# The Competitive Advantage of the Inner City

by Michael E. Porter

Harvard Business Review

Reprint 95310

# Harvard Business Review

MAY-JUNE 1995


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HBR

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# The Competitive Advantage of the Inner City

by Michael E. Porter

The economic distress of America's inner cities may be the most pressing issue facing the nation. The lack of businesses and jobs in disadvantaged urban areas fuels not only a crushing cycle of poverty but also crippling social problems, such as drug abuse and crime. And, as the inner cities continue to deteriorate, the debate on how to aid them grows increasingly divisive.

The sad reality is that the efforts of the past few decades to revitalize the inner cities have failed. The establishment of a sustainable economic base – and with it employment opportunities, wealth creation, role models, and improved local infrastructure – still eludes us despite the investment of substantial resources.

Past efforts have been guided by a social model built around meeting the needs of individuals. Aid to inner cities, then, has largely taken the form of relief programs such as income assistance, housing subsidies, and food stamps, all of which address highly visible – and real – social needs.

Programs aimed more directly at economic development have been fragmented and ineffective. These piecemeal approaches have usually taken the form of subsidies, preference programs, or expensive efforts to stimulate economic activity in tangential fields such as housing, real estate, and neighborhood development. Lacking an overall strategy, such programs have treated the inner city as an island isolated from the surrounding economy and subject to its own unique laws of competition. They have encouraged and supported small, subscale businesses designed to serve the local community but ill equipped to attract the community's own spending power, much less *export* outside it. In short, the social model has inadvertently undermined the creation of economically viable companies. Without such companies and the jobs they create, the social problems will only worsen.

The time has come to recognize that revitalizing the inner city will require a radically different approach. While social programs will continue to play a critical role in meeting human needs and improving education, they must support – and not undermine – a coherent economic strategy. The question we should be asking is how inner-city-based businesses and nearby employment opportunities for inner city residents can proliferate and grow. A sustainable economic base *can* be created in the inner

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DRAWING BY PETER SIMPSON COOK

city, but only as it has been created elsewhere: through private, for-profit initiatives and investment based on economic self-interest and genuine competitive advantage – not through artificial inducements, charity, or government mandates.

We must stop trying to cure the inner city's problems by perpetually increasing social investment and hoping for economic activity to follow. Instead, an economic model must begin with the premise that inner city businesses should be profitable and positioned to compete on a regional, national, and even international scale. These businesses should be capable not only of serving the local community but also of exporting goods and services to the surrounding economy. The cornerstone of such a model is to identify and exploit the competitive advantages of inner cities that will translate into truly profitable businesses.

Our policies and programs have fallen into the trap of redistributing wealth. The real need – and the real opportunity – is to create wealth.

## Toward a New Model: Location and Business Development

Economic activity in and around inner cities will take root if it enjoys a competitive advantage and occupies a niche that is hard to replicate elsewhere. If companies are to prosper, they must find a compelling competitive reason for locating in the inner city. A coherent strategy for development starts with that fundamental economic principle, as the contrasting experiences of the following companies illustrate.

Alpha Electronics (the company's name has been disguised), a 28-person company that designed and manufactured multimedia computer peripherals, was initially based in lower Manhattan. In 1987, the New York City Office of Economic Development set out to orchestrate an economic "renaissance" in the South Bronx by inducing companies to relocate there. Alpha, a small but growing company, was sincerely interested in contributing to the community and eager to take advantage of the city's willingness to subsidize its operations. The city, in turn, was happy that a high-tech company would begin to stabilize a distressed neighborhood and create jobs. In exchange for relocating, the city provided Alpha with numerous incentives that would lower costs and boost profits. It appeared to be an ideal strategy.

By 1994, however, the relocation effort had proved a failure for all concerned. Despite the rapid growth of its industry, Alpha was left with only 8 of its original 28 employees. Unable to attract high-quality employees to the South Bronx or to train local residents, the company was forced to outsource its manufacturing and some of its design work. Potential suppliers and customers refused to visit Alpha's offices. Without the city's attention to security, the company was plagued by theft.

**Inner city businesses should be profitable and positioned not only to serve the local community but also to export to the surrounding economy.**

What went wrong? Good intentions notwithstanding, the arrangement failed the test of business logic. Before undertaking the move, Alpha and the city would have been wise to ask themselves why none of the South Bronx's thriving businesses was in electronics. The South Bronx as a location offered no specific advantages to support Alpha's business, and it had several disadvantages that would prove fatal. Isolated from the lower Manhattan hub of computer-design and software companies, Alpha was cut off from vital connections with customers, suppliers, and electronic designers.

In contrast, Matrix Exhibits, a $2.2 million supplier of trade-show exhibits that has 30 employees, is thriving in Atlanta's inner city. When Tennessee-based Matrix decided to enter the Atlanta market in 1985, it could have chosen a variety of locations. All the other companies that create and rent trade-show exhibits are based in Atlanta's suburbs. But the Atlanta World Congress Center, the city's major exhibition space, is just a six-minute drive from the inner city, and Matrix chose the location because it provided a real competitive advantage. Today Matrix offers customers superior response time, delivering trade-show exhibits faster than its suburban competitors. Matrix benefits from low rental rates for warehouse space – about half the rate its competitors pay for similar space in the suburbs – and draws half its employees from the local community. The commitment of local police has helped the company avoid any serious security problems. Today Matrix is one of the top five exhibition houses in Georgia.

Alpha and Matrix demonstrate how location can be critical to the success or failure of a business. Every location – whether it be a nation, a region, or a city – has a set of unique local conditions that underpin the ability of companies based there to compete in a particular field. The competitive advantage of a location does not usually arise in isolated companies but in clusters of companies – in other words, in companies that are in the same industry or otherwise linked together through customer, supplier, or similar relationships. Clusters represent critical masses of skill, information, relationships, and infrastructure in a given field. Unusual or sophisticated local demand gives companies insight into customers' needs. Take Massachusetts's highly competitive cluster of information-technology industries: it includes companies specializing in semiconductors, workstations, supercomputers, software, networking equipment, databases, market research, and computer magazines.

Clusters arise in a particular location for specific historical or geographic reasons – reasons that may cease to matter over time as the cluster itself becomes powerful and competitively self-sustaining. In successful clusters such as Hollywood, Silicon Valley, Wall Street, and Detroit, several competitors often push one another to improve products and processes. The presence of a group of competing companies contributes to the formation of new suppliers, the growth of companies in related fields, the formation of specialized training programs, and the emergence of technological centers of excellence in colleges and universities. The clusters also provide newcomers with access to expertise, connections, and infrastructure that they in turn can learn and exploit to their own economic advantage.

If locations (and the events of history) give rise to clusters, it is clusters that drive economic development. They create new capabilities, new companies, and new industries. I initially described this theory of location in *The Competitive Advantage of Nations* (Free Press, 1990), applying it to the relatively large geographic areas of nations and states. But it is just as relevant to smaller areas such as the inner city. To bring the theory to bear on the inner city, we must first identify the inner city's competitive advantages and the ways inner city businesses can forge connections with the surrounding urban and regional economies.

