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## The Next Chapter in ED

By Savannah Jermance, CEcD, CCIP

### AI, ESG...WSY<sup>1</sup>?

Technological advances and widespread availability of Artificial Intelligence (AI), coupled with increasing emphasis on and scrutiny of non-financial markers of success are two factors disrupting nearly every industry, and thus the field of economic development as it seeks to support industry growth. This article explores the capabilities and limitations of AI as well as the impact of Environmental, Social and Governance (ESG) factors specific to economic development and the interplay between the two.

<sup>1</sup>WSY: Commonly accepted acronym for "What Say You".

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# the next chapter in ED

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## HOW TO EFFECTIVELY LEVERAGE AI AS ECONOMIC DEVELOPMENT PRACTITIONERS

ai is here to stay, and it's only getting faster and more intelligent. As such, it's critical that economic development professionals understand its capabilities and limitations as tools are increasingly adopted. Let's start with the positives – how can AI maximize efficiency for economic developers? Intensified by labor pressures nationwide, practitioners often find themselves filling multiple roles in a community – from planning and development to legal, accounting, and marketing/public relations. This may be the single greatest benefit to adopting AI tools: That it can effectively replicate one person's time into the hours associated with many job roles. AI is particularly well-suited to support the *Science* portion of economic development, if less so the *Art*. Where AI particularly excels is in data related research, which studies have shown centers on five main facets (Qin, 2023):

- Intelligent Decision-Making / Predictive Modeling
  - o AI tools quickly and objectively digest current inputs and make predictions based on historical inputs. Economic development applications may include:

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## AI, ESG...WSY?

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Let's start with the positives – how can AI maximize efficiency for economic developers? Intensified by labor pressures nationwide, practitioners often find themselves filling multiple roles in a community – from planning and development to legal, accounting, and marketing/public relations. This may be the single greatest benefit to adopting AI tools: That it can effectively replicate one person's time into the hours associated with many job roles.

- Highest and best use of sites
- Future population needs – services, utilities, et cetera
- Assessing public support of a proposed change
- Social Governance
  - o As cities adopt technologies to embed the Internet of Things (IoT) into transportation networks, public safety and more, AI tools may aid in:
    - Alleviating traffic bottlenecks in real time
    - Alerting Police/Fire/EMS more quickly of accidents, to save lives and keep transportation running smoothly
    - Proactively recognizing potential threats in public areas
- Labor and Capital
  - o AI continues and accelerates the trend of greater investment in tangible assets/technology than human capital
    - Virtual labor force, capable of more than rote repetition of singular tasks
    - Improved quality of life
      - Allows human capital to focus on its highest and best use, leveraging

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Even as tools like ChatGPT evolve and are able to access up to date information, the databases which they may be accessing aren't necessarily up to date. Decennial census data, for example, is often outdated and what is posted online is not necessarily the actual data leveraged to determine eligibility for certain economic development programs (in favor of more recent data much less likely to be published on economic development websites, based on past experience).

inputs from AI to focus on creative solutions – a true manifestation of the “knowledge economy” concept (Powell, 2004).

- New job opportunities
- Industry 4.0
  - o Characterized as the emergence of cyber-physical systems involving entirely new capabilities for people and machines (Mhlana, 2020)
    - Humankind doesn't yet know what it needs in the next industrial revolution, but there is a good chance that AI will define and solve it.
    - Customization and the IoT is likely to influence how humans interact with technology – imagine technology that adapts to each unique user's abilities and limitations and keeps supplies filled just-in-time for greatest space and worker efficiency
    - More precise, human-like robotics
- Innovation
  - o As AI takes on more basic tasks, human capital is freed to imagine new uses and solve ever more complex problems – economical, social, human
    - Which may be causally linked to the increasing impetus on ESG

Despite its well-documented potential, AI does have limitations and even creates some new challenges. OpenAI's ChatGPT, for example, at this writing is current only to September 2021 for base users; however, OpenAI reports that the tool *can* research and provide real time data – a feature expected to become available to all users “soon” (Radford & Kleinman, 2023). Even as tools like ChatGPT evolve and are able to access up to date information, the databases which they may be accessing aren't necessarily up to date. Decennial census data, for example, is often outdated and what is posted online is not necessarily the actual data leveraged to determine eligibility for certain economic development programs (in favor of more recent data much less

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Also of concern is the accuracy and data integrity of AI tools, which may form answers based on any data it finds – whether the source is accurate/true or not. Even the FTC has gotten involved in mitigating risk of misinformation and defamation via ChatGPT, which is especially critical as the tool searches current information and effectively removes a fail-safe resulting from only leveraging data up to September 2021. Imagine the legal implications evolving here and entire careers that stand to be made of specializing in litigating these cases.

