

Special Feature: A Highlight of the 2003 CUMU Conference

Understanding the Competitive Advantages of Inner City Economies

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Abstract

Urban colleges and universities are untapped economic engines for revitalizing urban neighborhoods. The Initiative for a Competitive Inner City (ICIC) has studied the economies of America's urban communities for close to a decade. One of the most hopeful things we have found is that inner cities have economic potential which universities can unleash with minor adjustments in purchasing, hiring, delivering technical expertise, and investment patterns. The 2003 CUMU Conference at Eastern Michigan University will feature a presentation by ICIC on this work.

The Initiative for a Competitive Inner City (ICIC) is a national nonprofit organization dedicated to the revitalization of the economies in distressed urban neighborhoods. ICIC's work involves building mutually beneficial public-private partnerships that will strengthen the business environment, stimulate investment, and create jobs in inner cities and for inner-city residents.¹

Through the years, urban colleges and universities have interacted with their communities in a variety of ways, providing educational services, health care, day care, or serving as a community center, among many others. Until recently, however, few metropolitan colleges and universities have focused their resources on the task of economic revitalization in their communities. ICIC believes that urban institutions of higher education have the opportunity to become economic engines for the local economy. Moreover, this new role can be managed with relatively minor adjustments to institutional operations. Making this transition, however, requires strong leadership.

¹ Inner cities are economically distressed parts of urban communities. ICIC defines inner cities as agglomerations of census tracts or ZIP codes with at least 20 percent poverty rate or at least 1.5 times higher unemployment or poverty than their respective regions. Central business districts are excluded from the ICIC inner city definition.

Presidents and top administrators who understand the obligations and rewards of greater involvement with the economic life of their communities must move the agenda forward. ICIC's research shows that metropolitan colleges and universities that have taken on this challenge have reaped significant rewards.

The movement toward greater economic involvement is gaining momentum, propelled by reports of successful university-city collaborations. With increasing competition between academic institutions to attract high quality students and faculty, many urban universities are compelled to accelerate the economic revitalization of their surrounding neighborhoods. Furthermore, the institutions' needs for the expansion of their facilities have brought many universities face to face with local communities and governments. When good will is sparse, approvals of expansion plans can be mired in costly political battles.

ICIC hopes to encourage the trend of greater economic involvement by universities by publishing research on inner-city economic issues and serving as a convener of thought leaders. During the past decade, ICIC has worked closely with public and private-sector leaders in cities across the country. We have studied the dynamics of inner city economies and developed a framework for economic revitalization. We believe that urban colleges and universities considering ways to become more engaged with their city's economy may benefit from a review of ICIC's experience with inner city economic revitalization.

The Initiative for a Competitive Inner City

ICIC was founded in 1994 by Harvard Business School Professor Michael E. Porter. Professor Porter, a leading authority on global competitiveness, concluded that his theories of market competitiveness apply equally well to the economies of America's inner cities as they do to national economies. Countries dominate certain markets—Japan in electronic equipment, Holland in cut flowers, for example—because they have built competitive advantages in these areas.

Porter suggested that inner cities have competitive business advantages as well. In 1994, this notion was revolutionary. At that time, virtually no one associated inner cities with economic competitiveness. In the popular mind, inner cities were places of poverty, crime, and decay. They had few assets and few prospects. Decades of well-intentioned social programs had done little to improve the long-term prospects of inner-city neighborhoods, and generous business subsidy programs were largely unsuccessful in their goal of stimulating local economic activity.

After analyzing conditions in inner cities across the country, Professor Porter reached two conclusions: (1) Inner cities have a broad, if undeveloped, economic foundation with thousands of businesses thriving in inner cities by using the competitive advantages the location offers; and (2) The private sector, rather than government welfare programs, has the best chance to improve the quality of life in inner-city neighborhoods.