## The True Advantages of the Inner City

The first step toward developing an economic model is identifying the inner city's true competitive advantages. There is a common misperception that the inner city enjoys two main advantages: low-cost real estate and labor. These so-called advantages are more illusory than real. Real estate and labor costs are often higher in the inner city than in suburban and rural areas. And even if inner cities were able to offer lower-cost labor and real estate compared with other locations in the United States, basic input costs can no longer give companies from relatively prosperous nations a competitive edge in the global economy. Inner cities would inevitably lose jobs to countries like Mexico or China, where labor and real estate are far cheaper.

Only attributes that are unique to inner cities will support viable businesses. My ongoing research of urban areas across the United States identifies four main advantages of the inner city: strategic location, local market demand, integration with regional clusters, and human resources. Various companies and programs have identified and exploited each of those advantages from time to time. To date, however, no systematic effort has been mounted to harness them.

> We must stop trying to cure the problems of the inner city by perpetually increasing social investment and hoping for economic activity to follow.

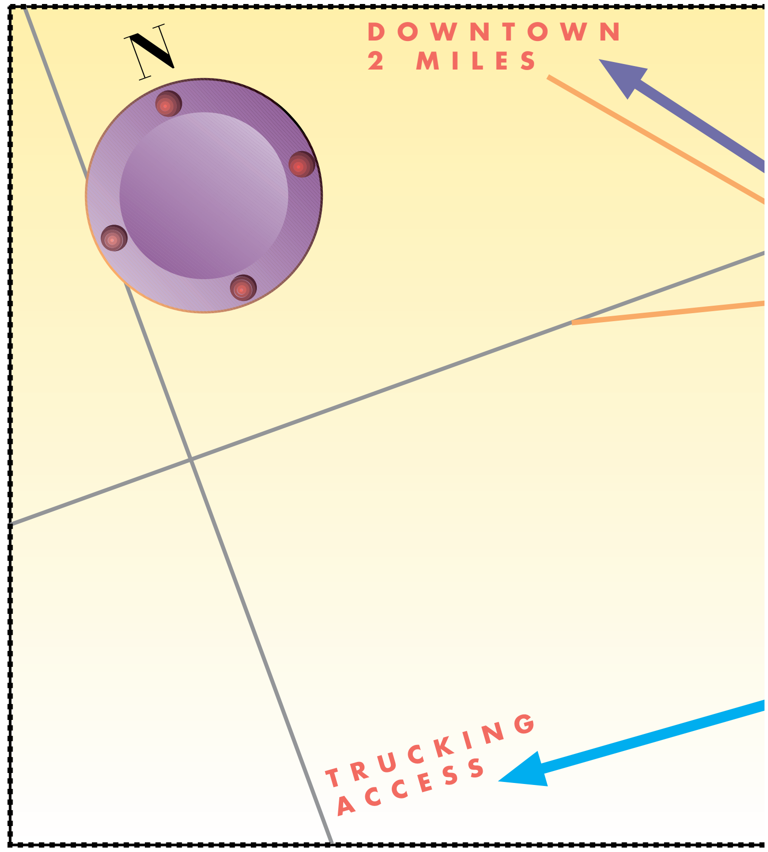
**Strategic Location.** Inner cities are located in what *should* be economically valuable areas. They sit near congested high-rent areas, major business centers, and transportation and communications nodes. As a result, inner cities can offer a competitive edge to companies that benefit from proximity to downtown business districts, logistical infrastructure, entertainment or tourist centers, and concentrations of companies.

For example, Boston's food processing and distribution industry gains a competitive edge from its inner city location in Newmarket Square. The industry consists of such businesses as seafood importers, meat processors, bakeries, and food distributors. Because they are near downtown Boston, these businesses can make rapid deliveries, and downtown buyers have a convenient location at which to purchase goods. Land, although more costly than in the suburbs, is cheaper in the inner city than it is downtown, and zoning regulations permit food processing operations. Newmarket Square has excellent access to trucking as well as sea and air transport, which provides it with a particular competitive advantage in the export of seafood. The combination of those factors has produced a dense concentration of processors, caterers, truckers, wholesalers, distributors, and other suppliers in the inner city.

Although the location of Boston's food processing cluster has historic roots that predate the modern inner city, examples of newly formed companies underscore how critical an advantage proximity can be. Consider the catering supplier Be Our Guest. Founded in 1984, the company rents linens, party equipment, and other hard goods associated with the catering business. Located in Boston's inner city neighborhood of Roxbury, the company enjoys immediate and easy access to downtown Boston. As a result, it is able to offer a higher level of service to customers than its competitors can. To reinforce its service strategy, Be Our Guest maintains sufficient inventory levels to meet peaks in demand. Today the company has 36 full-time employees and annual sales of $1.2 million.

In Boston and Los Angeles, it is striking how many of the businesses that have remained in the inner city in the face of numerous difficulties are ones for which location matters. For example, both cities have a concentration of logistics and storage businesses. Advances in transportation and communications may have reduced the importance of location for some kinds of businesses. However, the increasing importance of regional clusters and of such concepts as just-in-time delivery, superior customer service, and close partnerships between customers and suppliers are making location more critical than ever before.

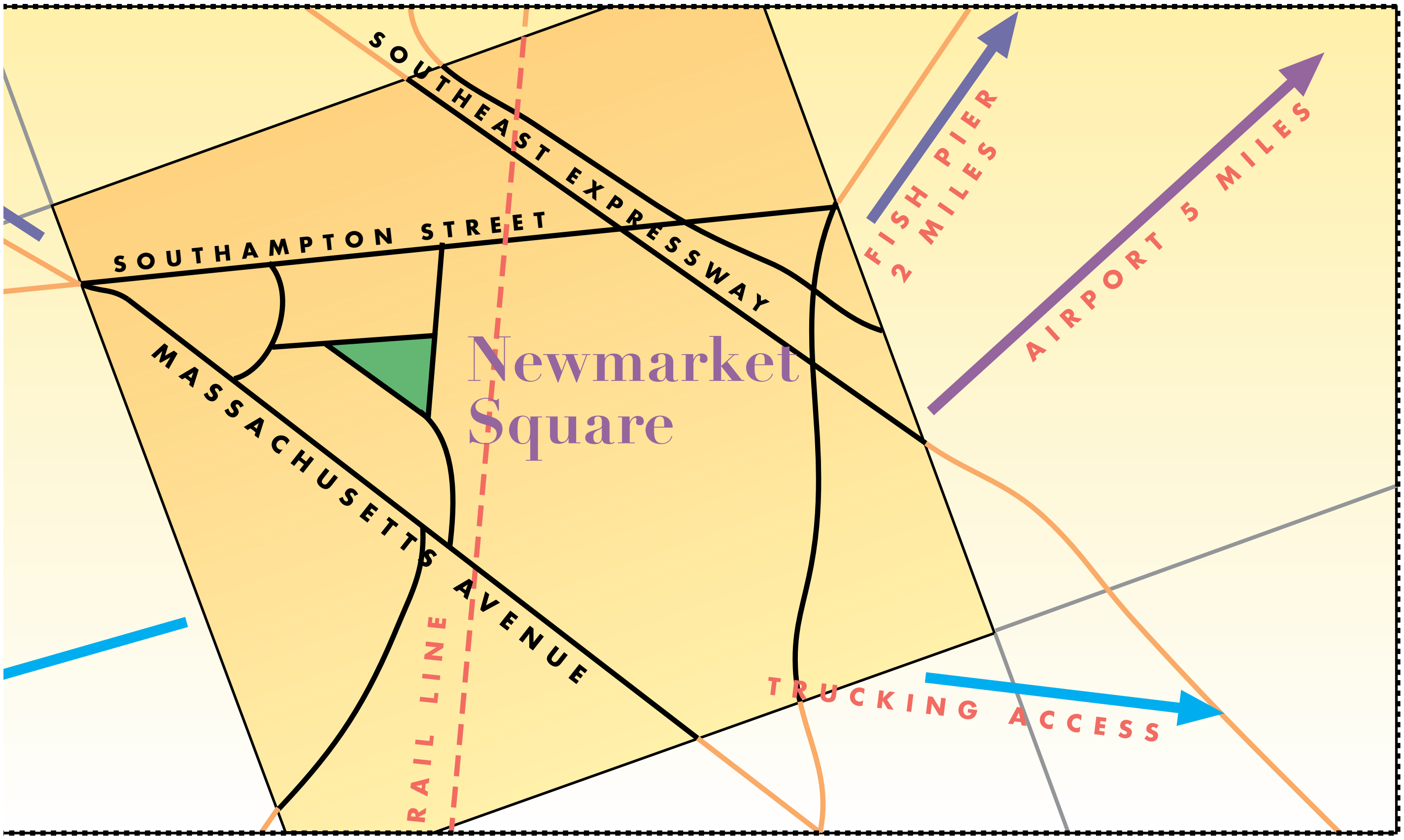
There is significant potential, then, for expanding the inner-city business base by building on the advantage of strategic location. Among the initial prospects are location-sensitive industries now situated elsewhere, nearby companies and industries that face space constraints, and back-office or support functions amenable to relocation or outsourcing. Consider Boston's Longwood medical area, a huge concentration of world-class health care facilities. Longwood is located near the inner city neighborhoods of Roxbury and Jamaica Plain. Today such activities as laundry services, building maintenance, and just-in-time delivery of supplies are performed in-house or by suburban vendors. But, because of Longwood's proximity to the inner city, activities like these could be shifted to businesses based in Roxbury or Jamaica Plain–especially if basic infrastructure such as roads could be improved.




