and Oregon Business and Industry will use the information to develop a defensive strategy and playbook.

Study Questions

- **Are Oregon businesses and talent being recruited by out of state interests?**
- **Are recruiting entities having success with their efforts?**
- **What is Oregon doing – through recognition, support, or incentives – to retain existing business?**

Who engages in business attraction and retention?

A range of organizations, including economic development organizations (EDOs), local governments, chambers of commerce, and industry-specific organizations engage in business attraction. These organizations often work in collaboration to create an environment that appeals to businesses, investors, and entrepreneurs. Recruitment strategies typically target emerging industries and industries that pay higher wages per skill level.

To counter business attraction efforts, EDOs and local and state government implement business retention and expansion (BRE) programs. BRE programs work to keep existing businesses in communities and to help them thrive. In this context, every business is potentially a recruitment risk and a BRE opportunity.

Types of Business Relocation

Full relocation. This includes businesses that move their entire business operation to a new location.

Headquarters relocation. This is when a business moves its corporate headquarters to a new location.

Expansion in a different location. This is a lesser thought of but potentially larger category that occurs when businesses expand in a new location.

Acquisition and relocation. Businesses are commonly bought and sold; many acquisitions are acquired end up moving to the location of the entity that acquires the business.

Seed funding and relocation. This is most common with startups or early-stage businesses that receive certain types of seed funding that incentivizes or requires businesses to relocate.

Push, pull, and anchoring factors influence locational decisions

Recruitment is a foundational function of economic development organizations. The process and factors around external recruitment are complex and nuanced. The range of factors that influence business investment decisions also influences locational decisions. IPRE developed the "push, pull, and anchor" framework to represent how different factors affect business investment decisions. These factors exist in every state, but our construct identifies factors specific to Oregon based on findings of our research. IPRE defines these factors as follows:

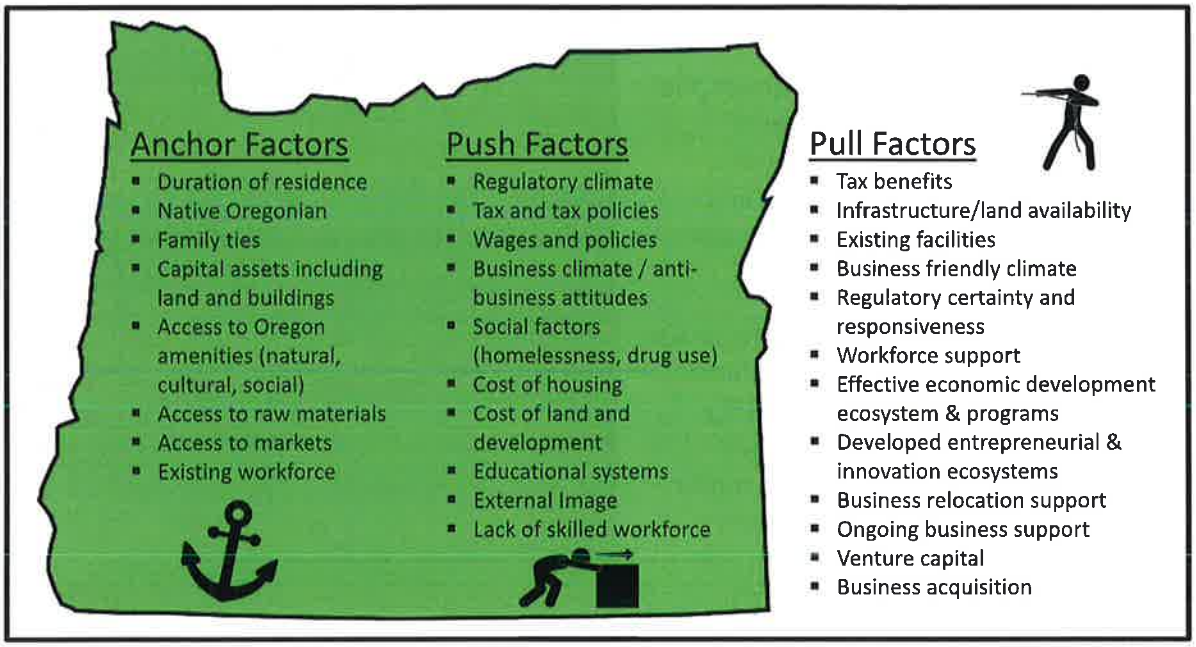
Every business is a **recruitment risk** and a **retention opportunity**

- **Push Factors** are factors that tend to push businesses and business investments away from Oregon. These factors are a function of state and local policy, Oregon's business climate, and Oregon's social and economic challenges.
- **Pull Factors** are factors that serve to pull businesses and business investment out of Oregon. These factors can broadly be grouped into a few categories: (1) incentives; (2) state policies (including tax policies and regulations); (3) locational and market advantages; and (4) access to capital and talent.

