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Inner-City Economic Development: Learnings From 20 Years of Research and Practice

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The distress of inner cities has long been a pressing national issue, gaining attention again in the 1990s due to civic unrest and riots in cities like Los Angeles (Hartley, Kaza, & Lester, 2016). It continues to be an urgent issue today, not only with a resurgence of unrest but also because inner cities are at the epicenter of the nation's growing inequality and sluggish economic growth. Many of our nation's great cities continue to have large areas characterized by high poverty and unemployment rates, blight, and crumbling infrastructure.

At the time of the publication of my original research on the competitiveness of inner cities in *Economic Development Quarterly* in 1997, the prevailing policy approach focused on improving social conditions such as affordable housing, reducing crime, and the quality of public education, not the economy (Porter, 1997). While these were surely critical needs, the premise of the original article was that this alone was not enough. Only through business development and expanding economic opportunity would a sustainable solution for inner cities be achievable. An economic strategy would also raise the return on social investments as the opportunities available to individuals grew. But the feasibility of an economic strategy required an approach based on the assets of inner cities, not just one based on deficits alone.

Overall, great progress has been made on many fronts in improving inner-city economies over the last two decades. Inner-city residents now have many more retail options than they did two decades ago (Coyle, 2007), including an increased presence of national retailers (Miara, 2007).

Inner-city businesses have greater access to procurement opportunities with large, anchor institutions, such as universities and hospitals (Norris & Howard, 2015; Zuckerman, 2013). Such anchor institutions have also taken a more proactive role in transforming their local economies (Rodin, 2007). The quality of education and affordable housing, although certainly not where they need to be, has improved (The Annie E. Casey Foundation, 2014; Sard & Fischer, 2008).

Coupled with this progress is a reversal of the demographic trend that contributed heavily to inner-city decline in the first place—the hollowing out of urban cores as more prosperous residents moved to the suburbs. Today, both young and retired professionals are flocking to urban neighborhoods (Ehrenhalt, 2012).

However, challenges remain. Since 2008, the eroding competitiveness of the national economy and the slow recovery has created headwinds for inner cities. While America retains core competitive strengths, the U.S. business environment has deteriorated relative to other nations in important areas such as education, skills, regulatory ease, and infrastructure. These developments, coupled with globalization, have created a growing divide between highly skilled individuals, international companies, and high-tech start-ups, which are prospering, and middle- and lower-middle-class workers and small business, which are struggling. The performance of the U.S. economy is weaker than it has been in a generation, and inner cities have been disproportionately affected (Kneebone, Nadeau, & Berube, 2011; The Pew Charitable Trusts, 2012).

My initial work on inner cities grew out of a broader body of research on national and regional competitiveness first introduced in the Competitive Advantage of Nations (Porter, 1990). However, there was much to learn. I established the Initiative for a Competitive Inner City (ICIC) in 1994 to expand knowledge on inner-city economies by performing baseline research on the nature of inner-city economies, and the policies and interventions that worked and did not work. ICIC also put in place a range of programs to enhance business development in inner cities. Since then, a rigorous definition of an inner city was established, decades of data on inner-city economies and inner-city businesses were developed, and a strategic framework to guide inner-city economic development strategy was advanced, including approaches to attracting mainstream companies to inner cities as well as to better engage anchor institutions in inner-city revitalization.

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Notable scholars from across the country, representing diverse disciplines, have also made significant contributions to a growing body of research on inner cities, including those featured in this special issue of *Economic Development Quarterly*. Our deeper understanding of inner-city economies has informed a more advanced and holistic inner-city economic development playbook than that which was introduced in the 1997 article. I want to thank the editors of *Economic Development Quarterly* for giving me this unique opportunity to share my current perspective on what I still consider to be among the most pressing issues of our time—how to address the lack of economic success and opportunity for many of our citizens. This issue confronts questions that are not only crucial for inner cities but are also crucial for the broader economy.

Foundations of an Inner-City Economic Development Strategy

In the aftermath of the Los Angeles riots in 1992, I was approached by one of my Harvard Business School students, who was from Los Angeles, to apply competitiveness concepts developed for the overall economy to distressed urban areas. My student, Willie Woods, put together a team and the work on inner-city economic development began.