**Newmarket Square has excellent access to trucking as well as sea**

**Local Market Demand.** The inner city market itself represents the most immediate opportunity for inner-city-based entrepreneurs and businesses. At a time when most other markets are saturated, inner city markets remain poorly served–especially in retailing, financial services, and personal services. In Los Angeles, for example, retail penetration per resident in the inner city compared with the rest of the city is 35% in supermarkets, 40% in department stores, and 50% in hobby, toy, and game stores.

The first notable quality of the inner city market is its size. Even though average inner city incomes are relatively low, high population density translates into an immense market with substantial purchasing power. Boston's inner city, for example, has an estimated total family income of $3.4 billion.




**and air transport, which provides it with a particular competitive advantage in the export of seafood.**

Spending power per acre is comparable with the rest of the city despite a 21% lower average household income level than in the rest of Boston, and, more significantly, higher than in the surrounding suburbs. In addition, the market is young and growing rapidly, owing in part to immigration and relatively high birth rates.

A handful of forward-looking entrepreneurs have recognized the opportunities for profit and growth in this large, underdeveloped market and have opened retail outlets in the inner city. Chicago's historic retailer Goldblatt Brothers found new life after bankruptcy with a strategy built on inner city stores. In 1981, the company closed all its stores but six profitable ones located in the inner city. Focusing on cash-and-carry items and offering goods at closeout prices, Goldblatt Brothers has reemerged as a competitive retailer. Today the company has 14 stores, most of which are located in Chicago's inner city. Similarly, Stop & Shop and Purity Supreme are opening new stores in the inner city of Boston.

Another important quality of the inner city market is its character. Most products and services have been designed for white consumers and businesses. As a result, product configurations, retail concepts, entertainment, and personal and business services have not been adapted to the needs of inner city customers. Although microsegmentation has been slow to come to the inner city, it holds promise for creating thriving businesses.

Inner city consumers, in fact, represent a major growth market of the future, and companies based in the inner city have a unique ability to understand and address their needs. For example, Miami-based, Latino-owned CareFlorida has rapidly expanded its HMO business by tailoring its marketing to Latino customers. And Detroit's Universal Casket has grown to $3 million in sales by focusing on African-American-owned funeral homes. Many of the largest and most enduringly successful minority-owned (although not necessarily inner-city-based) businesses have drawn their advantages from serving inner city residents' cultural and ethnic needs in fields such as food products (Parks Sausage and Brooks Sausages); beauty care (Soft Sheen, Proline, Dudley, Luster Products, and Johnson Products); and media (Essence, Earl Graves, Johnson Publishing, and Black Entertainment Television). Although inner city businesses need not be limited to serving local needs, this kind of focused strategy is one way to gain a clear competitive advantage over established businesses such as Procter & Gamble, Safeway, and Levi Strauss.

More important, businesses catering to local demand have the potential to expand beyond the inner city and become major players. Companies can target and sell not only to their own local communities but also to similar communities nationally and even internationally. Consider Americas' Food Basket, a Cuban-owned supermarket based in Boston's inner city. In its second year of operation, the company has reached sales of $8 million annually and is profitable. It has developed a product mix that satisfies local demand better than mainstream supermarkets do. Its management's strong relationship with the community has reduced security problems and employee turnover. Unlike other nearby mom-and-pop stores, Americas' Food Basket has developed a partnership with a leading national wholesaler that provides goods and financing at competitive rates. As a result, its selection, prices, and service are far superior to those of smaller competitors. More important, Americas' Food Basket shows signs of becoming a major regional business by seeking ways to export its goods to the surrounding region. It is currently expanding into wholesaling with a start-up called Selmac Corporation. Selmac will supply mainly Latino products to Americas' Food Basket and to small *bodegas* throughout the inner city and the surrounding region. It also plans to bid on contracts to supply wholesale food services to schools, prisons, and other institutions throughout Massachusetts.

Tailored retailing concepts in a broad range of areas such as food, clothing, pharmaceuticals, toys, books, and restaurants could also set off a chain reaction of opportunities: Companies create demand for new types of products, which in turn creates new opportunities for manufacturers of specialized products. For example, tailored supermarkets are increasing the demand for established ethnic food producers and distributors such as Goya Foods, a supplier of Latino foods with annual sales of approximately $500 million. Such stores also represent a critical distribution channel for recent start-ups such as Glory Foods, which sells canned foods targeted at African-American consumers.

The most intriguing attribute of the inner city market is its potential to be a leading indicator of major nationwide trends. The tastes and sensibilities of inner city communities are cutting-edge in a number of respects and often become mainstream. Popular music is one example. Or consider Parks Sausage, based in Baltimore, Maryland, which developed its food products for African-American consumers but has found a receptive market nationally. Today it is competing head-to-head with Jimmy Dean Sausage, the industry leader.

Ultimately, what will attract the inner city consumer more than anything else is a new breed of company that is not small and high-cost but a professionally managed major business employing the latest in technology, marketing, and management techniques. This kind of company, much more than exhortation, will attract spending power and recycle capital within the inner city community.

**Integration with Regional Clusters.** The most exciting prospects for the future of inner city economic development lie in capitalizing on nearby regional clusters: those unique-to-a-region collections of related companies that are competitive nationally and even globally. For example, Boston's inner city is next door to world-class financial-services and health-care clusters. South Central Los Angeles is close to an enormous entertainment cluster and a large logistical-services and wholesaling complex.