If market forces were encouraged in inner-city areas, Professor Porter insisted, the benefits of our economic system, which are so widespread throughout the country, would also be available to the residents of these communities. But making the inner-city economy viable required overcoming several major obstacles. First, it was necessary to change widespread misperceptions about the reality of inner cities. Negative popular perceptions discouraged business investment. Second, historic antagonism, in part rooted in bad public policy, had made some inner city business environments inhospitable. For instance, neglected roads and inadequate public transportation systems had turned an inner city strategic advantage—proximity to the Central Business District (CBD) and major transportation routes—into a disadvantage. Additionally, businesses and entrepreneurs frequently found themselves in conflict with government agencies and community organizations. At times, both sides assumed that economic and social progress were on separate tracks that never crossed. The third major obstacle was the lack of strategy and focus on inner city business revitalization. Public and private leaders failed to recognize the significance of inner cities for the health of regional economies and failed to devise concerted, focused efforts on integrating inner cities into regional economies.

ICIC was established to engage all three issues. We have worked to change the negative perceptions of inner cities as a business location by identifying the competitive advantages of these areas. The most significant competitive advantages are the inner city's central location at the hub of regional transportation networks; a large workforce with untapped potential; an underserved local consumer business market; and the ability of inner-city businesses to integrate with the region's leading industry clusters.

Through research collaborations with such pro bono partners as the Boston Consulting Group, PricewaterhouseCoopers, and Accenture, ICIC attempted to provide statistical evidence to clearly delineate these advantages. The most cogent finding showed that more than a half million businesses operate in inner-city locations, and the most successful inner-city companies leverage one or more of the aforementioned competitive advantages.

Four years ago, ICIC partnered with *Inc.* Magazine, a national publication that focuses on small and mid-size businesses, to bring attention to top-performing companies located in inner cities. Each year, *Inc.* dedicates its May issue to the publication of the Inner City 100, a list of 100 of the fastest growing inner-city companies. The first ICIC-*Inc.* Magazine Inner City 100 list in 1998 attracted just over 200 nominations. This year's list, the fifth annual, attracted 5,000 nominees from 57 cities. Their financial statements are testaments to the fact that Inner City 100 companies are sleek, intelligent, and flexible. They stand up well in a comparison with the best-performing companies anywhere in the country.

Statistics indicate the extraordinary strength of these inner-city enterprises. The combined sales in 2001 for the 100 companies totaled \$2.5 billion. Their average five-year standard growth rate was 755 percent. Between 1997 and 2001, they created more than 8,500 jobs. Currently they employ more than 16,500 full-time workers, most of them at above-

average wages. The average hourly pay rate is close to \$14, and skilled workers and mid-level managers were paid, on average, annual salaries of more than \$41,000.

Simultaneously, ICIC entered partnerships with mayors, private corporations, and community leaders with the goal of improving the business climate in inner cities. We argued that government's role is not to subsidize failing businesses, but to create the conditions in which strong companies can grow stronger. Reducing crime, repairing roads and streetlights, improving the appearance of commercial districts, and helping business owners navigate through the city hall bureaucracy will improve the business climate. ICIC provides consulting services to city officials and civic leaders in Boston, St. Louis, Louisville, Bridgeport (CT), and Milwaukee, among others. Lessons learned in one city are introduced in others.

ICIC also endeavored to broaden communication channels among the private sector, government and non-governmental development agencies, nonprofit organizations, and, most recently, universities. One objective is to identify intersections at which social and economic goals converge. One obvious example is the connection between workplace training programs for low-income, inner-city residents, and improved company competitiveness. ICIC also attempted to open pipelines to capital sources that were not reaching inner-city businesses. As part of this effort, in 1998 ICIC, in conjunction with American Securities Capital Partners, launched Inner City Ventures (ICV), a \$130 million private equity fund focused on inner-city and minority-owned companies.

Understanding the Inner City Economy

ICIC's research demonstrates that contrary to popular perception, inner cities offer significant opportunities for entrepreneurs and investors. The strength of inner-city businesses actually becomes more apparent in times like the present when the general economy falters. A few investors have taken note. Some managers of public pension funds have targeted the inner cities for investment. California State Treasurer Phil Angelides reports that over the past few years, while other segments of the state's portfolios have been staggered, inner-city investments have consistently produced modest but stable returns.

A common characteristic of these companies is that they provide the goods and services that support general business expansion. They include printing and welding shops, food processors, and back-office operations. They bake cookies, brew beer, manufacture furniture, and cater meals for downtown functions, to name just a few activities. Leading industries locate or expand into metropolitan areas for many reasons. An important factor in the decision to choose one city over another is the quality, breadth, and depth of the city's economic infrastructure.