My competitiveness framework started with the premise that the competitiveness of locations is fundamentally based on productivity, rooted in the nature of the business environment, and the nature and capabilities of the firms and industries operating there. This perspective highlighted the role of clusters—geographic concentrations of firms, suppliers, related industries, and specialized institutions in particular fields that were present in the location—as a powerful influence on productivity, innovation, and economic development. This competitiveness framework highlighted the fundamental drivers of differences in economic performance across locations and laid the foundation for developing location-based approaches to enhance competitiveness and economic growth.

For inner cities, the prevailing view at the time considered these areas to be disconnected anomalies, devoid of viable businesses and populated by residents marginally participating in the labor force. The strategies being proposed to address inner-city decline were typified by the Special Committee of the California Legislature (1992) that was convened to address inner-city Los Angeles. The approach focused primarily on social outcomes (i.e., improving access to housing and reducing crime) and the redistribution of wealth through tax reduction and subsidies, while overlooking the possibility that business and economic growth and the opportunities it could create was feasible.

Over the course of several years, we developed an alternative approach based on five key premises. First, to truly transform inner cities, a central focus needs to be on creating a viable economy. Creating jobs and economic opportunity for inner-city residents will increase income and wealth, which ultimately should mitigate the need for social programs. Social investment not accompanied by improving economic opportunity is hard to sustain, and redistribution alone is not a viable strategy. Bringing inner-city residents access to economic opportunities, conversely, will strengthen their connection to the market economy. It will also create a crucial demonstration effect—citizens working in good jobs and entrepreneurs building companies will provide powerful role models and motivation for pursuing education, training, and work. A viable inner-city economy also conserves public resources, benefits local property owners, and reduces the challenges facing city government. Today, this first premise is so widely accepted that it may not seem noteworthy. However, in the early 1990s, such an approach focused on the inner-city economy (which many believed did not exist) was greeted with understandable skepticism.

Second, to truly increase employment and opportunity for inner-city residents, there needs to be a viable economy and businesses located *in or near the inner city*. Business and job growth in or near the inner city will help addresses a spatial mismatch of jobs and workers (Andersson, Haltiwanger, Kutzbach, Pollakowski, & Weinberg, 2014) and eliminate transportation and other barriers inner-city residents face trying to access jobs in other parts of the metropolitan area. ICIC's research has confirmed that inner-city–based companies are far more likely to hire inner-city residents than those in the central city or suburbs (ICIC, 2010).

Third, inner cities need a focused economic development strategy, reflecting their unique circumstances, versus relying on growth in the overall metropolitan area. ICIC research demonstrates a low correlation between regional growth and inner-city growth. The regional tide does not lift all neighborhood boats equally. What is needed is a place-based economic development approach focused on inner cities, not just one focused on individuals or groups defined by race or gender that may or may not have the greatest need. A place-based approach is focused on concentrated economic underperformance and will be far more leveraged and address communities with the greatest need (Hopkins & Ferris, 2015). Targeting such areas will be more effective and efficient than household-by-household approaches. Focusing on the strategy to improve economically underperforming places has proven to engender broad-based support across all constituencies.

Fourth, a successful economic development strategy for inner cities must identify and build on the existing and potential competitive advantages of inner-city areas—not rely solely on minimizing disadvantages. Competitive success in any market requires understanding potential strengths and capitalizing on them. While most observers in the 1990s and even later viewed inner cities as devoid of businesses and competitive strengths, ICIC's research revealed a base of established and growing companies, and its surveys identified advantages: an efficient, central location in the region, access to transportation infrastructure, and others. These assets proved essential to successful economic development levers, but have been shifting; I will discuss.

Finally, successful inner-city economic development must be led by the private sector. As I wrote in 1997:

> 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, and investments based on economic self-interest and genuine competitive advantage instead of artificial inducements, government mandates, or charity. (p. 12)

This approach is also the only one that is politically feasible over the long term. It does not ask people to support wealth redistribution but focuses on expanding the economic pie.

Inner-City Competitive Advantages

Our research in the 1990s and early 2000s identified four core competitive advantages of inner cities: strategic location at the center of metropolitan areas and near regional transportation hubs; unmet local demand due to a dearth of retailing and local business support services; an ability to link to strong regional clusters such as in tourism, business services, food processing, and logistics; and an underutilized workforce, including the underemployed.

To develop these ideas and refine and test inner-city economic development approaches, it was necessary to establish a rigorous definition of an inner city. This allowed data collection and benchmarking, while laying the foundation for academic research and policy analysis. Based on numerous studies of inner cities in the late 1990s and informed by place-based policies, ICIC defined inner cities as contiguous census tracts characterized by high poverty and unemployment relative to the metropolitan area.[1]

Defining the inner city as a unit of analysis versus individual census tracts or individual neighborhoods is vital to economic development planning. Neighborhoods are not a viable economic unit, while the inner city as a whole represents a meaningful economic area in terms of scale and similar circumstances (Zeuli, 2015).

