

MONASH UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS



**THE INTERACTION OF LAND USE PLANNING
AND REGIONAL INDUSTRY DEVELOPMENT**

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THE MOORABBIN PROJECT

FOREWORD

Three decades of scholarly economic development research has had limited impact on economic development or the development of better professional practice in manufacturing in Australia.

The working series of papers arising from the Moorabbin Project have been prepared using the project results and insight into the day to day practical challenges faced by companies that deliver economic development at the local and regional level.

In attempting to inform, stimulate and support professional practice in industry and at the risk of being judged less scholarly by academic peers, the series of Working Papers from the Moorabbin Project are different. Whilst the papers are practice oriented, they attempt to balance the narrative and scientific forms with some interpretations of impacts, influences and possible direction for action. Action that can be considered as a means of accelerating the growth and development of manufacturing companies to deliver the economic outcome that Australia needs over the next ten years.

This first series of papers will cover five key issues arising from the data gathering (questionnaire survey and in-company interview) and analysis phase of the project. These include:

- No. 1 The Interaction of Government Planning and Regional Industry Development
- No. 2 Manufacturing Performance through 1990/92 Recession and Onwards
- No. 3 Regional Industry Development Dynamics - Alive But Under Utilised!
- No. 4 Industry Development - Who is Leading Who?
- No. 5 Manufacturing Relationships with Finance

A substantial amount of data has been gathered through postal questionnaires and in-company interviews. Each paper in addressing the specific issues draws upon the appropriate sections of the questionnaire in the context of the wider body of information available.

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THE INTERACTION OF LAND USE PLANNING AND REGIONAL INDUSTRY DEVELOPMENT

Abstract

This paper raises the issues surrounding government land use planning in the context of regional industry development. These issues have been identified from recent survey and interviews with companies in the Moorabbin Project - a regional industry development project being conducted in the Moorabbin area. The paper is presented in the context of growing recognition at all three levels of Australian government of the need for regional economic development.

The issues identified in the Moorabbin Project suggest that land use planning environment in a region has a significant impact on both the efficiency of companies and on the ability of a region to sustain company growth and hence job creation. This impact is demonstrated to have links to a range of perceptions about the region in the minds of the owner/managers, which in turn influence investment decisions in growing companies. There are other influences like the tax treatment of the costs of moving a company which are a very real cost barrier in the minds of decision makers.

The project also indicates that the dynamics of company growth and movement is influenced by property ownership.

The paper concludes with comments on the implication of these issues on government planning and areas for further research.

INTRODUCTION

The Moorabbin Project was an initiative arising out of the 1991-1992 recession in which the closure of companies in the Moorabbin area reached a level which was noticeable to the passerby. The project aims were to research the needs of manufacturing companies to develop, grow and cope with change through the 1990's and survive the next recession. The specific aims of this project are:

- To raise the level of awareness and knowledge of industry's needs.
- To develop and deliver specific initiatives to satisfy the needs.
- To develop and implement specific models/strategies to enable the wider applications of the approach used in this project.

The detailed project activities were structured into three phases:

- Phase 1:** Understand the current status of manufacturing companies in the area. This comprised of three steps:
- i) allowing companies to nominate the level of involvement in the project
 - ii) to carry out an industry wide survey of existing occupants (manufacturers and their support industries) in the Moorabbin area
 - iii) in-company interviews with senior executives.
- Phase 2:** Determine the needs of companies to grow over the next 2-5 years. This was carried out by means of in-company interviews with senior executives.

Phase 3: Identify initiatives that might meet the needs of companies through group discussions and trial some of these as test cases through third party providers.

This paper is being written towards the end of the second phase and draws on the initial desk research and supplementary research.

METHODOLOGY

This section describes the approach used for data gathering and data analysis. These comprise Phase 1 of the project. The compilation of the industry data base and the data gathering tasks are also described.

Preliminary Planning

To provide some dimension to project planning, the scope of industry in the Moorabbin area was defined by ABS data. This shows that 41% of enterprises are involved in manufacturing and related activities.

In this context companies that were manufacturers or direct suppliers to manufacturers were identified in February 1994 using four separate data bases. These were drawn together, compared and integrated. This was an attempt to eliminate the age of data and update problems of data bases in general. The recession activities of 1991/92 were expected to have a significant impact on these Moorabbin data bases. As a result of this work an industry listing of 805 companies was created.

Phase 1 : Understanding the Current Status of Manufacturers

The first step in this phase was to provide industry with the opportunity to register their interest and involvement in this project. Companies were asked to indicate their direct involvement in the following five activities:

- 1) Participation in postal questionnaires
- 2) Participation in in-company interviews
- 3) Participation in review and discussion of initiative options
- 4) Trial implementation of initiatives
- 5) Involvement in information and training seminars on new approaches in manufacturing.

A letter of introduction and registration form was mailed to the 805 companies identified from the databases.

One hundred and fifty companies responded, of which 92 were positive, indicating an interest and willingness to be involved in the project. It is worth noting that 98 companies could not be contacted, i.e. questionnaires were returned undelivered. This was either a reflection on the accuracy of the data bases or the level of company closures since the recession. Supplementary research was conducted to assess this issue. This involved 'detective' research to trace companies which were not being contacted through direct mail. The results of this work suggested a high proportion of companies were relocating rather than closing the business.