Boston Mayor Tom Menino is among the vanguard of urban leaders who have recognized the importance of inner-city businesses. In November 2001, he opened the Back Streets office to support the thousands of small and mid-size light-industrial and commercial enterprises that operate in Boston. The Back Streets program has attracted national attention and Back Streets-type offices have opened in several cities.

Business Opportunities: The Case for Business Success

Strategic Location

Interviews with hundreds of owners and CEOs of inner-city businesses revealed that the number one reason for choosing to operate in the inner city is its strategic location. For our service economy in which just-in-time deliveries are increasingly important, location does matter. The central location of inner cities provides easy access to CBDs and downtown retail centers. Central cities are at the nexus of the region's North/South, East/West highway systems, and close to airports, rail terminals, and seaports.

Workforce Advantage: Knowing How to Increase Productivity

It is important to remember that despite temporary spikes in the unemployment rate, the U.S. workforce faces long-term and acute labor shortages. For the past few decades the most pressing human-resource issue facing the U.S. economy has been the creation of jobs. Over the next 10 years the critical issue will be finding workers. Growth in the labor supply, projected to be 1.1 percent a year by the U.S. Census Bureau, will fall far short of the demand for labor, which has increased by an annual average of 2.6 percent over the past two years. In the new economy the available and growing labor force will be in inner cities. More than 54 percent of workforce growth will come from minority communities, which are heavily concentrated in cities and inner cities. The challenge for many companies will be to attract, train, and retain that increasingly diverse and urban workforce.

There is no denying that the inner-city workforce has readiness and other problems, but successful inner-city companies have learned how to develop employee skills to mutual advantage. Many companies have developed screening, recruitment, and training techniques. They also include promotion and reward programs as well as mentoring and employee assistance strategies. Their success shows that inner-city workers are as productive as any other employees in the workforce. The reward for inner-city companies is the large pool of available workers to draw from, their adaptability, and their loyalty as demonstrated by low turnover rates. ICIC and Jobs for the Future have partnered to document some of these successful company strategies, available at <http://www.workforceadvantage.org>.

Underserved Local Market: Adapting Suburban Model to Inner-City Conditions

A 1998 ICIC/Boston Consulting Group study found that inner-city residents nationally have approximately \$85 billion in retail buying power, an amount larger than Mexico's entire retail market. Because of the density of the housing, inner cities often have more consumer spending capacity per square mile than many wealthy suburbs. Several major supermarket operators report that their inner-city stores are among the most profitable in their chains.

ICIC's most recent retail study, *The Changing Models of Inner City Grocery Retailing*, explores the experiences of four small-to-large inner-city supermarkets implementing inner-city strategies: America's Food Basket in Boston, Massachusetts; Schnucks in St. Louis, Missouri; Shaw's in New Haven, Connecticut; and Pathmark in Newark, New Jersey.

Each of these companies has adapted its business plan to accommodate the characteristics of potential customers in its market area. This ranges from stocking shelves with hard-to-get ethnic foods to hiring staff that reflects the composition of the community.

Other major retailers, such as Home Depot, have made similar adjustments. A typical suburban Home Depot store includes acres of plants and gardening equipment, items that are of little use to city apartment dwellers. The Brooklyn, New York, Home Depot eliminated the garden section and replaced it with a far smaller but comparably profitable space that features hardy interior plants.

Regional Clusters: Inner-City Companies Supporting Leading Industries

Inner-city companies support the region's leading industries. They provide back-office support for the financial services industry, maintenance services for hospital and educational institutions, and catering services for business meetings. They print brochures for wine producers in Napa Valley, mold plastic in Detroit, and decorate theatrical stages in New York City. An example will help to illustrate the point.

City Theatrical, located in the South Bronx, is as much a part of a Broadway hit as the actors, writers, or directors. The thick, low-lying fog that blankets the morning streets in the production of *Cats* was manufactured by City Theatrical, which provides a variety of stage props.

