

**NEW STRATEGIES FOR INNER-CITY ECONOMIC DEVELOPMENT:  
INITIATIVE FOR A COMPETITIVE INNER CITY**

**Initiative for a Competitive Inner City (ICIC)**

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**INTRODUCTION**

The economic distress of America's inner cities is one of the most pressing issues facing the nation. The lack of businesses and jobs in inner cities fuels not only poverty but also crippling social problems such as drug abuse and crime.

The time has come to recognize that revitalizing these areas requires a radically different approach. Today, most efforts and public resources are targeted toward meeting residents' immediate needs rather than generating jobs and economic opportunity that will mitigate the need for large-scale social programs. Although efforts to provide education, housing, healthcare, and other needed services are essential, they must be balanced with a concerted and realistic economic strategy focused on for-profit business and job development. The necessity—and the real opportunity—is to create income and wealth by harnessing the power of market forces, rather than trying to defy them. The private sector must play a leading role in inner-city economic development and, in many ways, is already beginning to do so.

In order to create better linkages between the private sector and the inner-city economy, Harvard Business School professor Michael E. Porter founded The Initiative for a Competitive Inner City (ICIC) in 1994. With the knowledge that there is genuine economic potential in inner cities that has been largely unrecognized and untapped, we continue to pursue our mission of fostering healthy economies in America's inner cities through our research and programmatic efforts.

**A STRATEGY FOR INNER-CITY ECONOMIC DEVELOPMENT**

Our strategy begins with the premise that a sustainable economic base can be created in inner cities only as it has been elsewhere: through private, for-profit initiatives. Investments in the inner city must be based on economic self-interest and genuine competitive advantage instead of artificial inducements, government mandates, or charity. Specifically, a sustainable economic base in inner cities depends upon:

- Private, for-profit business development and investments based on economic self-interest and genuine competitive advantage

- Recognizing and enhancing the inherent advantages of an inner-city location, and building on the base of existing companies
- Making inner cities competitive as business locations and integrating these areas into the regional and national economy
- Engaging the enormous resources of the private sector in market-based activities
- Shifting the economic development paradigm from reducing poverty to creating income and wealth through business development

Economic development in inner cities will come from recognizing and enhancing the inherent advantages of an inner-city location and building on the base of existing companies. As well, we must deal frontally with the present disadvantages of inner cities as business locations.

Currently, there are many businesses in inner cities—a surprise to those who assume that little economic activity exists because of these communities' well-known problems. For example, Chicago has approximately 15,000 inner-city companies that earn annual revenues greater than \$500,000. In Boston there are approximately 4,000 inner-city companies. Indeed, the Boston Chamber of Commerce nominated two inner-city companies, Jet-A-Way and Be Our Guest, as the Small Business of the Year for 1996 and 1997, respectively.

### **COMPETITIVE ADVANTAGES OF INNER CITIES**

Our analysis of major cities nationwide has found that often-discussed advantages, such as low-cost labor and cheap real estate, are largely illusory. Instead, the genuine competitive advantages of inner cities fall into four areas: strategic location, unmet local demand, human resources, and integration with regional clusters.

#### **Strategic Location**

Inner cities occupy what should be some of the most valuable locations in their regions. Inner-city areas are often near high-rent business centers, entertainment complexes, and transportation and communications nodes. As a result, an inner-city location can offer a competitive edge to logistically sensitive businesses that benefit from proximity to downtown, transportation infrastructure, and concentrations of companies. The just-in-time, service-intensive modern economy is only heightening the time and space advantages of these locations.

In our surveys of inner-city companies in twelve major metropolitan areas, strategic location was cited as the most important advantage for operating in an inner-city location. For example, in Boston, 90% of the 60 companies surveyed said proximity to customers was an important advantage, 55% cited proximity to nearby highways, and 35% cited proximity to suppliers. In Atlanta, 81% of the 37 companies surveyed said strategic location was an important advantage.

#### **Unmet Local Demand**

Inner cities represent the next retail frontier in America. Despite low average incomes, high population density in many inner cities translates into a large local market with enormous buying power per square mile. America's inner cities represent approximately \$85 billion in annual retail purchasing power, or approximately 7% of total retail spending in the United States. This market alone is larger than the entire retail market of Mexico.

In many inner cities, more than 25 percent of retail demand is unmet locally. For example, in Boston the average retail demand per square mile is \$71 million as compared to \$12 million per square mile for the rest of the metro area. At a time when suburban markets are saturated, inner-city markets remain poorly served.