Step One of Phase 1 was aimed at targeting the project effort at companies who were keen to be involved. Step two involved the development and administration of a questionnaire to the companies which responded positively to the initial invitation. The questionnaire comprised of eight sections:

- Locational Details
- Company Background
- Operational Details
- Suppliers and Services acquired from outside
- Competition Details
- Business Growth Opportunities
- Business Planning and Assessment Activities

The questionnaire was sent to 73 of the 92 companies which had registered positive interest to undertake the questionnaire. Considerable follow-up was conducted by telephone and company visits to encourage companies to complete and return the questionnaire. Fifty valid responses were received, giving a response rate of 68 percent. The data was analysed using SPSS-X statistical package.

Step three involved in-company interviews to provide a better understanding of the background to the answers given in the postal questionnaire and to begin the process of identifying the needs of companies in Phase 2 of the project. Sixty-five companies had initially registered to be involved in the in-company interviews, however 52 companies made themselves available for the detailed series of interviews. These interviews were conducted with the senior executives on a confidential basis to maximise the openness of discussion and the scope of background information that was likely to be obtained. This information was used to corroborate the data gathered from the postal questionnaire survey.

GENERAL ECONOMIC ENVIRONMENT 1989/94

This section presents economic information for the period 1989-1994 to provide some understanding of the environment in which the companies operated.

The short to medium term view that most companies take has developed an acute monitoring sensitivity to business outlooks by owner/managers. So as a result industry decision makers begin to react to economic down turns 18 months or more before the rest of the community, politicians and the press realise what is happening. This was certainly the case for the 1991/92 recession. As early as May 1988 and certainly by March 1989, industry was changing its management in response to the perceived needs of the future.

Interest rates in 1989 were 16% and rising; profits were being decimated. As shown in Figure 1, interest rates had fallen to 5% p.a. by 1993. In 1989 wages growth was 7% p.a. and rising with CPI. Both wages growth and CPI fell to around 2% p.a. by 1993 as shown in Figure 2.

Figure 1
Domestic Interest Rates

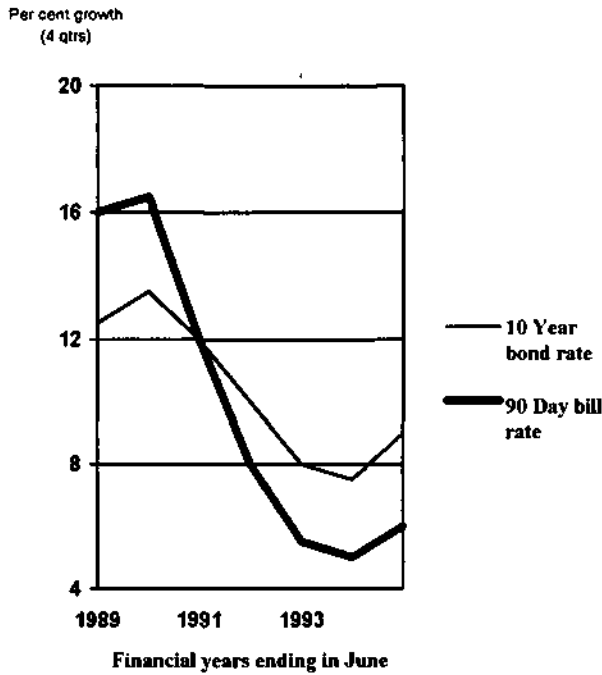
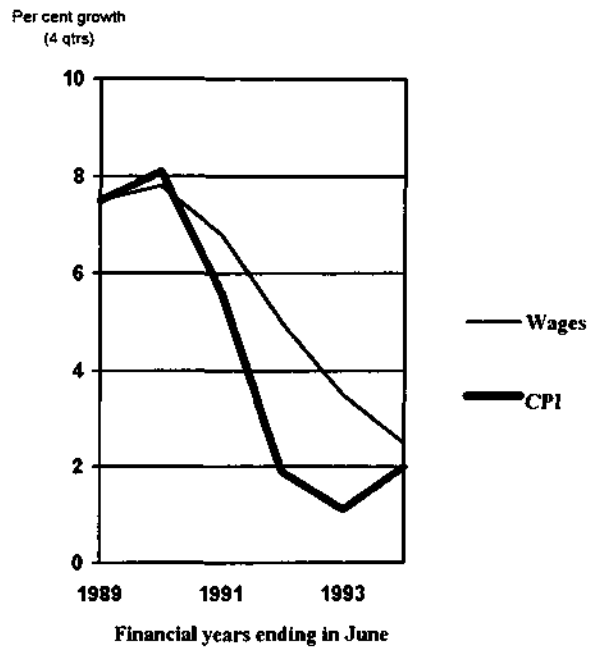


Figure 2
Nominal Wages Growth & CPI



Source : NIEIR

As the impact on business flowed through to its employees, consumer confidence crashed in 1990/91 from a growth rate of 4.5% to 0.5% (see Figure 3) and housing investment fell from 20% growth to minus 6% decline (see Figure 4). The impact of these factors on industry was to add collapsing sales on top of poor profitability.