Founded in 1986, City Theatrical manufactures lighting accessories and special effects equipment for theatrical productions on Broadway and all over the world. Few inner-city neighborhoods in the country have a more damaged reputation than the South Bronx. Yet, for City Theatrical the South Bronx could hardly be more ideal. It offers three extraordinary competitive advantages: location, access to a loyal, semi-skilled workforce, and participation in New York City's world-renowned entertainment cluster.

The South Bronx is just a short subway ride from Times Square, the theatrical center of the universe. It is close to cutting-edge theater-production designers and industry innovators. The competition among New York theaters promotes innovations, and these innovations are sought after around the globe.

Inner City Investors: Knowing Where to Look

Phil Angelides, California State Treasurer, makes the case for investing states' pension funds in America's inner cities. He points out that inner-city investments produce a double benefit: a strong initial return and a boost to the state's economy. "It's amazing to me," he said in an interview last year, "how American investment in volatile overseas areas is a given of our capital markets, even while our own emerging markets—inner cities, minority small businesses—are so often written off as risky and troublesome."

During his tenure as treasurer, Angelides has channeled investments from CALPERS (California Public Employees Retirement System) and CALSTERS (California State Teachers Retirement System) into the urban infrastructure and economy. He earmarked \$1.8 billion of equity for domestic "emerging markets," an infusion of capital to inner-city companies and real estate that has driven large-scale change in the market. Private-sector investors such as Fleet Bank, Bank of America, and Merrill Lynch Financial Services have also tailored debt and equity products for inner-city enterprises.

Mapping America's Inner Cities

ICIC is currently in the process of defining and mapping the inner cities of America's 100 largest cities. ICIC's State of the Inner City Markets Project is intended to provide the first national economic profile of how inner-city economies are performing. The project is intended to equip government officials and economic development practitioners with the tools they need to develop solid business strategies based on the area's inherent competitive advantages. The study, which will be updated annually, can also be used to benchmark progress and compare strategies with cities of similar characteristics.

Universities and Inner Cities: An Undeveloped Relationship

Major academic institutions are dominant features of many of America's inner cities. Unlike mobile corporations, colleges and universities are largely guaranteed to stay in their present locations. They are enduring components of urban economies. And yet, their full potential remains untapped.

From Colonial times, universities and cities have lived together in an uneasy alliance, almost a familial relationship in which both parties are at various times proud and annoyed by the connection. Although the nature of both city governments and universities has evolved over the years, the ancient antagonism between them still

lingers. In many instances, suspicion and ill-will obscure the reality that each one has much to offer the other and that their fortunes are entwined.

More than half of all the colleges and universities in the nation are located in the urban core: central cities and their immediate surroundings. They have major purchasing power, attract substantial revenues for their surrounding communities, invest heavily in local real estate and infrastructure, are major employers and purchasers, have access to vast amounts of business and technical expertise, and help to train workforces and nurture new businesses.

Colleges and universities have become prolific incubators of new businesses, especially high-tech and biotech companies that are on the cutting edge of today's economy. In fact, universities in urban areas are helping to place cities at the forefront of economic growth and competitiveness. Close to 19,000 licenses of innovations made at academic institutions were active in 1999. In the same year, with only 25 percent of these licenses generating revenue, they contributed more than \$40 billion in economic activity and created 270,000 jobs. Business activity associated with the sales of these products is estimated to have generated \$5 billion in tax revenues at the federal, state, and local levels. The more than 1,900 colleges and universities in the urban core spent a total of \$136 billion on salaries and goods and services in 1996—nine times greater than all federal spending on urban job and business development in the same year.

Urban colleges and universities directly impact economic growth in their surrounding areas. They hold vast amounts of real estate. In 1996, the original purchase price of land and buildings held by urban-core colleges and universities was \$100 billion (current market value is several times greater), a net increase of \$8 billion from the prior year.

Colleges and universities are also major employers. They offer a large number of stable, well-paying jobs. Nationally, colleges and universities employ nearly 3 million workers, with 65 percent working in urban areas. In the greater Boston area, the 65 colleges and universities employ more than 94,000 people—5 percent of regional employment. Significantly, colleges and universities are among the fastest-growing employers in the country. Analysis of nationwide industry clusters shows that education and knowledge creation is the second-fastest-growing cluster in the country. Colleges and Universities are by far the fastest-growing industry within that cluster, adding 300,000 jobs between 1990 and 1999.