Data confidentiality also remains a key concern of many firms as they consider the adoption of various AI tools. How can companies ensure that client data is appropriately used and protected, and not used to train these AI tools? By nature, in order to improve and grow breadth of application, AI must be trained – but, at what expense? Many employers, Samsung notably, have banned the use of generative AI to avoid leaking proprietary data (Gurman, 2023). Leakage of a company's own data is bad enough, but for site selection consultants and economic developers, there is even greater risk in accidentally disclosing client data. A new realm of training will surely emerge here, where all public staff and consulting employees, regardless of level of position will have required generative AI training.

There is substantial risk of any single employee inadvertently searching or inputting sensitive data, which could jeopardize the entire client relationship and potentially have huge legal repercussions with respect to trade secrets, data confidentiality clauses, and misrepresentation. In response to these threats, many firms – Samsung reportedly included – are working to leverage generative AI tools to create custom, proprietary databases for internal use only.

But custom AI tools are expensive, so it's hard to imagine cities and counties developing such tools for economic development purposes – at least for the short term until/unless costs drop significantly with greater adoption. Perhaps there is another career/business opportunity here for economic development service providers to offer a subscription-based tool oriented toward economic developers – where one solution could be created for multiple users to access. Still, the client data challenge exists. How can a jurisdiction both benefit from the learnings and inputs of other

Data confidentiality also remains a key concern of many firms as they consider the adoption of various AI tools. How can companies ensure that client data is appropriately used and protected, and not used to train these AI tools? By nature, in order to improve and grow breadth of application, AI must be trained – but, at what expense?

jurisdictions while keeping its own data discreet and confidential?

In addition to current limitations/concerns with AI, there are a slew of new concerns with the adoption of AI as well, from liability where AI holds some responsibility to the question of whether AI can account for adoption of itself in its algorithms: How self-aware is AI, and (how quickly and accurately) can it adjust its calculations accordingly to factor its own impact to systems and culture for accurate forecasting? Particularly important for economic developers and jurisdictions as they plan for future generations -- Can education systems keep up with demand for ever-higher quality human capital?

As AI takes on more and more rote tasks and frees up humanity for more complex and creative problem-solving, are we working toward a system where third graders are learning calculus (or, for that matter, mastering an artistic pursuit), and is that even feasible? There are surely holes in AI's scope that will leave roles at many educational levels for humankind, but it remains to be seen exactly what those are. As has been a trend for many years, it seems likely that most positions will require some form of "higher education" – the definition of which is in flux itself these days as traditional institutions grapple with online offerings and shorter-term certifications and credentials that later generations seem to favor versus traditional post-secondary education models.

Having surveyed some opportunities and limitations of AI related to economic development, this article will now explore another trend that is greatly impacting industry, and thereby site selection and economic development: ESG. ESG may be defined as:

It may seem like an odd pairing – AI and ESG, but they are inextricably linked. As humanity as a whole evolves under Abraham Maslow's hierarchy of needs (Maslow, 1943), AI will be capable of resolving much of our "basic" strife – to ensure greater access and a higher degree of security with respect to Physiological Needs and Safety and Security, freeing us culturally and economically to pursue "higher" level interests including Love and Belonging, Self-Esteem, and Self-Actualization.