Figure 3
Private Consumption Expenditure

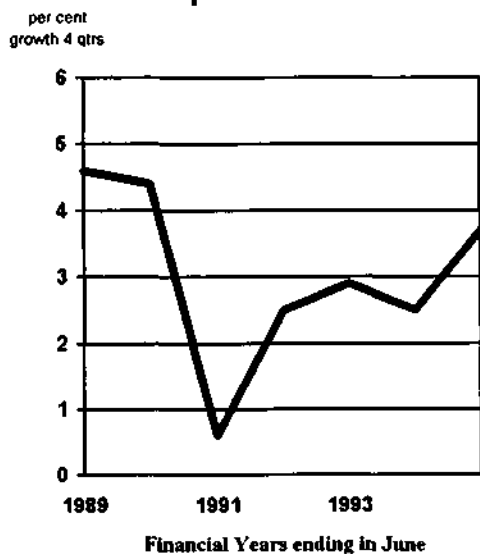
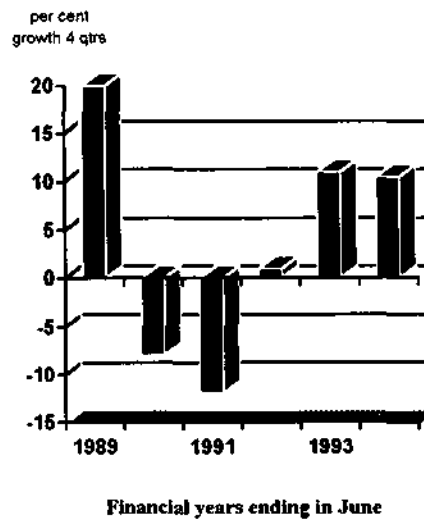


Figure 4
Housing Investment



Source : NIEIR

The data provided in this section illustrates by the steepness of graphs how quickly and deeply the 1991 economic environment hit industry. During the project interviews with senior executives several times the comment was made about a two month black hole where there were no sales in 1991/92.

The reaction of industry was to rigorously cut costs, a process which began in 1990, and with no sales became the sole focus of management. The results appeared in the labour market with unemployment rising from 6% to 11% in two years (see figure 5) and investment declining from a rate of plus 10% to minus 20% over two years (see Figure 6).

Figure 5

Labour Market

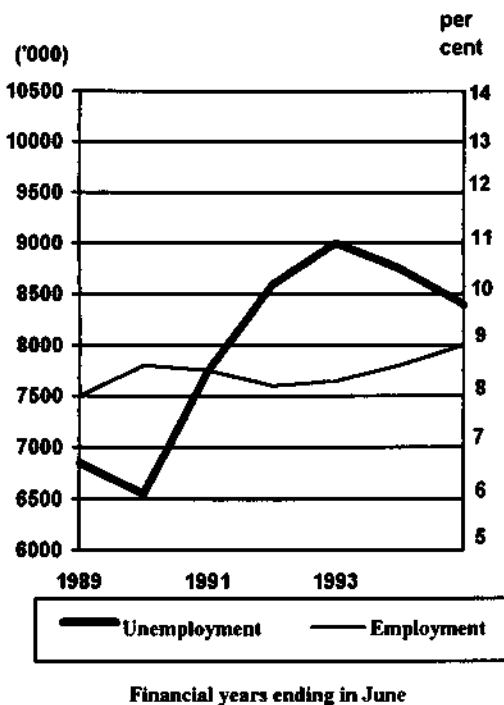
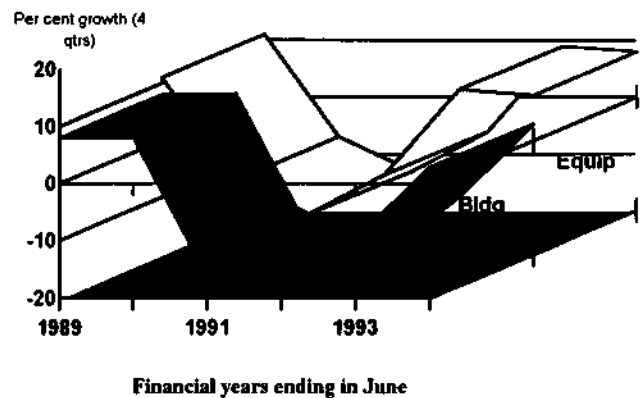


Figure 6

Private Business Investment



Source: NIEIR

The rebound from the recession during 1992-1994 was enhanced by a number of factors:-