The economic effects of college and university involvement can reach beyond the immediate neighborhood. For example, 25 years ago, before the creation of the Medical School at Brown University in Providence, the vast majority of Rhode Island residents traveled outside of the state to receive tertiary medical care. Now the trade balance has completely reversed. People come from all over the region to Providence to receive expert health services.

While business, government, and universities have always coexisted in our nation's cities, proximity alone has only infrequently led to concentrated efforts to boost business and job growth. Institutions across sectors have not always perceived or pursued common interests and have, at times, adopted adversarial positions on issues related to economic development. Chronic disputes over issues ranging from land use to academic institutions' tax-exempt status have frequently led to deep skepticism by communities about the benefits of colleges and universities to the local economy. Colleges and universities, for their part, have seen cities and communities do little to enhance—and much to impede—the growth and competitiveness of their institutions.

Yet in recent years, the growing importance of technology, combined with new thinking about economic development, has in the best cases led to significantly closer ties between the sectors. Metropolitan areas with robust cross-sector alignment such as Austin, San Jose, and the Research Triangle in North Carolina demonstrate the economic growth potential when these sectors engage in collaborative and collective growth strategies. In order to better compete, institutions across sectors and across the country are coming together to resolve issues of contention and to form new partnerships. Key among these issues of overlapping interests is the revitalization of our urban economies.

Colleges and universities play an invaluable role in promoting many elements of a healthy inner-city economy. They have, for many years, worked to improve urban schools, offered health and legal services to the urban poor, and have more recently become active in urban housing. These types of public and community service have been core to the operating and learning agenda of colleges and universities.

Several universities are now taking an active interest in the economic development of their local communities through business and job growth. These institutions are following a new path of enlightened self-interest, recognizing that the economic competitiveness of their communities directly correlates to the health of their institutions and vice versa.

Just as colleges and universities are in increased competition with one another to attract and recruit high-caliber students and faculty, so too are the cities in increased competition with urban areas around the world to grow and retain businesses. Colleges and universities seek to build and maintain healthy endowments and research funding. Cities seek to nurture and develop a financial and intellectual capital base to sustain and accelerate economic development.

Business, government, academia, and community groups frequently partner on a variety of economic and social issues. However, for the most part these partnerships have not been extended to the task of inner-city economic revitalization. To a certain extent, this omission is due to the lack of a useful framework to guide action.

In 2002, ICIC, in collaboration with CEOs for Cities, published a study titled “Leveraging Colleges and Universities for Urban Economic Revitalization: An Action Agenda.” This report offers a roadmap that colleges and universities can follow to increase their participation in the local economy.

The December issue of *Metropolitan Universities Journal* will include a comprehensive report on our findings. For now, we will present the report’s major recommendations. These recommendations are addressed to university, city, community, and business leadership. Our article in the December issue will describe how we arrived at these recommendations and include examples of how some colleges and universities have implemented them.

College and university leaders can:

1. **Create an explicit urban economic development strategy focused on the surrounding community.** The strategy should mobilize the multiple ways in which colleges and universities can create economic impact and ultimately advance their own interests.

In many successful instances of university engagement, the college or university president, with board-of-trustees support, has advanced an economic development strategy to integrate university interests with those of the surrounding community. President Rupp of Columbia University initiated an economic development strategy to channel more university purchasing and contracting to businesses in Upper Manhattan. By actively aligning its strategies with the community’s economic development goals, Columbia University achieved results unimaginable just a few years ago.

2. **Include community participation and dialogue in formulating this strategy.** As many examples illustrate, incorporating community input, particularly regarding university expansion plans, enhances the operational efficiency of the university. Plans are approved faster, avoiding costly political battles with the community.
3. **Charge specific departments and offices with explicit economic development goals.** The University of Pennsylvania and Columbia University incorporated explicit economic development goals for purchasing departments. At Penn, purchasing staff performance evaluation is in part based on meeting local purchasing goals. Meeting these goals often involves embracing a change in practice, such as making purchasing protocol small-business friendly.