We found that nearly all large cities have inner cities, but they differ in important ways. They vary in size, economic composition, and performance; however, they all have a large business base that supports both local and traded clusters. And spatially, they are often proximate to central or downtown areas of a city and near major transportation hubs.

A Shifting National Economic Context

In the early 1990s, the U.S. economy was performing quite well and inner-city economies were the exception. Today, the national economy has experienced weak performance, dating to before the Great Recession and exacerbated by it. Historically, in any given 10-year period, the U.S. economy created jobs at roughly a 2% annual rate. But this started to change around 2001 when job growth rates dipped to historically low levels. Real median household income has also stagnated and declined for a long time. Productivity growth, a key driver of income and wage growth, has also fallen over the last 15 years (Rivkin, Mills, & Porter, 2015).

All these trends started before the Great Recession, revealing a structural problem, not just a cyclical downturn. Research from the Harvard Business School's U.S. Competitiveness Project has revealed a decline in the fundamental competitiveness of the United States as a place to do business. Although the United States retains fundamental strengths in higher education, entrepreneurship, innovation, and capital markets, the U.S. business environment overall has deteriorated in important areas like skill development, public education, infrastructure, regulatory costs, and corporate tax rates relative to other countries (Rivkin et al., 2015). The net result has been a divide in the U.S. economy. Most large businesses (i.e., U.S.-based multinationals) and high-tech start-ups are thriving and people with advanced skills are prospering, but working- and middle-class Americans are struggling, as are many small businesses. This sharp reversal in the general economy has created greater challenges for inner cities, which started from a position of relative weakness.

The loss of companies and middle-income jobs in formerly growing suburbs and other areas of cities have added new competition for inner cities. Poverty that was once concentrated in inner-city neighborhoods has spread to proximate suburbs (Ehrenhalt, 2012; Kneebone & Berube, 2013). At the same time, central cities are improving as a result of an influx of new businesses and residents.

Inner-City Economic Performance

Based on the ICIC definition, there were 328 inner cities in the United States in 2013. Collectively they represent 10% of the population and 9% of the national labor force, but 15% of U.S. unemployment, 23% of U.S. poverty, 34% of U.S. minority poverty, and a median household income of $30,300 in 2013 versus the U.S. average of $53,000.[2] The inner-city population is younger and far more diverse than the United States overall, with lower education levels (Table 1).

Despite progress, inner cities continue to underperform. Of the 92 inner cities in the 100 largest cities, 81 experienced rising poverty and unemployment rates between 2000 and 2013 (Figure 1). A key metric of inner-city performance is

Table 1. Inner-City Demographics in 2013.

	Inner cities	U.S.A.
Median age (years)	30	37
Hispanic or Latino, any race (percentage of population)	37%	17%
White (percentage of population)	46%	74%
Black or African American (percentage of population)	33%	13%
Asian (percentage of population)	5%	5%
Two or more races (percentage of population)	3%	3%
Other races (percentage of population)	14%	6%
Education rate (bachelor's degree or higher)	15%	29%

Note. Inner-city demographics are for all 328 inner cities. Other races include "American Indian and Alaska Native," "Native Hawaiian and Other Pacific Islander," and "Some other race." Race percentages sum to more than 100% because of rounding. Education rate is the percentage of population 25 years and older with a bachelor's, graduate, or professional degree.
Source. U.S. Census Bureau 2013 American Community Survey 5-year estimate; ICIC analysis.

job growth. Across all 328 inner cities, 440,000 jobs were lost between 2003 and 2013. In comparison, their surrounding central cities experienced a gain of nearly two million jobs during the same period.[3]

Indianapolis is an example of a declining inner city (Figure 2). Between 2000 and 2013, the poverty rate increased by 14% and the unemployment rate increased by 9.5%.

The declining inner-city economy in Indianapolis is typical of other Rust Belt cities in the Midwest. Manufacturing jobs in Rust Belt cities have declined, with few other industries emerging to offset the loss.