The ability to access competitive clusters is a very different attribute – and one much more far reaching in economic implication – than the more generic advantage of proximity to a large downtown area with concentrated activity. Competitive clusters create two types of potential advantages. The first is for business formation. Companies providing supplies, components, and support services could be created to take advantage of the inner city's proximity to multiple nearby customers in the cluster. For example, Detroit-based Mexican Industries has emerged as one of the most respected suppliers of head rests, arm rests, air bags, and other auto parts by forging close relationships with General Motors, Ford, Chrysler, and Volkswagen of America. Last year, the company had more than 1,000 employees, most of whom live in the inner city, and revenues of more than $100 million. Bing Steel, a 54-person company with $57 million in

A new breed of professionally managed major businesses will attract spending power and recycle capital within the inner city community.

sales, has made similar connections, supplying flat roll steel and coils to the auto industry.

The second advantage of these clusters is the potential they offer inner city companies to compete in downstream products and services. For example, an inner city company could draw on Boston's strength in financial services to provide services tailored to inner city needs – such as secured credit cards, factoring, and mutual funds–both within and outside the inner city in Boston and elsewhere in the country. Boston Bank of Commerce (BBOC) is a trusted local institution in the inner city with strong ties to the community. It has many small nonprofit customers, such as the Dimock Community Health Center in Roxbury, which has a $1 million endowment. There are many nonprofit organizations like Dimock whose funds are sitting idle in low-interest savings accounts because they lack the investment savvy and size to attract sophisticated money managers. In toto, however, such organizations represent a significant pool of capital. BBOC sees an opportunity here to take advantage of the trust it enjoys within the community and the proximity of world-class asset managers in the city's nearby financial services cluster. The company is developing a product to do asset management for nonprofits in its service area; it will pool funds from its clients and then subcontract their management to companies in the nearby cluster.

Few of these opportunities are currently being pursued. Most of today's inner city businesses either have not been export oriented, selling only within the local community rather than outside it, or have seen their opportunities principally in terms defined by government preference programs. Consequently, networks and relationships with surrounding companies are woefully underdeveloped. New private sector initiatives will be needed to make these connections and to increase inner city entrepreneurs' awareness of their value. Integration with regional clusters is potentially the inner city's most powerful and sustainable competitive advantage over the long term. It also provides tremendous leverage for development efforts: By focusing on upgrading existing and nascent clusters, rather than on supporting isolated companies or industries, public and private investments in training, infrastructure, and technology can benefit multiple companies simultaneously.

**Human Resources.** The inner city's fourth advantage takes on a number of deeply entrenched myths about the nature of its residents. The first myth is that inner city residents do not want to work and opt for welfare over gainful employment. Although there is a pressing need to deal with inner city residents who are unprepared for work, most inner city residents are industrious and eager to work. For moderate-wage jobs ($6 to $10 per hour) that require little formal education (for instance, warehouse workers, production-line workers, and truck drivers), employers report that they find hardworking, dedicated employees in the inner city. For example, a company in Boston's inner city neighborhood of Dorchester bakes and decorates cakes sold to supermarkets throughout the region. It attracts and retains area residents at $7 to $8 per hour (plus contributions to pensions and health insurance) and has almost 100 local employees. The loyalty of its labor pool is one of the factors that has allowed the bakery to thrive.

Admittedly, many of the jobs currently available to inner city residents provide limited opportunities for advancement. But the fact is that they are jobs; and the inner city and its residents need many more of them close to home. Proposals that workers commute to jobs in distant suburbs – or move to be near those jobs – underestimate the barriers that travel time and relative skill level represent for inner city residents. Moreover, in deciding what types of businesses are appropriate to locate in the inner city, it is critical to be realistic about the pool of potential employees. Attracting high-tech companies might make for better press, but it is of little benefit to inner city residents. Recall the contrasting experiences of Alpha Electronics and Matrix Exhibits. In the case of Alpha, there was a complete mismatch between the company's need for highly skilled professionals and the available labor pool in the local

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## Inner City Economic Development

| New Model | Old Model |
|---|---|
| ☐ Economic: create wealth | ☐ Social: redistribute wealth |
| ☐ Private sector | ☐ Government and social service organizations |
| ☐ Profitable businesses | ☐ Subsidized businesses |
| ☐ Integration with the regional economy | ☐ Isolation from the larger economy |
| ☐ Companies that are export oriented | ☐ Companies that serve the local community |
| ☐ Skilled and experienced minorities engaged in building businesses | ☐ Skilled and experienced minorities engaged in the social service sector |
| ☐ Mainstream, private sector institutions enlisted | ☐ Special institutions created |
| ☐ Inner city disadvantages addressed directly | ☐ Inner city disadvantages counterbalanced with subsidies |
| ☐ Government focused on improving the environment for business | ☐ Government involved directly in providing services or funding |

community. In contrast, Matrix carefully considered the available workforce when it established its Atlanta office. Unlike the Tennessee headquarters, which custom-designs and creates exhibits for each client, the Atlanta office specializes in rentals made from prefabricated components–work requiring less-skilled labor, which can be drawn from the inner city. Given the workforce, low-skill jobs are realistic and economically viable: they represent the first rung on the economic ladder for many individuals who otherwise would be unemployed. Over time, successful job creation will trigger a self-reinforcing process that raises skill and wage levels.

The second myth is that the inner city's only entrepreneurs are drug dealers. In fact, there is a real capacity for legitimate entrepreneurship among inner city residents, most of which has been channeled into the provision of social services. For instance, Boston's inner city has numerous social service providers as well as social, fraternal, and religious organizations. Behind the creation and building of those organizations is a whole cadre of local entrepreneurs who have responded to intense local demand for social services and to funding opportunities provided by government, foundations, and private sector sponsors. The challenge is to redirect some of that talent and energy toward building for-profit businesses and creating wealth.

The third myth is that skilled minorities, many of whom grew up in or near inner cities, have abandoned their roots. Today's large and growing pool of talented minority managers represents a new generation of potential inner city entrepreneurs. Many have been trained at the nation's leading business schools and have gained experience in the nation's leading companies. Approximately 2,800 African Americans and 1,400 Hispanics graduate from M.B.A. programs every year compared with only a handful 20 years ago. Thousands of highly trained minorities are working at leading companies such as Morgan Stanley, Citibank, Ford, Hewlett-Packard, and McKinsey & Company. Many of these managers have developed the skills, network, capital base, and confidence to begin thinking about joining or starting entrepreneurial companies in the inner city. Two Harvard Business School graduates, for example, have launched Delray Farms with the aim of creating a national chain of small inner city supermarkets that focus on produce and other perishables. Backed by significant private-equity capital, Delray Farms is operating its first store in Chicago and is planning to open six new stores within a year.

## The Real Disadvantages of the Inner City

The second step toward creating a coherent economic strategy is addressing the very real disadvantages of locating businesses in the inner city. The inescapable fact is that businesses operating in the inner city face greater obstacles than those based elsewhere. Many of those obstacles are needlessly inflicted by government. Unless the disadvantages are addressed directly, instead of indirectly through subsidies or mandates, the inner city's competitive advantages will continue to erode.