- **Anchor Factors** are factors that keep businesses and business investment rooted in Oregon. Anchor factors fall into three categories: (1) assets; (2) access to resources, materials and markets; and (3) business leader or company ties to Oregon.

Exhibit 1 lists key push, pull and anchor factors in Oregon that IPRE identified through the research.

Exhibit 1. Push, Pull, Anchor Framework



Source: IPRE, 2025

Key Findings

The real story of this research is about businesses choosing to expand outside Oregon. Survey data indicate the state has lost thousands of potential jobs and billions of potential private investments in the past five years and is poised to lose even more in the next five years. Much of this expansion is due to factors the state has little control over access to markets, raw materials, talent, and transportation systems are key. A concerning number of businesses indicated they were choosing to expand outside of Oregon due to tax and regulatory burdens, challenges attracting and retaining talent, and an unfavorable business climate.

In the past five years, Oregon has lost **thousands** of potential **jobs** and **billions** of potential **private investments**

While EDOs have been able to retain some businesses, external competition is stiff and other states have highly sophisticated marketing programs that quickly turn leads in to robust incentive packages. Business recruitment in those states is a team sport operating under strong leadership at the governor's level and clearly articulated roles for every player in the economic development ecosystem.

Oregon has established various economic development incentives but few are directed at business retention and those programs are relatively inflexible. Providing Business Oregon and EDOs with a more robust toolbox would help retain these jobs and investment and support the state's goal of "prosperity for all Oregonians."

Summary of Key Findings...

A range of factors influence business decisions.
Business investment decisions are influenced by "push" factors (e.g., high costs, regulatory burdens), "pull" factors (e.g., incentives, market advantages), and "anchor" factors (e.g., ties to Oregon). Incentives are important and can be the "icing on the cake" for businesses considering relocation.

Oregon businesses are being actively recruited by out-of-state organizations.
Out-of-state entities are targeting Oregon businesses, with 24% of surveyed businesses reporting contact, from 36 states with many coming from Texas, Washington, and California.

Recruiting entities are having success.
Recruitment efforts by out-of-state entities are effective, with 68% of contacted businesses moving or expanding outside Oregon. High taxes, regulatory challenges, and market opportunities are key reasons businesses consider leaving.

Incentives are important but appear to matter mostly to businesses already considering investing outside Oregon.
Financial incentives play a role in business location decisions but are rarely the primary factor. While tax incentives are commonly offered, business factors are more important. Nonetheless, incentives are a powerful tool, particularly when combined with regulatory streamlining.

Many businesses are choosing to invest outside Oregon.
A significant portion of Oregon businesses are expanding outside the state. In the past five years, 61% of businesses expanded, with 32% expanding both in and outside Oregon. Planned expansions indicate a similar trend, with substantial investments and job creation occurring outside Oregon due to factors like market access and regulatory environment.

393 survey responses

24% (93 businesses) agency reported being approached by recruiting agencies located outside Oregon

68% (63 businesses) of businesses contacted by a recruiting agency contacted reported moving or expanding outside Oregon

60% reported external recruitment increased in the past 3 years

Negative experiences of Oregon's business climate have influenced expansion plans for some businesses.
Oregon's businesses have mixed perceptions about Oregon's business environment. While some view the state as a good place to do business, others cite high taxes, regulatory challenges, and

social issues like homelessness and crime as significant drawbacks. This is particularly true with manufacturing and tech firms.

Oregon's economic development organizations are actively working to retain businesses. Economic development organizations (EDOs) in Oregon are actively working to retain businesses through incentives and support programs. However, the effectiveness of these efforts varies, with room for improvement in countering external recruitment.

Business Oregon has limited tools for business retention.
Retention tools are limited by restrictive eligibility, insufficient funding, slow implementation, and lack of awareness.

Oregon competes with states that have highly sophisticated recruitment programs.
Other states have well-organized and integrated recruitment programs targeting specific industries and businesses.

Loss of businesses and business investment has clear equity implications.
The top line equity impact is loss of opportunity for Oregonians related to loss or relocation of jobs. This is in direct contradiction with Business Oregon's mission of "Prosperity for all Oregonians." Moreover, loss of opportunities has multiple spin-off implications including reduced or stagnant economic activity, a shrinking tax base, and decreased funding for local services.