The Indianapolis region has performed relatively better than other Rust Belt regions because it has been able to replace manufacturing jobs with jobs in advanced service industries, such as finance, information, and professional and business services (Friedhoff, Wial, & Wolman, 2010). Inner-city Indianapolis, however, failed to create jobs in new fields.[4]

Recognizing the need to create new jobs, the public–private Central Indiana Corporate Partnership set out a plan for implementing a cluster-based growth strategy focusing on accelerating growth in five areas: agricultural innovation, life sciences, workforce development, advanced manufacturing and logistics, and energy technology and technology.[5] Indianapolis remains a work in progress.

Although most inner cities have faced challenges exacerbated by the Great Recession, there are success stories (Figure 1). Of the 92 inner cities in the largest 100 cities, three inner cities registered declining poverty and unemployment rates between 2000 and 2013: Baton Rouge, Louisiana; New York City, New York; and Seattle, Washington. An additional eight inner cities reported either decreased poverty or lower unemployment rates, but not both: Atlanta, Georgia; Corpus Christi, Texas; El Paso, Texas; Laredo, Texas; Long Beach, California; Madison, Wisconsin; Norfolk, Virginia; and San Diego, California.[6]

Better performing cities have benefitted from regional growth in industries linked to the inner city. Inner-city neighborhoods have also been buoyed by an influx of new, often higher-income residents moving into the urban core. Gentrification, which can lead to both positive and negative outcomes for inner-city residents, is occurring. Despite the common rhetoric, new research shows that gentrification can result in positive outcomes for inner-city residents (e.g., Dastrup et al., 2015; Ding, Hwang, & Divringi, 2015). Instead of trying to stop gentrification, economic development professionals and city leaders should focus instead on managing gentrification, with strategies that ensure maximum benefits to all residents, especially the most vulnerable. Such strategies should include affordable housing initiatives as well as programs that help local businesses expand and connect local residents to new jobs, including sector-specific workforce training programs (Hilliard, 2013). With such strategies in place, gentrification provides a path to economic opportunity for more inner-city residents.

The State of Inner-City Companies

ICIC's early research sought to identify inner-city businesses nationally, to counter the perception that the inner city was devoid of commercial businesses. Since 1999, ICIC has collected 17 years of data on the Inner City 100, an annual list of the fastest-growing private inner-city companies across the United States. Overall, 846 firms representing 176 cities and 41 states were recognized and surveyed. In 2015, for example, the Inner City 100 winners reported an average of $12 million in annual revenue, 62 full-time employees, and a 5-year growth rate of 378%.[7] This list, which is published in *Fortune*, has not only brought attention to entrepreneurship in inner cities but has also created business networks and stimulated procurement opportunities.

This and other data reveal that inner-city areas contain more than just small, locally owned businesses (the proverbial "mom and pop" shops). Nine percent of all U.S. business establishments are located in inner-city areas, and the size distribution of inner-city firms is similar to all U.S. firms. The share of very small businesses in the inner city is actually lower than the national average: 50% of inner-city establishments have one to four employees, compared with 55% nationally.[8] Taken together, these data provide strong evidence that there is a strong foundation of business development in inner cities to build on.

Inner-city–based business activity can be grouped into four categories:

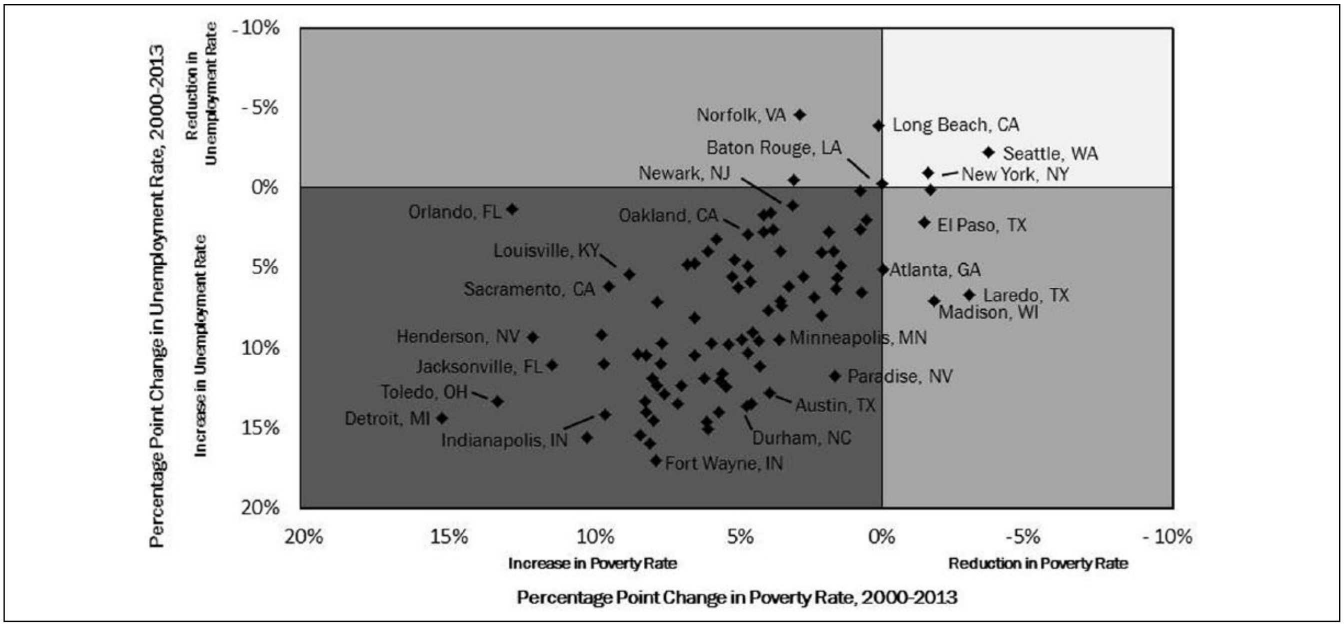

Figure 1. Economic performance of inner-city residents: Poverty and unemployment for the 100 largest cities, 2000-2013.
Note. One hundred largest cities are as of 2013. Only 92 of the 100 largest cities have an inner city. Poverty rates include student populations (undergraduate, graduate, or professional students) in both 2000 and 2013.
Source. Decennial Census 2000; U.S. Census Bureau 2013 American Community Survey 5-year estimate; ICIC analysis.