**Land.** Although vacant property is abundant in inner cities, much of it is not economically usable. Assembling small parcels into meaningful sites can be prohibitively expensive and is further complicated by the fact that a number of city, state, and federal agencies each control land and fight over turf. For example, development of the Jeffrey Plaza shopping center in Chicago's South Side required government efforts over eight years to assemble 21 contiguous parcels. Similarly, attempts to rebuild South Central Los Angeles after the 1992 riots have been hampered because only 9 of 200 vacant or underutilized properties are larger than one acre. (By comparison, Wal-Mart requires four to six acres for a single store). Once assembled, an inner city site often requires expensive demolition, environmental cleanup, and extensive litigation. Private developers and banks tend to avoid sites with even a hint of environmental problems because of punitive liability laws.

**Building Costs.** The cost of building in the inner city is significantly higher than in the suburbs because of the costs and delays associated with logistics, negotiations with community groups, and strict urban regulations: restrictive zoning, architectural codes, permits, inspections, and government-required union contracts and minority set-asides. Ironically, despite the desperate need for new projects, construction in inner cities is far more regulated than it is in the suburbs – a legacy of big city politics and entrenched bureaucracies.

More damaging than regulatory costs is the uncertainty that the regulatory process creates for potential investors. Managers interviewed in Boston, Los Angeles, and Chicago expressed frustration with the three-year to five-year waiting periods necessary to obtain the numerous permit and site approvals required to build, expand, or improve facilities. Undeniably, the wait is expensive; but the uncertainty about whether an application will be approved or when a ruling will be made makes forming a financial strategy nearly impossible.

**Other Costs.** Compared with the suburbs, inner cities have high costs for water, other utilities, workers' compensation, health care, insurance, permitting and other fees, real estate and other taxes, OSHA compliance, and neighborhood hiring requirements. For example, Russer Foods, a manufacturing company located in Boston's inner city, operates a comparable plant in upstate New York. The Boston plant's expenses are 55% higher for workers' compensation, 50% higher for family medical insurance, 166% higher for unemployment insurance, 340% higher for water, and 67% higher for electricity. High costs like these drive away companies and hold down wages. Some costs, such as those for workers' compensation, apply to the state or region as a whole. Others, such as real estate taxes, apply citywide. Still others, such as property insurance, are specific to the inner city. All are devastating to maintaining fragile inner city companies and to attracting new businesses.

It is an unfortunate reality that many cities – because they have a greater proportion of residents dependent on welfare, Medicaid, and other social programs – require higher government spending and, as a result, higher corporate taxes. The resulting tax burden feeds a vicious cycle – driving out more companies while requiring even higher taxes from those that remain. Cities have been reluctant to challenge entrenched bureaucracies and unions, as well as inefficient and outdated government departments, all of which unduly raise city costs.

Finally, excessive regulation not only drives up building and other costs but also hampers almost all facets of business life in the inner city, from putting up an awning over a shop window to operating a pushcart to making site improvements. Regulation also stunts inner city entrepreneurship, serving as a formidable barrier to small and start-up companies. Restrictive licensing and permitting, high licensing fees, and archaic safety and health regulations create barriers to entry into the very types of businesses that are logical and appropriate for creating jobs and wealth in the inner city.

**Security.** Both the reality and the perception of crime represent profound impediments to urban economic development. First, crime against property raises costs. For example, the Shops at Church Square, an inner city strip shopping center in Cleveland, Ohio, spends $2 per square foot more than a comparable suburban center for a full-time security guard, increased lighting, and continuous cleaning – raising overall costs by more than 20%. Second, crime against employees and customers creates an unwillingness to work in and patronize inner city establishments and restricts companies' hours of operation. Fear of crime ranks among the most important reasons why companies opening new fa-

Inner city residents have a real capacity for entrepreneurship. The challenge is to redirect some of that talent from the social to the private sector.

cilities failed to consider inner city locations and why companies already located in the inner city left. Currently, police devote most of their resources to the security of residential areas, largely overlooking commercial and industrial sites.

**Infrastructure.** Transportation infrastructure planning, which today focuses primarily on the mobility of residents for shopping and commuting, should consider equally the mobility of goods and the ease of commercial transactions. The most critical aspects of the new economic model–the importance of the location of the inner city, the connections between inner city businesses and regional clusters, and the development of export-oriented businesses–require the presence of strong logistical links between inner city business sites and the surrounding economy. Unfortunately, the business infrastructure of the inner city has fallen into disrepair. The capacity of roads, the frequency and location of highway on-ramps and off-ramps, the links to downtown, and the access to railways, airports, and regional logistical networks are inadequate.

**Employee Skills.** Because their average education levels are low, many inner city residents lack the skills to work in any but the most unskilled occupations. To make matters worse, employment opportunities for less-educated workers have fallen markedly. In Boston between 1970 and 1990, for example, the percentage of jobs held by people without high school diplomas dropped from 29% to 7%, while those held by college graduates climbed from 18% to 44%. And the unemployment rate for African-American men aged 16 to 64 with less than a high school education in major northeastern cities rose from 19% in 1970 to 57% in 1990.

**Management Skills.** The managers of most inner city companies lack formal business training. That problem, however, is not unique to the inner city; it is a characteristic of small businesses in general. Many individuals with extensive work histories but little or no formal managerial training start businesses. Inner city companies without well-trained managers experience a series of predictable problems that are similar to those that affect many small businesses: weaknesses in strategy development, market segmentation, customer-needs evaluation, introduction of information technology, process design, cost control, securing or restructuring financing, interaction with lenders and government regulatory agencies, crafting business plans, and employee training. Local community colleges often offer management courses, but their quality is uneven, and entrepreneurs are hard-pressed for time to attend them.

**Capital.** Access to debt and equity capital represents a formidable barrier to entrepreneurship and company growth in inner city areas.

First, most inner city businesses still suffer from poor access to debt funding because of the limited attention that mainstream banks paid them historically. Even in the best of circumstances, small-business lending is only marginally profitable to banks because transaction costs are high relative to loan amounts. Many banks remain in small-business lending only to attract deposits and to help sell other more profitable products.

The federal government has made several efforts to address the inner city's problem of debt capital. As a result of legislation like the Community Reinvestment Act, passed in order to overcome bias in lending, banks have begun to pay much more attention to inner city areas. In Boston, for example, leading banks are competing fiercely to lend in the inner city – and some claim to be doing so profitably. Direct financing efforts by government, however, have proved ineffective. The proliferation of government loan pools and quasi-public lending organizations has produced fragmentation, market confusion, and duplication of overhead. Business loans that would provide scale to private sector lenders are siphoned off by these organizations, many of which are high-cost, bureaucratic, and risk-averse. In the end, the development of high-quality private sector expertise in inner city business financing has been undermined.

Second, equity capital has been all but absent. Inner city entrepreneurs often lack personal or family savings and networks of individuals to draw on for

Excessive regulation hampers almost all facets of business life in the inner city, from putting up an awning over a shop window to operating a pushcart to making site improvements.

capital. Institutional sources of equity capital are scarce for minority-owned companies and have virtually ignored inner city business opportunities.