Recommendations

IPRE's research clearly shows that Oregon is losing businesses and private investment. The data suggest that this loss is significant enough to be of concern to Oregon residents and policymakers. A key question is "could Oregon be engaging in activities that would reduce the loss of businesses and private investment?" In our view, the answer is "yes". While we found that many businesses that are moving or making investments outside of Oregon are basing their decisions primarily on business and market factors evidence indicated that– incentives are certainly a factor affecting businesses decisions to move or invest outside Oregon. Enough businesses indicated that they were considering leaving Oregon that the state should be actively considering strategies to retain businesses and private investment.

1. Make business retention and expansion a priority

While Oregon has established various economic development incentives, few are directed at business retention and those programs are relatively inflexible. Providing Business Oregon and EDOs with a more robust toolbox would help retain these jobs and investment.

We recommend a coordinated program involving Business Oregon, EDOs, and local governments. Such a program would leverage existing assets and focus on collaboration and strategic retention efforts.

Key strategies include strengthening incentive programs with more competitive tax incentives, grants, and workforce development initiatives. Improving communication and outreach to understand and address business needs proactively is also crucial. Additionally, fostering collaboration among state, regional, and local economic development organizations can create a cohesive approach to business retention and recruitment, ensuring clear roles and responsibilities to avoid duplication of efforts.

2. Work to improve Oregon's business climate

Interviews conducted for this project highlighted the importance of a positive business climate in driving economic growth. Research indicates that a favorable business environment can attract investment and foster development. Addressing elements such as high living costs, regulatory challenges, and social issues is crucial. Tax reforms and streamlined regulations could make Oregon more appealing to businesses.

Oregon ranked

48th

out of 50 states for "Business Friendliness" in CNBC's "Top States for Business 2024."

Businesses often cite regulatory burdens, uncertainty, and land use issues as negative aspects of Oregon's business climate, indicating significant room for improvement. Research for this project suggests that many businesses feel Oregon is not excelling in fundamental areas such as infrastructure, education, and public safety. Addressing these issues at a foundational level could improve perceptions of Oregon's business climate. Elected officials and agency administrators can play a crucial role by showing stronger support for businesses, which are essential for a healthy economy and a talented workforce.

3. Offer more cohesive leadership

This recommendation is directed at the economic development ecosystem writ large. That includes EDOs, local governments, state agencies (including Business Oregon), and elected officials. Significant percentages of businesses indicated they think Oregon can do a better job embracing economic development.

Oregon needs to link, leverage, and align efforts for greater impact

Oregon's economic development ecosystem is large, disaggregated, and autonomous. IPRE's 2021 "Economic Development Ecosystem Mapping" project identified 865 entities involved in economic development throughout the state. While we applaud the efforts of these organizations, more can be done to link, leverage, and align their activities to generate cohesion in the ecosystem. This requires leadership. We recommend the following:

- The Governor's office should make economic development a more prominent priority.
- Business Oregon should take a centralized leadership role in business retention and expansion and coordinate efforts with other state agencies as appropriate.
- Oregon should seek more cohesion between Business Oregon and regional and local EDOs.
- Oregon should continue to consider the long view of economic development.

4. Create more flexibility in use of Business Oregon programs

Business Oregon's business retention and expansion efforts would benefit from programs that allow more flexibility. As it currently stands, Business Oregon has limited tools (the Business Expansion Program and the Business Retention Program) to retain businesses.

The Business Expansion Program (BEP) limits eligibility to firms that have at least 150 employees and plan to hire 50 or more full-time employees in Oregon . This excludes smaller businesses that may have high growth potential. The Business Retention Services Program (BRSP) does not provide financial incentives; rather, it provides consulting services to assist Oregon companies facing difficult times. The program matches consultants to company based on specific needs and industry requirements. Following are recommendations that would create more flexibility in existing programs:

"Business Oregon provides valuable resources, but I think this process needs to be faster so it would be beneficial.

Support Business Expansion:

Provide targeted support for businesses looking to expand within Oregon. This could include assistance with site selection, access to capital, and navigating regulatory requirements.

Consider New or Expanded Incentives

Consider new or expanded incentives, such as a negotiated award program similar to the Business Expansion Program (BEP) based on a biennial appropriation for which performance agreement.

Monitor, Evaluate, and Consolidate Programs:

Implement a system to monitor and evaluate the effectiveness of retention and recruitment strategies. Use data-driven insights to continuously improve programs and address emerging challenges.

To better serve Oregon's business community, Business Oregon could consider consolidating and streamlining its programs by focusing on a few key strategies:

- Merge Similar Programs
- Create a One-Stop Portal
- Proactive Outreach
- Inter-Agency Collaboration
- Regional Partnerships

By addressing these areas, Oregon can create a more favorable business environment, retain existing businesses, and attract new investments, ultimately fostering sustainable economic growth.