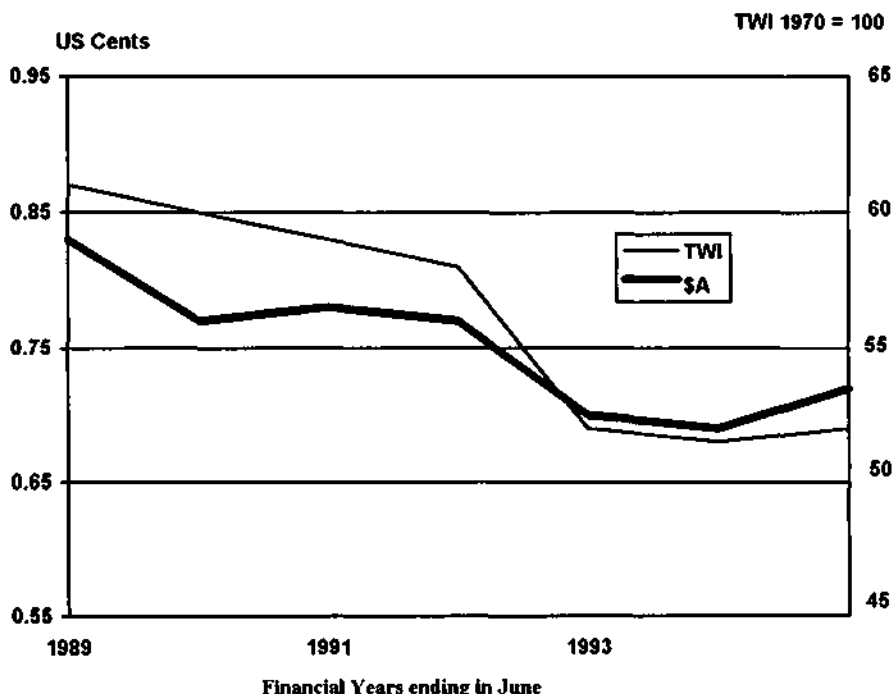
- Wages stagnated and even fell in real terms during 1991-1994.
- CPI collapsed because of reduced spending so prices had to fall to stimulate trade.
- The three year lead time to the recession in industry had used up all stocks so when spending grew production had to rise more quickly.

The impact of these stimuli on a now lean industry accelerated profit growth in most companies with 1994 being identified in interviews as the best profit in 7 or 8 years. However, 47% of companies still see this level of profit as inadequate in the light of five years of traumatic hard work.

This resurgence has led to a rebound in employment and in business investment, although the government's projections of business investment in 1994 in new machinery were premature for SME's. This is primarily because investment in 1993/94 is merely catch up investment that companies should have made in 1988/89 but put on hold. New technology and new capacity investments are more likely in 1995/96 although recent flattening out in demand is making the more cautious companies hold back investment again. In addition, survey data from the project is also indicating a rising interest in bricks and mortar investment which is diverting industry resources away from growth and development. This does not augur well for the overall performance of the Australian economy since it will be investments in equipment and people that will lift industry on to a more world competitive level.

Why is this investment in equipment and people essential? Throughout the 1989-94 recession period the exchange rate (see Figure 7) and more importantly the Trade Weighted Index fell from 62 to 52 providing close to 20% increase in competitive pricing in the world market. The downside of this is that imports became more expensive which has the obvious balance of payments impact and is also increasing the cost of investment in leading world class equipment. Import replacement clearly has an opportunity with the 20% improvement in pricing.

Figure 7
Exchange Rates



Source NIEIR

The timing of the current project (1994-97) is opportune with managers looking to build on the recovery and keen to address more appropriately issues that were put in stark relief in their companies through the recession.

Structure of Industry in Moorabbin

Moorabbin has lived up to its early land use planning aims of being a focus for industry for over 25 years. This primarily is due to its location in the City of Melbourne.

In 1993 Moorabbin Council records indicated that in the industrial area there was a total number of 2,235 enterprises occupying some 572 hectares of industrial zoned land. The types of enterprise in this areas comprised:-

Manufacturing	41%
Warehousing	28%
Automotive & Related	16%
Commercial/Retail	8%
Other	7%

The composition of the manufacturing companies in 1988 /89 by sector for the Moorabbin region is shown in Table 1.

TABLE 1

Moorabbin Industry Structure 1988/89

ASIC Code	Industry Description	No. of Firms 1988/89	No. of People Employed 1988/89
21	Feed, beverages and tobacco	36	2048
23	Textiles	18	699
24	Clothing and Footwear	36	875
25	Woods and Furniture	89	847
26	Papers, printing and publishing	95	2590
27	Chemicals, petrol and coal products	44	1196
28	Non-metallic minerals	18	292
29	Basic metal products	12	195
31	Fabricated metal products	129	2330
32	Transport equipment	49	3724
33	Other machinery & Equipment	156	3340
34	Miscellaneous	113	2818
	Total Manufacturing	795	21754

Source: ABS Manufacturing Victoria

The project survey data suggest that employment levels have returned to 1989 levels or better and site vacancies have become negligible due to company growth. Whilst the number of companies is expected to be less in specific industry sectors, (ASIC codes 24, 25, 26, 32 and 33) due to industry restructuring, the structure of industry is not expected to be significantly changed in the next five years.

RESULTS AND FINDINGS OF POSTAL QUESTIONNAIRE SURVEYS

The 92 companies responding positively to the initial request to participate, represented small, medium and large organisations, as shown in Table 2.