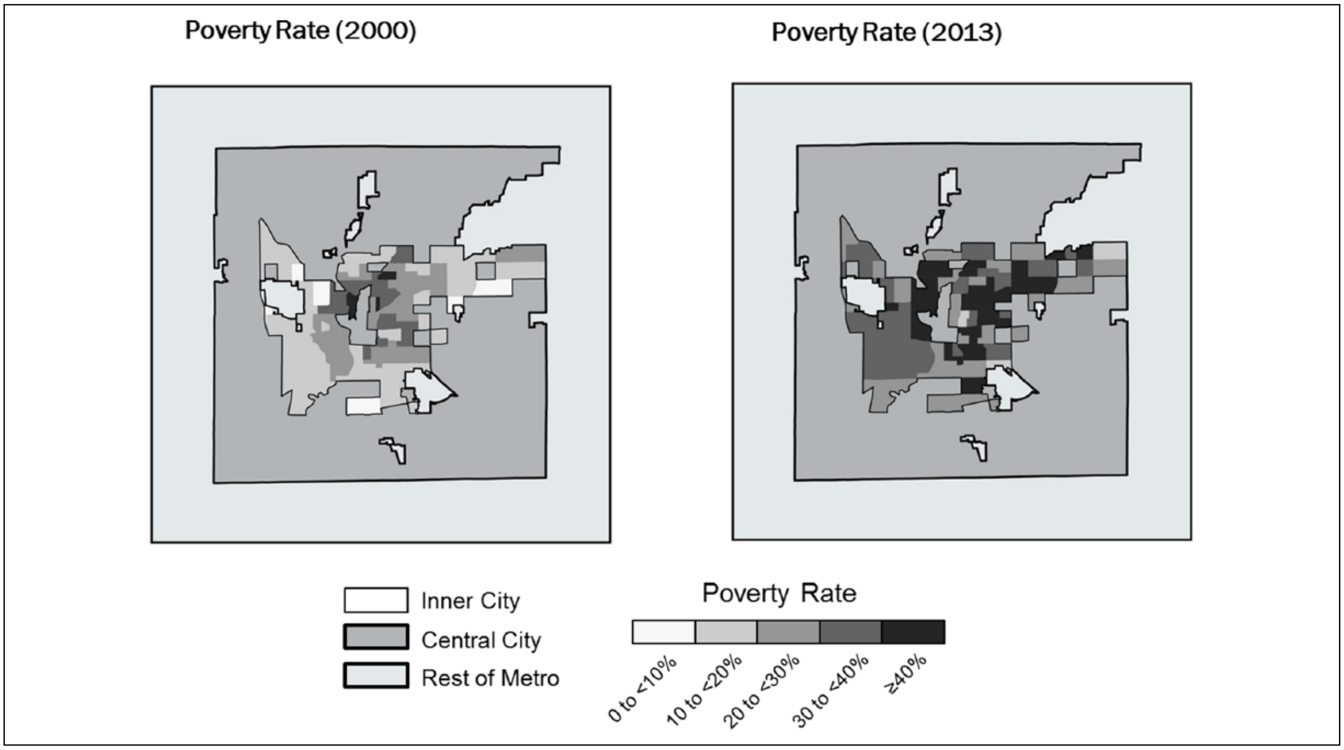

Figure 2. Inner-city poverty dynamics in Indianapolis, 2000-2013.
Note. Inner-city Indianapolis is defined by ICIC using data from the 2011 American Community Survey 5-year estimate. Poverty rates include student populations (undergraduate, graduate, or professional students) in both 2000 and 2013.
Source. Decennial Census 2000; U.S. Census Bureau 2013 American Community Survey 5-year estimate; ICIC analysis.

1. Businesses started and owned by inner-city residents. Some primarily serve the local market, but others serve broader regional and national markets.
2. Outside businesses that have chosen to site operations in the inner city, seeking local customers or locational advantages.
3. Large corporations or franchisors with multiple units (e.g., Walgreens, Waste Management, or McDonalds) that have locations in the inner city, primarily to serve local customers. An important opportunity for inner-city economic development is to attract more such units.
4. Anchor institutions are large organizations located and with strong roots in the inner city, including universities, hospitals, and medical centers. Anchors also include sports teams, arts and cultural organizations, and large corporations that have legacy inner-city locations. Anchors have a stake in the success of their surrounding communities in terms of the quality of infrastructure and amenities, available workforce, decreased crime, relationships with the community, and so forth. Anchors have become crucial assets for inner-city revitalization because of their purchasing power, real estate development, employment, and long-term interest in seeing the local community thrive (ICIC & CEOs for Cities, 2002).

Each of these categories of companies represents a target for inner-city development and requires a different approach. Connecting these types of companies is also an opportunity, as will be discussed.

Reevaluating Inner-City Advantages

Inner cities have an evolving role in regional economies. Their core competitive potential is largely intact, and new opportunities are being created by demographic shifts. The major new challenge is the slow growth and faltering competitiveness of the broader economy.

Underserved Local Demand

Since the original article, ICIC research has verified the potential of unmet local demand. Income density in some inner-city areas is six times greater than the surrounding area, and inner cities are underserved for many goods and services (Boston Consulting Group & ICIC, 1998). This research was used to justify the use of place-based business policies to encourage business growth, such as new market tax credits. Underserved local demand and proximity to serving nearby central business districts remains a core inner city advantage.

The population density of inner cities gives rise not only to concentrated consumer demand in inner cities but also to diversity. Inner cities also comprise more diverse populations than other parts of the city, creating opportunities for new types of products and services. Diversity spawns innovation. In our most recent survey, 47% of Inner City 100 firms cited the creative environment in inner cities as an advantage.[9]

Strategic Location

Strategic location remains a core advantage of inner cities today, with proximity to the central business district and access to transportation networks. Based on ICIC research, 49% of high-growth inner-city companies find that their location is a competitive advantage.[10] In particular, they point to proximity to major transportation hubs (79%) and quality of transportation infrastructure (42%).

This logistical advantage is fundamental to many types of manufacturing firms, especially those that involve bulky goods and ship to regional and global markets. But business services firms also benefit, as location is essential to serve customers efficiently as well as to attracting talent (Glaeser, Kahn, & Rappaport, 2008). Millennials are more likely to seek diverse urban communities than previous generations.

Technological innovation is currently influencing consumption patterns as well as business models and logistical patterns. For example, Uber and Zipcar offer new transportation options. Amazon and other online shopping options allow most products to be delivered directly to homes, while eBay and other sites allow new ways for individuals to sell products and services. New research is needed to fully understand the effects of these innovations on consumption and transportation patterns in inner cities, but they offer the potential to create new economic opportunity in the inner city.

Connecting to Regional Clusters

Armed with newly developed and rigorous data on clusters over the last decade (Delgado, Porter, & Stern, 2015; Porter, 2003), we have been able to identify those clusters that are overrepresented in inner cities. These clusters, reflecting the inner city's competitive advantages, include Apparel, Performing Arts, Environmental Services, Jewelry and Precious Metals, Leather and Related Products, Music and Sound Recording, and Tobacco. New research also proves that such clusters that are strong in both the region and inner city create the most inner-city employment opportunities (Delgado & Zeuli, 2016).