4. **Create a high-level coordinator to oversee and advance the effort.** To ensure continuity and political support, a college or university president should create a coordinator to implement the institution's economic development strategy. This person should be directly accountable to the president. For example, at the University of Illinois at Chicago, its Great Cities community engagement program was initiated and grew rapidly because there was a special assistant to the chancellor in charge of coordinating the entire program.
5. **Deploy college and university leadership to serve on the boards of business associations, community organizations, and public-sector bodies.** College and university leaders should seek to serve at the highest levels of local and regional leadership bodies. Virginia Commonwealth University President Eugene Trani served as the chair of the Richmond Regional Chamber of Commerce. This further strengthened the impact of VCU on the local—as well as the regional—economy. The president and other high-level executives of the Florida Community College in Jacksonville serve on a number of local and regional business boards, giving them first hand knowledge of employment trends.
6. **Think long-term.** Colleges and universities have to contend with two major hurdles when engaging with local communities. First, they often encounter initial resistance and skepticism. Second, while there may be short-term, quick hits that help set relationships on the positive path, most economic development takes a long period to show results. Some university leaders interviewed suggested taking a 10-year view.

Mayors can:

7. **Incorporate colleges and universities in short-term and long-term economic development strategy.** Colleges and universities are often missing from a local government's inner-city economic growth strategy. Mayors should incorporate college and university leadership to advise on future direction and bring to bear their considerable purchasing, employment, real estate development, business incubation, advising, and workforce development resources.
8. **Convene college and university presidents and business leaders regularly to identify and further economic development partnerships and opportunities.** Our research showed that regular interaction between mayors and college and university presidents is the exception, rather than the rule. Regular interactions among public, private, and academic leaders accompany greater success in forging partnerships.

9. **Establish a college- or university-liaison office to advance collaboration and economic development.** In addition to convening regular, high-level meetings, mayoral-university liaison offices can be critical to identifying and acting upon economic development opportunities. For example, Boston's Mayor Menino recently established a Liaison to Schools of Higher Education office to ensure continuous dialogue and collaboration with the city's colleges and universities.

Community group leaders can:

10. **Seek out "win-win" partnerships with colleges and universities and acknowledge these institutions' economic interests.** Instead of focusing on charitable contributions, community leaders should look for leveraged and large-scale opportunities in which an academic institution can deploy its assets for community economic growth while achieving its own goals. For example, community groups can help create land-use partnerships, identify capable local vendors to meet university purchasing needs, and screen and refer local residents to open positions at universities. This approach to partnership has proved successful for community groups to attract larger amounts of foundation or public-sector funding.

Business leaders can:

11. **Involve institutions of higher education in business forums, associations, and public/private initiatives.**
12. **Bring universities, city governments, and community groups together to collaborate on inner city economic revitalization.**

Conclusion: Inner City Economic Development and Universities

So what does this mean for urban colleges and universities? If they are to become more involved in local economic development, understanding the opportunities of the inner-city economy is essential. ICIC's analysis of the economies of inner cities reveals significant assets that are not widely recognized. Understanding the nature of these assets will help administrators target opportunities for greater economic integration.

Inner cities are home to a solid core of well-managed businesses. These companies already provide goods and services that support regional industry clusters. With intelligent coordination, they can expand to meet the needs of area colleges and universities, potentially in a more timely and cost-efficient manner.

ICIC research also shows that the inner-city workforce is an asset that is likely to grow in value as the economy begins to expand. Many successful companies locate in urban areas because they require an abundance of unskilled and semi-skilled workers. Although some inner-city employees have readiness issues, experience shows that development

strategies tailored to local circumstances can be effective. Over the years, inner-city companies have created worker-development techniques that have proved to be highly successful. These lessons can be adapted for college and university operations, increasing employee productivity, and as a consequence, advancing local recruitment.

With a better understanding of how the inner-city economy works, administrators will be able to identify areas in which college and university resources can be applied for maximum strategic benefit. The advantages for colleges and universities of greater economic involvement in the local economy are manifold. They extend to operations, research, and investments. Perhaps most significant, economic integration leads to improved relations with community residents and city leaders. In the CUMU Conference 2003 issue, we will describe the experience of several colleges and universities that over the past decade served as important catalysts for economic activity in their communities.

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