TABLE 2

Categorisation of Companies indicating Positive Involvement in the Project - Classified by Company size

Employee Nos.	Percentage (n = 92)
0-5	18
5-10	16
10-20	20
20-50	27
50-100	11
100-200	4
Over 200	4

The sample of companies involved in the project have a higher proportion of SME's than the national average. Moorabbin industrial areas have a tendency to contain only small sized sites which promotes the smaller companies.

The analysis presented is based on the 50 valid responses received from the Postal Questionnaire survey.

The companies represent all ASIC Manufacturing categories and manufacturing service companies (i.e. Tool suppliers, etc.). Table 3 lists the predominant manufacturing sectors represented and the Key customer sectors supplied.

TABLE 3

Product, Manufacturing and Customer Sectors represented in the sample.

Manufacturing Sector %		Customer Sectors %	
Food	12.8	Food	10.2
Rubber & Plastic	12.8		
Electrical & Electronic	12.8	Electrical	10.4
Other Miscell.	10.6	Other Miscell.	16.7
Machinery	8.5	Fabricated Metal	8.3
Apparel	8.5		
Product Proportion	66.0		43.6

Clearly the sample is a diverse group with an even more diverse customer base. This indicates companies in the region are generally independent operations rather than tied subcontract suppliers. As a result, a higher priority can expect to be given to companies in the region to marketing and export.

The focus of this paper is on the land use planning requirements for industry growth and development. Therefore only the results appropriate to this subject are discussed below.

To establish the status of companies in the region, some geographic, land use and change issues were explored by incorporating five categories of questions in the questionnaire. These being:

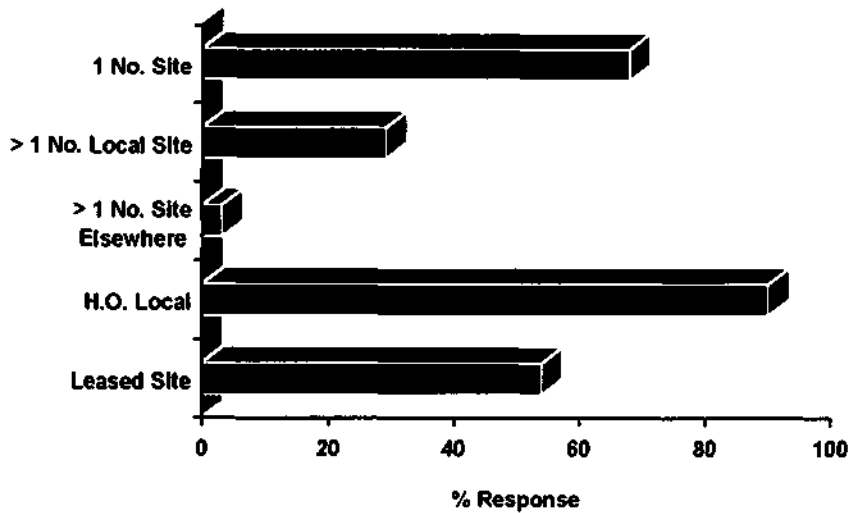
- a) Location
- b) Years of Operation in the Region
- c) Company Origins
- d) Reasons for Locating in the Moorabbin Area
- e) Potential for Change

The findings from the survey and interpretation of the results is discussed under each of these headings.

a) Location

The aim here was to establish the scale of the local operations of the companies in the region, the importance of the local operations and the type of occupancy, i.e. owned occupied or leased facility. Figure 8 below shows the responses from the survey.

Figure 8 : Number of Sites Occupied by Companies



The results show a high position of companies having local ownership and operation. One-third of the companies have more than one site in the Moorabbin area.

Over half of the companies have strong local allegiance to the area but do not own property. These might be described as 'foot loose'.

(b) Years of Operation in the Region

Figure 9 : Years of Operation in the Moorabbin Area

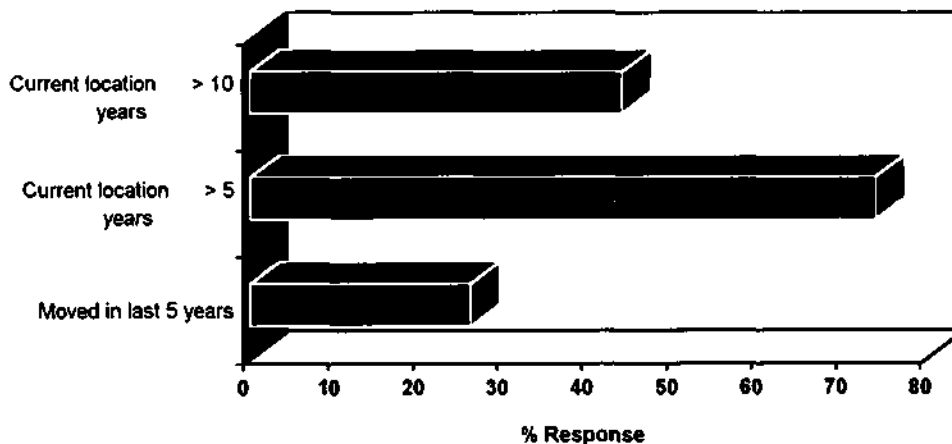


Figure 9 shows the number of years that companies have been operating in the region. Nearly a third of the companies in the survey had resided in the region for five to ten years and another 44% had been in the region for over 10 years.