**Attitudes.** A final obstacle to companies in the inner city is antibusiness attitudes. Some workers perceive businesses as exploitative, a view that guarantees poor relations between labor and management. Equally debilitating are the antibusiness attitudes held by community leaders and social activists. These attitudes are the legacy of a regrettable history of poor treatment of workers, departures of companies, and damage to the environment. But holding on to these views today is counterproductive. Too often, community leaders mistakenly view businesses as a means of directly meeting social needs; as a result, they have unrealistic expectations for corporate involvement in the community. For example, some businesses interested in locating in Boston's inner city decided against it because of demands to build playgrounds, fund scholarships, and cede control of hiring and training to community-based organizations. Such demands on existing and potential businesses rarely help the community; instead, they drive businesses–and jobs–to other locations.

Community leaders too often view businesses as a means of directly meeting social needs – and drive companies and jobs out of the inner city.

Demanding linkage payments and contributions and stirring up antibusiness sentiment are political tools that brought questionable results in the past when owners had less discretion about where they chose to locate their companies. In today's increasingly competitive business environment, such tactics will serve only to stunt economic growth.

## Changing Roles and Responsibilities for Inner City Development

Overcoming the business disadvantages of the inner city as well as building on its inherent advantages will require the commitment and involvement of business, government, and the nonprofit sector. Each will have to abandon deeply held beliefs and past approaches. Each must be willing to accept a new model for the inner city based on an economic rather than a social perspective. The private sector, not government or social service organizations, must be the focus of the new model.

**The New Role of the Private Sector.** The economic model challenges the private sector to assume the leading role. First, however, it must adopt new attitudes toward the inner city. Most private sector initiatives today are driven by preference programs or charity. Such activities would never stand on their own merits in the marketplace. It is inevitable, then, that they contribute to growing cynicism. The private sector will be most effective if it focuses on what it does best: creating and supporting economically viable businesses built on true competitive advantage. It should pursue four immediate opportunities as it assumes its new role.

*1. Create and expand business activity in the inner city.* The most important contribution companies can make to inner cities is simply to do business there. Inner cities hold untapped potential for profitable businesses. Companies and entrepreneurs must seek out and seize those opportunities that build on the true advantages of the inner city. In particular, retailers, franchisers, and financial services companies have immediate opportunities. Franchises represent an especially attractive model for inner city entrepreneurship because they provide not only a business concept but also training and support.

Businesses can learn from the mistakes that many outside companies have made in the inner city. One error is the failure of retail and service businesses to tailor their goods and services to the local market. The needs and preferences of the inner city market can vary greatly – something that companies like Goldblatt Brothers have recognized. The Chicago retailer understands that its inner city customers buy to meet immediate needs, and it has tailored its retail merchandise and purchasing planning to its customers' buying habits. For example, unlike most stores, which stock winter coats in the fall, Goldblatt Brothers stocks its coats in the winter.

Another common mistake is the failure to build relationships within the community and to hire locally. Hiring local residents builds loyalty from neighborhood customers, and local employees of retail and service businesses can help stores customize their products. Evidence suggests that companies that were perceived to be in touch with the community had far fewer security problems, whether or not the owners lived in the community. For example, Americas' Food Basket hires locally and is widely viewed as a good citizen of the community. As a result, management reports that it has not had to hire a security guard and that neighbors often call if they witness anything amiss.

Companies have discovered a number of other effective tactics for dealing with security. For instance, large concentrations of businesses spread security costs and reinforce perceptions of safety. MetroTech, a back-office operations complex serving nearby Wall Street, is located in a high-poverty and high-crime area near the federal buildings in downtown Brooklyn. The developers created an 18-acre campus that could support 4 million to 8 million square feet of office space. The complex is so large that tenants pay only 33 cents per square foot for 24-hour private security. Because transportation infrastructure adds to perceptions of safety in traveling to and from business locations, MetroTech enlisted the city government to renovate the local subway stations and to locate a police branch near the site. Crime has been insignificant, and MetroTech is fully occupied by leading financial institutions.

In other cases, companies have organized themselves into associations to increase the effectiveness of security and to spread costs. The associations work closely with the police department and with members of the community to identify and address security problems. In some cities, special neighborhood-managed tax-assessment districts – such as New York City's many Business Improvement Districts – have been established to provide funds for supplemental security protection and other services.

*2. Establish business relationships with inner city companies.* By entering into joint ventures or customer-supplier relationships, outside companies will help inner city companies by encouraging them to export and by forcing them to be competitive. In the long run, both sides will benefit. For example, AB&W Engineering, a Dorchester-based metal fabricator, has built a close working relationship with General Motors. GM has given AB&W management assistance and a computerized ordering system and has referred a lot of new business to AB&W. In turn, AB&W has become a high-performing and reliable supplier. Such relationships, based not on charity but on mutual self-interest, are sustainable ones; every major company should develop them.

*3. Redirect corporate philanthropy from social services to business-to-business efforts.* Countless companies give many millions of dollars each year to worthy inner-city social-service agencies. But philanthropic efforts will be more effective if they also focus on building business-to-business relationships that, in the long run, will reduce the need for social services.

## Every major company should develop business relationships with inner city companies based not on charity but on mutual self-interest.

First, corporations could have a tremendous impact on training. The existing system for job training in the United States is ineffective. Training programs are fragmented, overhead intensive, and disconnected from the needs of industry. Many programs train people for nonexistent jobs in industries with no projected growth. Although reforming training will require the help of government, the private sector must determine how and where resources should be allocated to ensure that the specific employment needs of local and regional businesses are met. Ultimately, employers, not government, should certify all training programs based on relevant criteria and likely job availability.

Training programs led by the private sector could be built around industry clusters located in both the inner city (for example, restaurants, food service, and food processing in Boston) and the nearby regional economy (for example, financial services and health care in Boston). Industry associations and trade groups, supported by government incentives, could sponsor their own training programs in collaboration with local training institutions.

Programs that help inner city residents with the school-to-work transition could also take advantage of regional clusters. Project ProTech in Boston lets high school students compete for apprentice-like positions in the health care cluster. The program mixes classroom work and internship training during the school year and over the summer, beginning in the junior year of high school. Project ProTech is currently expanding to include other clusters, such as utilities and financial services.

Second, the private sector could make an equally substantial impact by providing management assistance to inner city companies. As with training, current programs financed or operated by the government are inadequate. Outside companies have much to offer companies in the inner city: talent, know-how, and contacts. One approach to upgrading management skills is to emphasize networking with companies in the regional economy that either are part of the same cluster (customers, suppliers, and related businesses) or have expertise in needed areas. An inner city company could team up with a partner in the region who provides management assistance; or a consortium of companies with a required expertise, such as information technology, could provide assistance to inner city businesses in need of upgrading their systems.

Professional associations could develop advisory programs for inner city managers. Business schools could develop and teach custom-designed short and practical executive programs or assist inner city companies through field studies programs. The Harvard Business School, for example, offers a for-credit course that matches teams of M.B.A. students with inner city companies. We are encouraging the development of such programs elsewhere.

*4. Adopt the right model for equity capital investments.* The investment community – especially venture capitalists – must be convinced of the viability of investing in the inner city. There is a small but growing number of minority-oriented equity providers (although none specifically focus on inner cities). A successful model for inner city investing will probably not look like the familiar venture-capital model created primarily for technology companies. Instead, it may resemble the equity funds operating in the emerging economies of Russia or Hungary – investing in such mundane but potentially profitable projects as supermarkets and laundries. Ultimately, inner-city-based businesses that follow the principles of competitive advantage will generate appropriate returns to investors – particularly if aided by appropriate incentives, such as tax exclusions for capital gains and dividends for qualifying inner city businesses.