Because these markets are so underserved and the consumers are ethnically heterogeneous, opportunities exist for both chain and independent retailers. Chain retailers offer the potential to expand the range of products and services available to local shoppers as well as offering competitive pricing. Independent entrepreneurs, as one respected chain retail executive told us, "...are capable of running circles around larger chains." By being closer to the market-place, independent entrepreneurs can better understand neighborhood demand and can more effectively tailor their offering to the specific needs of shoppers in the inner city.

### **Human Resources**

Although inner-city populations present many workforce readiness challenges, inner-city residents can also be an attractive labor pool for businesses that rely on a loyal, modestly skilled workforce. Many employers report great satisfaction with their inner-city workforce. In our survey of inner-city companies in Boston, 65% of businesses cited an available workforce, 60% cited a low cost workforce, and 50% cited a diverse workforce as critical or important advantages to their inner-city location. In Atlanta, just 4% of companies were dissatisfied with their employees' skill level and 15% with their work ethic.

Importantly, the United States is facing a fundamental shift in the structure of the labor market. For the past few decades, the most pressing human resource issue facing the U.S. economy has been the creation of jobs. For the next ten years, the critical issue will be finding workers. Labor supply growth, projected to be 1.1% per annum, will fall far short of demand for labor that has averaged 2.6% over the last two years. A sustained supply shortfall will translate into an acute labor shortage.

Another important factor altering the labor force paradigm is the likelihood that 80% of labor force growth will come from minority communities. The fact that minorities will represent the only growing source of labor, much of which will be concentrated in cities, presents an opportunity for inner-city communities to position a ready labor force as an increasingly valuable competitive advantage.

A number of companies have recently established inner-city operations to better access and retain employees. For example, Allen Edmonds, the high end men's shoe-maker, and the call center division of Sprint report lower turnover and high levels of satisfaction with their inner-city operations.

### **Integration With Regional Clusters**

Longer-term development opportunities for inner cities lie in capitalizing on nearby regional clusters of firms and industries—unique concentrations of competitive companies in related fields. Rather than focusing on isolated inner-city companies, an effective economic strategy for inner cities must focus on developing the clusters within inner cities and linking them more effectively to those in the surrounding economy. The ability to access competitive clusters is far-reaching in its economic implications, and goes beyond the simple proximity of inner cities to downtown areas or transportation infrastructure. Building on regional clusters involves tapping powerful external economies for information, skills, image, infrastructure, and markets.

## COMPETITIVE DISADVANTAGES OF INNER CITIES

As business locations, inner cities suffer many disadvantages: discrimination against residents and entrepreneurs, high taxes and utility costs, difficulty in finding affordable insurance, crime, poorly maintained logistical infrastructure, burdensome regulations and permitting requirements, environmental pollution, and a weak education and training system. In inner cities, taxes have risen while infrastructure has been neglected. The quality of government services has badly deteriorated, and a regulatory morass has been created which is unparalleled in the rest of the country. Separation of inner cities from the rest of the economy has in many cases been accentuated by well-intentioned policies.

However, these disadvantages are not economically inevitable, but rather the result of old attitudes and decades of ineffective policies and strategies. Many cities are tackling these disadvantages and are showing promising results.

### CONCLUSION

Inner cities need new, market-oriented strategies that build on their strengths, address competitive disadvantages, and engage the private sector. Inner cities can, and must, compete. Developing a new strategy for inner-city economic development will require an understanding of what is unique about each inner city, how to build on its advantages, and a plan to eliminate or reduce the many disadvantages to conducting business. This process will require the commitment and involvement of business, government, universities, and the nonprofit sector.

For further information, please visit ICIC's web site at [www.icic.org](http://www.icic.org).

*Michael E. Porter is the C. Roland Christensen Professor of Business Administration at the Harvard Business School and a leading authority on competitive strategy and international competitiveness. He is the author of 14 books and over 50 articles, including *The Competitive Advantage of Nations*, and has served as a counselor on competitive strategy to many leading U.S. and international companies and governments.*

*Professor Porter has led major national programs to foster economic competitiveness for the governments of such countries as Canada, India, Portugal, New Zealand, and Taiwan. He is currently working with the presidents of the seven Central American countries to develop a regional strategy and is beginning a similar effort in the Middle East. Professor Porter has applied his expertise in competitive strategy to the inner city and published his first article on the topic, "The Competitive Advantage of the Inner City," in the May/June 1995 issue of the Harvard Business Review, and more recently published "New Strategies for Inner-City Economic Development" in the February 1997 issue of Economic Development Quarterly. Professor Porter has overseen intensive research effort that has studied the economic base of several major U.S. inner cities.*