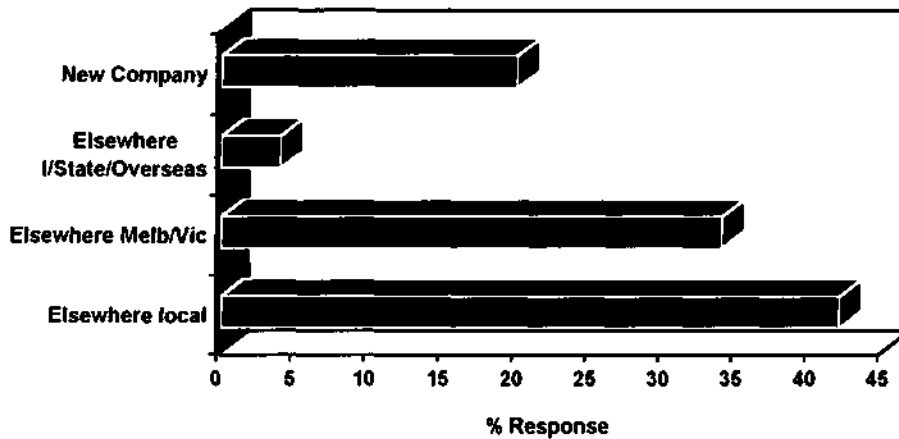
The movement into the area by 26% of the companies within the last five years may be a reflection of the recession, i.e. more space becoming available or company growth as a result of industry restructuring.

Corporate life cycle in a private company is a function of both the age of the company and the owner/manager. However, the survey did not attempt to correlate personal details with corporate history.

c) Company Origins

Figure 10 shows where the companies had originated before occupying current sites in the Moorabbin area.

Figure 10 : Origin of Companies

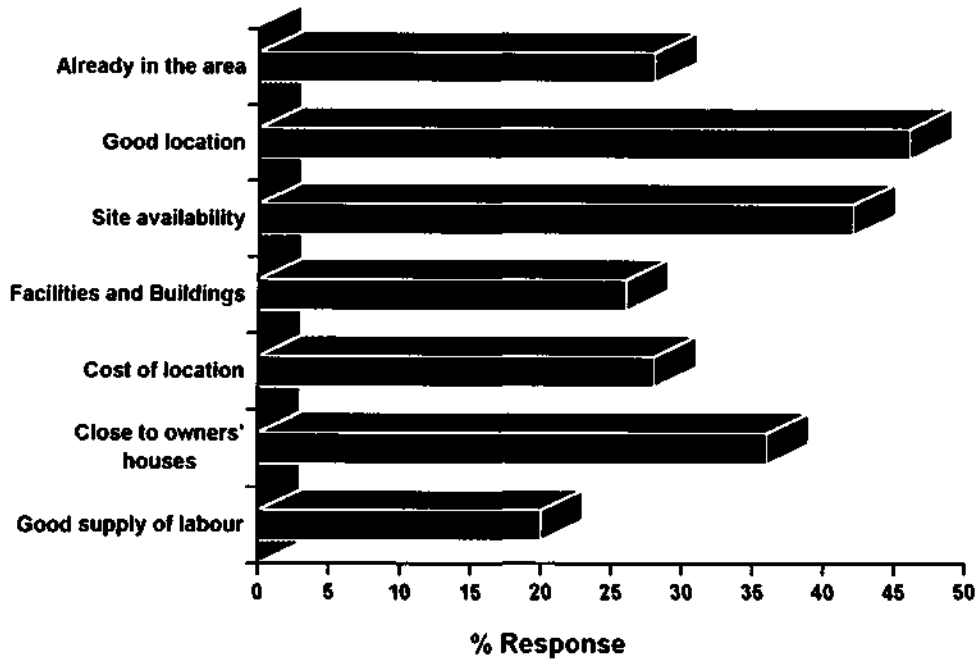


Twenty per cent of the companies in the sample had started business on their existing site. A further 42% had moved to the current site from within the region. This suggests that the Moorabbin region is an incubator for the growth of industry. This, to some extent, is recognised with 33% of companies in the sample moving to the region from within Victoria. Only 4% of the companies came to the region from elsewhere.

(d) Reasons for Locating in the Moorabbin Area

Companies were asked to identify the three key reasons for being in their present locations. Figure 11 shows the responses. The results confirm that Moorabbin is a sought after region for a number of strategic reasons. Site availability, cost of location, facilities and building and availability of labour and housing were critical issues for companies locating in the region.