**The New Role of Government.** To date, government has assumed primary responsibility for bringing about the economic revitalization of the inner city. Existing programs at the federal, state, and local levels designed to create jobs and attract businesses have been piecemeal and fragmented at best. Still worse, these programs have been based on subsidies and mandates rather than on marketplace realities. Unless we find new approaches, the inner city will continue to drain our rapidly shrinking public coffers.

Undeniably, inner cities suffer from a long history of discrimination. However, the way for government to move forward is not by looking behind. Government can assume a more effective role by supporting the private sector in new economic initiatives. It must shift its focus from direct involvement and intervention to creating a favorable environment for business. This is not to say that public funds will not be necessary. But subsidies must be spent in ways that do not distort business incentives, focusing instead on providing the infrastructure to support genuinely profitable businesses. Government at all levels should focus on four goals as it takes on its new role.

The private sector will be most effective if it focuses on what it does best: creating and supporting economically viable businesses built on true competitive advantage.

*1. Direct resources to the areas of greatest economic need.* The crisis in our inner cities demands that they be first in line for government assistance. This may seem an obvious assertion. But the fact is that many programs in areas such as infrastructure, crime prevention, environmental cleanup, land development, and purchasing preference spread funds across constituencies for political reasons. For example, most transportation infrastructure spending goes to creating still more attractive suburban areas. In addition, a majority of preference-program assistance does not go to companies located in low-income neighborhoods.

Investments that boost the economic potential of inner cities must receive priority. For example, Superfund cleanup dollars should go to sites in high-unemployment inner city areas before they go to low-unemployment suburban sites. Infrastructure improvements should go to making inner city areas more attractive business locations. And crime prevention resources should go to high-crime inner city areas. Spending federal, state, and local money in that way will have the added benefit of easing critical social problems, thus reducing social service spending.

Unfortunately, the qualifying criteria for current government assistance programs are not properly designed to channel resources where they are most needed. Preference programs support business based on the race, ethnicity, or gender of their owners rather than on economic need. In addition to directing resources away from the inner city, such race-based or gender-based distinctions reinforce inappropriate stereotypes and attitudes, breed resentment, and increase the risk that programs will be manipulated to serve unintended populations. Location in an economically distressed area and employment of a significant percentage of its residents should be the qualification for government assistance and preference programs. Shifting the focus to economic distress in this way will help enlist all segments of the private sector in the solutions to the inner city's problems.

*2. Increase the economic value of the inner city as a business location.* In order to stimulate economic development, government must recognize that it is a part of the problem. Today its priorities often run counter to business needs. Artificial and outdated government-induced costs must be stripped away in the effort to make the inner city a profitable location for business. Doing so will require rethinking policies and programs in a wide range of areas. There is early evidence that self-inflicted regulatory costs can be overcome. Consider the success of the Indianapolis Regulatory Study Commission in Indiana. In two short years, Indianapolis ended its taxi monopoly, streamlined its building permitting process, and eliminated a wide range of needless regulations.

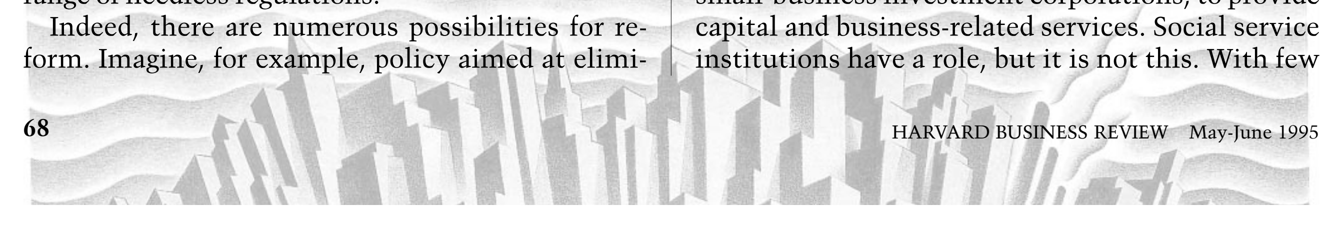
Indeed, there are numerous possibilities for reform. Imagine, for example, policy aimed at eliminating the substantial land and building cost penalties that businesses face in the inner city. Ongoing rent subsidies run the risk of attracting companies for which an inner city location offers no other economic value. Instead, the goal should be to provide building-ready sites at market prices. A single government entity could be charged with assembling parcels of land and with subsidizing demolition, environmental cleanup, and other costs. The same entity could also streamline all aspects of building – including zoning, permitting, inspections, and other approvals.

That kind of policy would require further progress on the environmental front. A growing number of cities – including Detroit, Chicago, Indianapolis, Minneapolis, and Wichita, Kansas – have successfully developed so-called brownfield urban areas by making environmental cleanup standards more flexible depending on land use, indemnifying land owners against additional costs if contamination is found on a site after a cleanup, and using tax-increment financing to help fund cleanup and redevelopment costs.

Government entities could also develop a more strategic approach to developing transportation and communications infrastructures, which would facilitate the fluid movement of goods, employees, customers, and suppliers within and beyond the inner city. Two projects in Boston are prime examples: first, a new exit ramp connecting the inner city to the nearby Massachusetts Turnpike, which in turn connects to the surrounding region and beyond; and a direct access road to the harbor tunnel, which connects to Logan International Airport. Though inexpensive, both projects are stalled because the city does not have a clear vision of their economic importance.

*3. Deliver economic development programs and services through mainstream, private sector institutions.* There has been a tendency to rely on small community-based nonprofits, quasi-governmental organizations, and special-purpose entities, such as community development banks and specialized small-business investment corporations, to provide capital and business-related services. Social service institutions have a role, but it is not this. With few

Government must shift its focus from direct involvement and intervention to creating a favorable environment for business.



exceptions, nonprofit and government organizations cannot provide the quality of training, advice, and support to substantial companies that mainstream, private sector organizations can. Compared with private sector entities such as commercial banks and venture capital companies, special-purpose institutions and nonprofits are plagued by high overhead costs; they have difficulty attracting and retaining high-quality personnel, providing competitive compensation, or offering a breadth of experience in dealing with companies of scale.

Consider access to capital. Government must help create the conditions necessary for private, mainstream financial institutions to lend and invest profitably in inner city businesses. Efforts to eliminate discrimination are vital but are not sufficient. Financing in the inner city must be profitable, or private sector institutions will never have the enthusiasm to develop it aggressively. Some conventional lenders claim that the reason they have not found inner city loans profitable is not higher default rates, as is commonly assumed, but the high transaction costs of finding and actually making inner city loans. Government should address those costs head on through better information and relaxed paperwork requirements and regulations. In addition, it could provide direct incentives, giving banks a transaction fee rather than a loan guarantee for closing a qualifying inner-city-based business loan. Such an approach would encourage banks to make and maintain good loans, instead of forcing capital into bad loans to fill lending quotas based on race, ethnicity, or gender.

The most important way to bring debt and equity investment to the inner city is by engaging the private sector. Resources currently going to government or quasi-public financing would be better channeled through other private financial institutions or directed at recapitalizing minority-owned banks focusing on the inner city, provided that there were matching private sector investors. Minority-owned banks that have superior knowledge of the inner city market could gain a competitive advantage by developing business-lending expertise in inner city areas.