"Environmental, social and governance (ESG) refers to a collection of corporate performance evaluation criteria that assess the robustness of a company's governance mechanisms and its ability to effectively manage its environmental and social impacts. Examples of ESG data include the quantification of a company's carbon emissions, water consumption or customer privacy breaches. Institutional investors, stock exchanges and boards increasingly use sustainability and social responsibility disclosure information to explore the relationship between a company's management of ESG risk factors and its business performance." (Gartner, 2023)

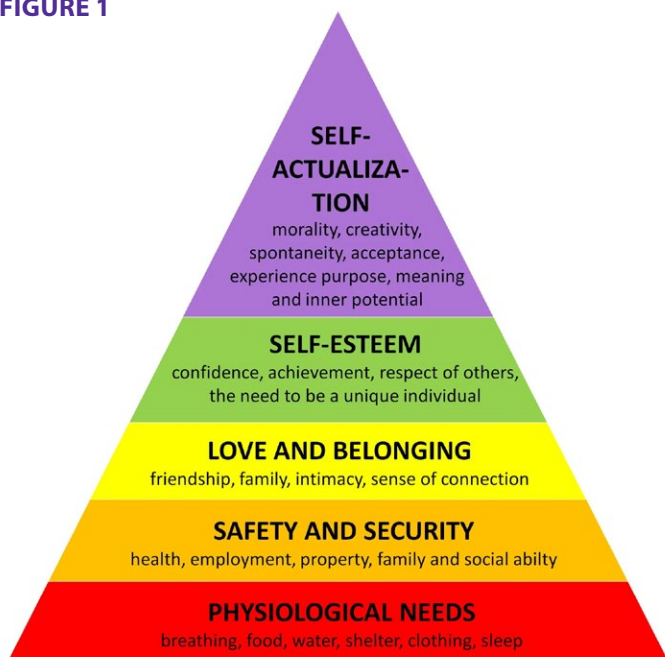
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Next, this article explores some of the drivers of the movement toward an ESG emphasis in industry, cultural and economic, and then discusses implications for economic development.

## CULTURAL

Research suggests "19% of Generation Z (Born: 1995-2010) and 33% of Millennials (Born: 1981-1994) often or exclusively use investment products that take ESG factors into account" (Versace, 2022). Thirty-four percent of Generation Z and 39% of Millennials would be willing to take a pay cut *if a firm's ESG strategies lined up with their values and beliefs* and ESG initiatives are considered important to more than 40% of U.S. workers overall (Gurchiek, 2023). Considering that Generation Z and Millennials combined are expected to comprise 72% of the total workforce by 2029, this is a powerful cultural driver forcing companies to consider and account for ESG to attract and maintain

FIGURE 1



(Image Credit: SimplyPsychology, [www.simplypsychology.org/maslow.html](http://www.simplypsychology.org/maslow.html))



workforce and maintain positive public perception (Montenegro, 2023).

## ECONOMIC

In a survey released by Stanford Graduate School of Business, the Rock Center for Corporate Governance, and the Hoover Institution, the average investor in their 20s/30s was willing to lose up to 10% of their investments to see companies improve their environmental practices, while the average investor in their 60s/70s was unwilling to lose anything for the company to achieve greater environmental outcomes. While there are other factors at play such as time horizon, this is important as the article adds that “if you really tilt your investment strategy toward ESG, you’re going to incur a loss,” albeit potentially short-term as a broad NYU Stern Center for Sustainable Business survey concluded that “Improved financial performance due to ESG becomes more marked over longer time horizons.” (Tensie Whelan, 2021)

With respect to consumption, studies suggest that Generation Z shoppers prefer to buy sustainable brands, with most willing to spend 10% more on such products versus mainstream alternatives while 75% of Millennials indicate they’d change their buying habits to favor environmentally friendly products. Furthermore, Nasdaq reports just over 200 ESG funds available to U.S. investors in 2017 which more than *doubled* in the next five years (2022). Additionally, nearly 100 mutual funds and ETFs have been “revamped” to incorporate/strengthen ESG goals (Versace, 2022). The aforementioned NYU Study additionally concluded, among other things, that “ESG investing appears to provide downside protection, especially during a social or economic crisis” and that “sustainability initiatives at corporations appear to drive better financial performance due to mediating factors such as improved risk management and more innovation.” Clearly, companies cannot *afford* not to integrate ESG.

“The growing importance of a company’s ESG performance, driven by investors, consumers, the workforce, and regulators, has heightened the focus of senior executives and put ESG at the top of the Corporate agenda.”

– Maria Montenegro, Wolters Kluwer (2023)

## IMPLICATIONS FOR ECONOMIC DEVELOPMENT

Certainly in the United States as it catches up to ESG regulation in other major countries, increased emphasis on ESG is having an impact on location decisions, leading to some novel factors for consideration for site selection. Here are some examples:

### – Environmental:

- o Megaprojects/datacenters have big power needs and are increasingly searching for ever larger (not necessarily contiguous) parcels of land to

offset power use with green energy as well as ways to offset the costs of installing/offsetting power needs with utilities and jurisdictions.