Figure 11 : Reason for Locating in the Moorabbin Region



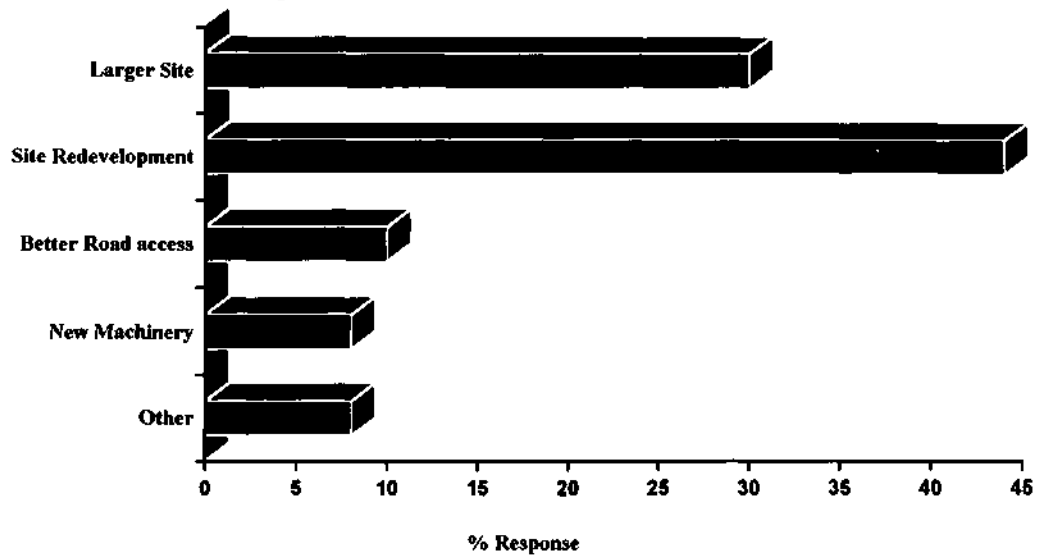
Access to industry sites is a critical determinant to the continued growth of industry within the region.

(e) Potential for Change

Companies were asked whether they had any particular locational needs to enable them to grow in the future. Figure 12 shows the responses. A high proportion of companies (42%) believed they needed to make locational changes for the future.

The results suggest that there could be significant constraints on future growth and development of industry in the region. Nearly three-quarters of the companies indicated a need for new sites or redevelopment of their site. In addition, road access issues were highlighted in the context of redevelopment of the area.

Figure 12 : Future Locational Needs



Interview Findings

In order to substantiate the questionnaire survey results and to provide some understanding of the background to the responses, in-company interviews were conducted with senior executives of 52 companies. The information gathered from these interviews provide both perspectives and insights into the result of the questionnaire survey reported in the previous section.

The high percentage of companies with multiple sites in the region gives some support to the key reason for being located in the region - "It is a good location for business". This was further emphasised when through interviews it was found that companies were operating on as many as five sites in three different street locations within the region. The negative impact of these arrangements on efficiency and company culture were evident.

These arrangements ultimately constrain the level of profitability achievable and the ability of the company to operate and grow as a unit, making management even more difficult. Companies with three sites in close proximity displayed the same characteristics but to a lesser degree.

This situation appears to be created by a conflict of needs - the company is growing and needs more space, perhaps twice the size of the existing site. Many managers felt that the Moorabbin region is a good location for their business. As one senior manager put it:

"I've looked for a large site but there are none available in the area. The larger sites are in the Braeside area. We didn't want to move because we own our first site. Then a site the same size as ours came available down the road and we are leasing the second site."

In several cases, companies had been found to look outside the area for the size of site required. However, for reasons of staying in the region and the price of property had moved into a substantially larger site than required (200% larger).

The supplementary research of 98 companies not found from the first mailing to the company listing revealed that 54% of companies contacted, relocated to grow their business on larger sites or sites with better buildings and facilities. 35% of these companies remained in the Moorabbin area. However 24% of companies moved for reasons of ownership of property rather than growth.

A high proportion of multiple sites appeared to have a strong component of land ownership, particularly where the company was well established and the owner/manager was ageing. Site ownership assets are generally being taken outside of the manufacturing company as a superannuation arrangement.

As some companies grow or seek to grow their markets larger, consideration is being given to establishing interstate subsidiaries, particularly for companies that are suppliers to industry. This is a sign of maturity in the region.

The identification of road access as an issue for companies was raised in two different contexts. The first is the physical aspect of access for larger road transport supplying inward materials and shipping out products. On many occasions the project team whilst visiting companies in the area was confronted by a 40ft container across the road. Authorities responsible for Land Use and Transport need information of potential development to be able to plan for adequate industry service support.

The second aspect of road access related to parking for employees' and visitors' cars. There is insufficient parking space in the region to cope with the current number of employees. The lack of parking is an added distraction to business and causes inefficiencies. It also raises an impediment to continued growth of employment in the region. The question for the planners is "what is the potential employment and traffic parking demand for the industrial region?".

The level of new company development (20%) in the area is corroborated in both the duration and movement data. The origins of many new companies was traced back to the recession during interviews. Circumstances where individuals were left with no other avenue than to work for themselves. A proportion of these were started at the deepest part of the recession and have grown with the economic recovery, some into international markets.

The region appears to have a composition which operates as an incubator for new companies.

IMPLICATIONS FOR COMPANY GROWTH AND ECONOMIC DEVELOPMENT

The status of the companies in the region could be described as successful. 44% of the companies had probably survived two recessions (see Figure 9) and at least 74% survived the 1991/92 recession. It could also be said that the industry in the region is mature even though relatively young compared with the average corporate life expectancy of around 40 years. Many current owner/managers are considering retirement and selling out is a major preoccupation. Some second generation takeovers are occurring within the region.