Over the past decade, our research has also revealed the importance of local clusters to inner-city economies (Porter, 2000, 2003). Local clusters almost exclusively serve local markets and are not unique to each region; they represent 64% of U.S. employment.[11] Local clusters include local health services, hospitality, and retail.

Local cluster jobs are often more accessible to a wide range of workers than traded jobs (39% require a high school degree or less).[12] However, because local clusters often involve less skill and technology than traded clusters, they have lower average wages. The location of local clusters also varies within metropolitan areas. Our research identifies two basic types of local clusters, business-to-consumer (B2C) and business-to-business (B2B) (ICIC, 2011). B2C clusters (e.g., local health services and local hospitality) offer important entry-level jobs, as well as goods and services, to local residents. These tend to be evenly distributed across metro areas. B2B (e.g., local commercial services, local construction, and community and civic organizations) and B2B/B2C hybrids tend to concentrate in certain parts of cities. A challenge for inner cities is to attract their share of B2B clusters.

B2C clusters have experienced significant growth in inner cities over the past decade, in part because of the new economic development thinking. In contrast, inner-city employment in B2B clusters has declined. Reversing this trend within B2B clusters should be a new target of inner-city economic development strategy. Such clusters provide middle-wage jobs for people without college degrees and strengthen the overall business environment in the inner city. When B2B clusters weaken, it makes it more difficult to attract new firms and for existing local firms to be competitive.

Every inner city will have its own mix of traded and local clusters. Building on such strengths and connecting to regional clusters will lead to greater success than imitating other regions.

Underutilized Workforce

The 1997 article was written at a time of historically low unemployment. Workforce shortages for many companies were a real concern. This created an opportunity for inner-city residents, with companies willing to invest in training programs and open to sourcing workers from nontraditional communities. Today, however, economic conditions are different, and the high unemployment and underemployment in inner-city areas can no longer be considered a competitive advantage. Labor force participation in inner cities (61%) remains lower than in the United States overall (64%), but there is substantial underemployment in the broader economy.[13]

These new market conditions raise the urgency of job creation efforts in inner cities. Our ongoing research points to the importance of inner-city–based business growth as a critical strategy for reducing unemployment. Inner-city–based companies hire disproportionately more inner-city residents than other businesses. Inner City 100 companies, for example, employ an average of 32% local residents, with some registering 90% or more.[14]

The employment challenge also raises the stakes for continuing to improve education and training in inner cities. More effective strategies, such as cluster-based training initiatives that have arisen in many cities in health care, transportation, and other fields, have demonstrated a better path to employment than conventional efforts.

The Strategic Agenda for Inner Cities in 2016

Although much progress has been made, economic development in inner cities remains a pressing national challenge. Much has been learned about the assets on which inner cities can build, the key constraints, and what works. As stated in the 1997 article, “The best (and only) way to develop the economies of inner cities is to make them attractive and welcoming places in which to invest and do business, both for residents and nonresidents” (p. 18). ICIC’s extensive work in cities such as New York, Boston, Louisville, and Newark, and the major progress that has been made in these cities and others, show that inner-city revitalization is possible.

Successful economic development in inner cities requires improving their competitiveness—their ability to compete in the regional economy, to attract businesses that benefit from an urban core location, and to provide an environment where smaller businesses can grow. Our experience at ICIC has highlighted the importance of efforts to help small businesses grow and achieve meaningful employment and economic impact versus just focusing on start-ups.

The playbook for revitalizing inner cities into competitive locations for businesses in 2016 draws on earlier learning, but has been expanded.

Improve the Local Business Environment

Benchmark Inner-City Economic Performance, Cluster Composition, and the Local Business Base. To improve the inner-city business environment, the starting point is to benchmark the competitive position of each inner city, city, and region. ICIC’s State of the Inner City Economy database tracks the economic performance of 328 inner cities. The newly released U.S. Cluster Mapping Tool provides rigorous cluster definitions that allow for cluster composition analysis and benchmarking.[15] These, and other available data, allow for a much clearer picture of each city’s urban core, its performance, and its business base.

Another essential benchmarking charge is to systematically survey businesses based in the inner city, as well as anchor institutions, to get their feedback on business environment challenges. Enlisting businesses directly in strategic planning for the inner city will return the same benefits as we have seen from engaging inner-city residents in the process.