- o Proximity to quality, safe public transit, and the amount of population accessible via this transportation method is of increasing importance.
- Social:
  - o Jurisdictions are increasing their minimum thresholds for employer coverage of employee benefits such as healthcare, flexible work options, childcare offerings/offsets, and Health Flexible Spending Accounts. For example: New in October 2023, Nevada now requires incentive recipients to offer paid FMLA leave to its employees.
  - o Increased emphasis on Diversity, Equity and Inclusion (DEI) efforts has resulted in a greater number of jurisdictions having mandatory Minority, or Women-owned Business Enterprises (MWBE) supply chain and/or hiring requirements. While well-intended, these arbitrary restrictions on businesses are sometimes not realistic and thus negate other benefits of being in a certain community versus a neighboring jurisdiction with more flexible policies. That is not to say that businesses should not aspire to increased utilization of MWBE suppliers and more diverse workforces – rather, making it a *requirement* to hire from a certain zip code, for example, versus a target or a collaborative effort often proves to be too stringent at the ultimate economic loss of the community.
  - o Educational assets have long been important in site selection, but there is a renewed emphasis on the ability of lower wage employees to be able to obtain training and education to propel them to higher earnings (supported partially by the employer). Recall AI is a driving force of the need for better educated workforce as simpler, more rote tasks are performed by machines. Community colleges and certification programs aimed at blue collar workers are equally, if not more important than traditional 4-year universities aimed at educating white collar workers.
  - o Companies value sites with a population reflective of their workforce higher than those that are less well-matched.
  - o Economic development is no longer siloed from community development. Employers are increasingly aware of housing pressures in key markets, and this can even cause a company to seek relocation. Workforce *must* have access to reasonably priced housing in order to have a sustained and successful operation. Consider that what is incentivized comes to be, and it’s easy to see why jurisdictions are increasingly

Neither AI or ESG are going anywhere, and it's helpful to understand the interaction between the two and how AI is very likely driving the cultural and economic shift toward ESG. It's more than a trendy buzz-word, it's literally human evolution unfolding. Future success hinges on recognizing both the opportunities and threats posed by AI and ESG, and those that embrace and strategize how to make these concepts work for their operation (business or jurisdiction) rather than wait for the concepts to dictate that path will emerge as market leaders.

adopting policies to provide financial considerations for housing developments and increased density.

- **Governance:** While these aren't new, they are experiencing a renaissance as critically important factors.
  - o Following the stark decrease in sales and use tax revenues that decimated some city budgets precipitated by the pandemic, the financial stability of jurisdictions is more scrutinized. Locating in a solvent community means that infrastructure and public safety as well as incentive packages can be counted on long-term.
  - o Related to the social aspects listed above, companies value a location with similar political leanings more highly than one with drastically opposing views. Historic voting patterns and minutes from prior meetings are used as indicators of future voting expectations.
  - o Related to the environmental aspects listed above, there is increasing examination of a company's true ESG actions to avoid "green-washing" and ensure a jurisdiction, and thereby its citizens (in ways, a form of investor) are getting what has been promised. Green-washing is defined as when "a company purports

to be environmentally conscious for marketing purposes but actually isn't making any notable sustainability efforts." (Versace, 2022).

Companies are well aware of this and generally proactively working toward higher levels of compliance and third-party review of their actions and progress ahead of tighter formal regulations in the United States.

As economic developers seek to support industry growth in their communities, it's critical to have working knowledge of AI and ESG and how they are impacting companies' strategies and decision-making. Jurisdictions too will evolve and adapt to the post-AI world, which economic developers are well-suited to support and usher in. Neither AI or ESG are going anywhere, and it's helpful to understand the interaction between the two and how AI is very likely driving the cultural and economic shift toward ESG. It's more than a trendy buzz-word, it's literally human evolution unfolding. Future success hinges on recognizing both the opportunities and threats posed by AI and ESG, and those that embrace and strategize how to make these concepts work for their operation (business or jurisdiction) rather than wait for the concepts to dictate that path will emerge as market leaders. ④



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