As in lending, the best approach to increase the supply of equity capital to the inner cities is to provide private sector incentives consistent with building economically sustainable businesses. One approach would be for both federal and state governments to eliminate the tax on capital gains and dividends from long-term equity investments in inner-city-based businesses or subsidiaries that employ a minimum percentage of inner city residents. Such tax incentives, which are based on the premise of profit, can play a vital role in speeding up private sector investment. Private sector sources of equity will be attracted to inner city investment only when the creation of genuinely profitable businesses is encouraged.

*4. Align incentives built into government programs with true economic performance.* Aligning incentives with business principles should be the goal of every government program. Most programs today would fail such a test. For example, preference programs in effect guarantee companies a market. Like other forms of protectionism, they dull motivation and retard cost and quality improvement. A 1988 General Accounting Office report found that within six months of graduating from the Small Business Association's purchasing preference program, 30% of the companies had gone out of business. An additional 58% of the remaining companies claimed that the withdrawal of the SBA's support had had a devastating impact on business. To align incentives with economic performance, preference programs should be rewritten to require an increasing amount of non-set-aside business over time.

Direct subsidies to businesses do not work. Instead, government funds should be used for site assembly, extra security, environmental cleanup, and other investments designed to improve the business environment. Companies then will be left to make decisions based on true profit.

**The New Role of Community-Based Organizations.** Recently, there has been renewed activity among community-based organizations (CBOs) to become directly involved in business development. CBOs can, and must, play an important supporting role in the process. But choosing the proper strategy is critical, and many CBOs will have to change fundamentally the way they operate. While it is difficult to make a general set of recommendations to such a diverse group of organizations, four principles should guide community-based organizations in developing their new role.

*1. Identify and build on strengths.* Like every other player, CBOs must identify their unique competitive advantages and participate in economic development based on a realistic assessment of their capabilities, resources, and limitations. Community-based organizations have played a much-needed role in developing low-income housing, social programs, and civic infrastructure. However, while there have been a few notable successes, the vast majority of businesses owned or managed by CBOs have been failures. Most CBOs lack the skills, attitudes, and incentives to advise, lend to, or operate substantial businesses. They were able to master low-income housing development, in which there were major public subsidies and a vacuum of institutional capabilities. But, when it comes to financing and assisting for-profit business development, CBOs simply can't compete with existing private sector institutions.

Moreover, CBOs naturally tend to focus on community entrepreneurship: small retail and service businesses that are often owned by neighborhood residents. The relatively limited resources of CBOs, as well as their focus on relatively small neighborhoods, is not well-suited to developing the more substantial companies that are necessary for economic vitality.

Finally, the competitive imperatives of for-profit business activity will raise inevitable conflicts for CBOs whose mission rests with the community. Turning down local residents in favor of better-qualified outside entrepreneurs, supporting necessary layoffs or the dismissal of poorly performing workers, assigning prime sites for business instead of social uses, and approving large salaries to successful entrepreneurs and managers are only a handful of the necessary choices. Given these organizations' roots in meeting the social needs of neighborhoods, it will be difficult for them to put profit ahead of their traditional mission.

*2. Work to change workforce and community attitudes.* Community-based organizations have a unique advantage in their intimate knowledge of and influence within inner city communities, and they can use that advantage to help promote business development. CBOs can help create a hospitable environment for business by working to change community and workforce attitudes and acting as a liaison with residents to quell unfounded opposition to new businesses. When BayBank wanted to open a new branch in Dorchester, for example, a local community development corporation was instrumental in smoothing relations with a few vocal critics who could have delayed the project or even driven the bank away.

*3. Create work-readiness and job-referral systems.* Community-based organizations can play an active role in preparing, screening, and referring employees to local businesses. A pressing need among many inner city residents is work-readiness training, which includes communication, self-development, and workplace practices. CBOs, with their intimate knowledge of the local community, are well equipped to provide this service in close collaboration with industry. The Urban League of Eastern Massachusetts, for example, has taken up the challenge in its new Employment Resource Center. The center provides workers with basic training as well as instruction on specific topics, such as customer-service and interviewing skills and written and oral communication.

**Businesspeople, entrepreneurs, and investors must lead the economic revival; and community activists, social service providers, and government bureaucrats must support them.**

CBOs can also help inner city residents by actively developing screening and referral systems. Admittedly, some inner-city-based businesses do not hire many local residents. The reasons are varied and complex but seem to revolve around a few bad experiences that owners have had with individual employees and their work attitudes, absenteeism, false injury claims, or drug use. A study of the impoverished Red Hook neighborhood in Brooklyn points to the importance of social networks – networks that are often lacking in inner cities – as informal job referral systems.[1] The study found that a local development corporation, the South Brooklyn LDC, played an important role in helping local residents get jobs by developing relationships with nearby businesses and screening and referring employees to them.

*4. Facilitate commercial site improvement and development.* Community-based organizations (especially community development corporations) can also leverage their expertise in real estate and act as a catalyst to facilitate environmental cleanup and the development of commercial and industrial property. For example, the Codman Square Neighborhood Development Corporation in Boston was part of a group including the Boston Public Facilities Department, local merchants, and the local

1. See Philip Kasinitz and Jan Rosenberg, "Why Enterprise Zones Will Not Work: Lessons from a Brooklyn Neighborhood," *City Journal,* Autumn 1993, pp.63-9.

health center that encouraged 36 businesses to move into a depressed neighborhood. The group used its considerable community organizing talent to help merchants form an association to identify the neighborhood's needs as well as barriers to meeting them. It negotiated with the police to increase patrols in the area and pushed the mayor's office to board up abandoned buildings and to rid the area of trash and abandoned cars. After bringing together many different constituencies, it led a campaign to encourage businesses to locate in the neighborhood.

## Overcoming Impediments to Progress

This economic model provides a new and comprehensive approach to reviving our nation's distressed urban communities. However, agreeing on and implementing it will not be without its challenges. The private sector, government, inner city residents, and the public at large all hold entrenched attitudes and prejudices about the inner city and its problems. These will be slow to change. Rethinking the inner city in economic rather than social terms will be uncomfortable for many who have devoted years to social causes and who view profit and business in general with suspicion. Activists accustomed to lobbying for more government resources will find it difficult to embrace a strategy for fostering wealth creation. Elected officials used to framing urban problems in social terms will be resistant to changing legislation, redirecting resources, and taking on recalcitrant bureaucracies. Government entities may find it hard to cede power and control accumulated through past programs. Local leaders who have built social service organizations and merchants who have run mom-and-pop stores could feel threatened by the creation of new initiatives and centers of power. Local politicians schooled in old-style community organizing and confrontational politics will have to tread unfamiliar ground in facilitating cooperation between business and residents.

These changes will be difficult ones for both individuals and institutions. Nonetheless, they must be made. The private sector, government, and community-based organizations all have vital new parts to play in revitalizing the economy of the inner city. Businesspeople, entrepreneurs, and investors must assume a lead role; and community activists, social service providers, and government bureaucrats must support them. The time has come to embrace a rational economic strategy and to stem the intolerable costs of outdated approaches.

*The research that this article is based on would not have been possible without the generous support of the Harvard Business School and the assistance of many individuals. Whitney Tilson, Michael Marubio, and Barbara Paige were integrally involved in preparing this article. I would also like to thank the many M.B.A. students from both the Harvard Business School and other schools who have been involved in the research effort that made this article possible.*

Reprint 95310