In this context, superannuation is taking a higher precedent than business development in many cases. The transfer of capital to property assets in superannuation is syphoning business development investments away from economic development and jobs creation. Manufacturing only needs bricks and mortar assets for one reason, to give to the financial institutions to fund business growth. If bricks and mortar not currently held by the banks are moved into superannuation then investment funds to industry growth could quickly dry up unless a change in financing arrangement occurs. A change in the outlook of the financial institutions is likely to be a pre-requisite for industry growth in the region.

The natural growth of business generally demands larger premises and more people to be employed. This natural progression is being constrained by a number of factors. The principle factor is the lack of an appropriate profile of site sizes in the region to match a potential industry growth profile. Over the past three years a 5-10% growth per annum has probably occurred in the region. This is likely to be constrained by the lack of suitable sites in the region.

There are also some conflicting influences in companies which owner/managers need to rationalise when graduating to a larger site. The influences are dominated by the cost of a move which is not tax effective for a growing company.

The disruption of moving a company in production and the influences of staying in a good location, having been in the region for a long time, and superannuation site ownership, all have bearing on management decisions to relocate a growing company. The attitudes and approach of existing owner/managers to these decisions will seriously influence the economic development growth and capacity of the region over the next 10 years.

The high priority given to the region's location has the potential to stagnate business and economic growth in the region for a number of reasons:

- inappropriate site sizes and use of multiple sites is inefficient, constraining profitabilities and hence growth and longevity of a company.
- the natural rejuvenation of the region through its incubator role for small new companies will be limited by the multiple site operation.

This situation could be eased by current open space being earmarked for more medium sized industrial sites rather than housing. Historically, it appears recessions may have been the mechanism that rejuvenated the region but the aim of this project is to eliminate future recession effects. As a result more emphasis is required on long term land use planning and support for the movement of companies as they grow, i.e. tax concessions and other incentives.

The level of company growth in the region and the necessary focus on national and export markets will place an increasing demand on improved road access to cope with the increasing size of transport vehicles rather than frequency of road movements.

The ability of companies to employ people to the maximum capacity of the region besides being influenced by employment conditions is also being constrained by the ability to park more cars.

IMPEDIMENTS TO LAND USE MANAGEMENT DECISIONS

The current land use development is driven by land speculation rather than a 10-20 year strategy for land use to support economic development. The new responsibilities of local government for economic development provide the opportunity for long term land use management decisions to be made. However, to make these decisions requires an extensive information and data gathering process and industry development analysis to be undertaken to create a decision envelope for local government managers to make decisions which can withstand pressure from perochial vested interests. The research process will require an annual review to ensure adequate support to the decision makers.

The profile of industry sites, growth potential and external industry service support will provide the key parameters to the development of appropriate economic development strategies.

In the Moorabbin region the potential need for redevelopment and changes in land use have been foreshadowed by the findings of this project. Land agglomeration may be part of the land use strategy for industry development. This traditionally has proved extremely difficult and time consuming (many years) for private enterprise. The introduction of compulsory purchasing by government has been unacceptable to the community in the past.

The removal of this impediment in a redevelopment strategy will be one of the key issues which will require some research and development of an imaginative strategy. A long term vision for the funding of community resources may also be part of the proposed strategy.

The physical design of industrial localities to cope with transport demands and to maximise the economic development capacity of the region may require some collaboration between local government, land owners and industry. This collaboration is much more conceivable in the context of a long term land use strategy and a 10 year local economic strategy. Both of these can create a more certain environment to promote future local investments.

CONCLUSIONS

The Moorabbin project has highlighted how traditional land use planning approach has the potential to both prevent continued growth in the Moorabbin area and stagnate existing company growth. Company owner/managers have been the scape goats for the demise of economic development and the growth of companies over the last 10 years.

Academics have known for a long time that human decisions are dictated by the surrounding environment and the goals they pursue. Security in a job and security of wealth in retirement age are common goals in most walks of life and are no different in industry.

The project has provided a small demonstration on how land use planning environment interacts with the goals of industry decision makers and has the potential to strongly influence company growth and job creation. This is of particular concern in a region where industry growth has been high throughout the latter years of the last recession.

The long term management of land use as a resource is a fundamental element of sustaining the growth of companies and employment. The economic strategy of local government is likely to focus on growing companies and job creation. This will deliver lower unemployment and increase the available wealth for redistribution throughout the community. A component of this strategy must ensure that industry has land space and industrial infrastructure to support growth of at least 5-6% p.a. for the next 10 years.

Many of the issues raised in the paper are not new in themselves, but are new in the context of local government responsibilities for economic development. The project has identified some of the information and data necessary from industry itself as a key input to the planning process for economic development at the local level.

The project identifies that there is a great deal of additional research required which should focus on industrial capacity, site utilisation and size profiles to support both local government and industry in addressing the land use aspects of economic development. Like any new venture involving R&D, an

increased allocation of support resources at the start of the work is required to ensure an acceptable product is delivered to the customers. This is particularly true for local government in the current environment of cutting costs for traditional activities. Increased resources should be made available for research and development of new economic development responsibilities.

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