Upgrade the Inner-City Business Environment. In 2015, the top five disadvantages facing inner-city businesses were parking and traffic problems, the perception of high crime, negative perceptions of the inner city, actual crime, and higher costs

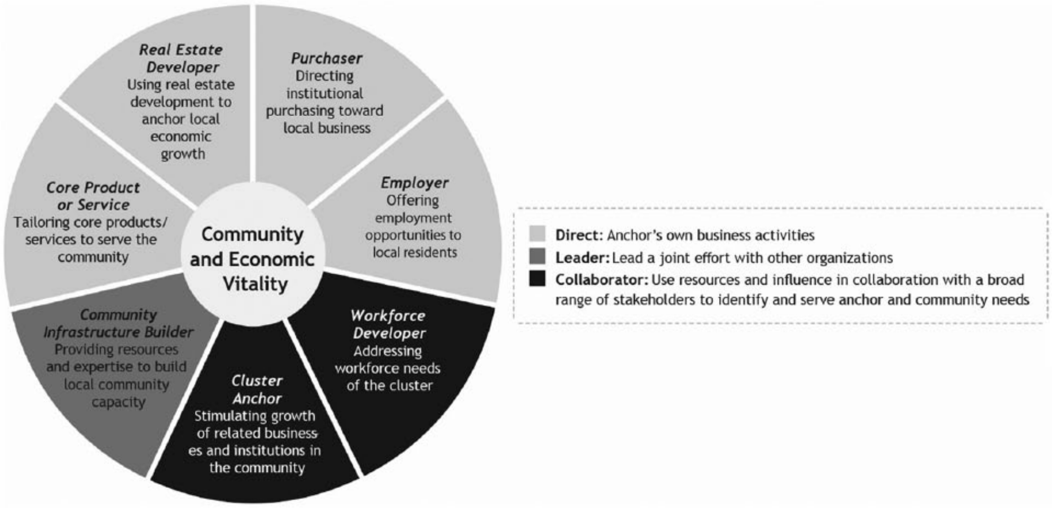

Figure 3. Anchor institution strategic framework.
Source. Initiative for a Competitive Inner City (2011, June). *Anchor institutions and urban economic development: From community benefit to shared value*. Boston, MA.

for office space. Labor force issues were cited by 20% of the businesses, and blight (16%) and poor roads (10%) were additional concerns.[16]

Crime and the perception of crime deter businesses from locating and growing in the inner city, as does deficient infrastructure, lack of amenities, blight, and undeveloped commercial lots. Supportive zoning policies to improve land use are needed, as are policies that protect locations for business rather than conversion to housing. Workforce training is weak and often fails to connect those seeking employment with available jobs. Every city needs a plan to systematically address these and other areas identified as weaknesses in the inner-city business environment.

Engage Anchor Institutions. Anchor institutions can be a powerful force through proactively leveraging their multifaceted impacts on economic and business development. The anchor institution strategic framework (Figure 3), developed at ICIC and used by numerous anchors around the country, defines seven roles an anchor can play in inner-city economic development: (a) providers of products or services, (b) real estate developers, (c) purchasers, (d) employers, (e) workforce developers, (f) cluster anchors, and (g) community infrastructure builders. Anchors have a big stake in the vitality of their surrounding communities, which affects demand for their goods and services, employee attraction and retention, business operations, and overall competitiveness. Anchors create value for both themselves and their communities in taking proactive steps to build a healthy local economy.

There are numerous examples of successful anchor initiatives in inner cities across the country (e.g., the University of Pennsylvania in Philadelphia and Bon Secours Health System in Baltimore). Anchor collaboration initiatives that involve partnerships with diverse anchors across a city are less common, but offer a promising new way to create deep and sustained anchor commitment to local development. A notable example is Cleveland's Greater University Circle Initiative. In 2005, the Cleveland Foundation, in partnership with leading Cleveland organizations, created the Greater University Circle Initiative to address the distressed inner-city neighborhoods known as University Circle. Their focus is on economic inclusion, improving public transportation, housing, education, and enhancing safety and security. To date, they have stimulated hundreds of millions of dollars of new investment in the target neighborhoods; established a new workforce training institute; completed a housing, retail, and entertainment mixed-use development project; and expanded public transportation to more effectively connect anchor institutions to the surrounding neighborhoods (Cleveland Foundation, 2013).

Implement a Cluster-Based Growth Strategy

Strengthen Existing and Emerging Inner-City Clusters, and Better Link the Inner City to Regional Clusters. To implement a cluster growth strategy, cities need to understand the composition of the inner-city economy and mount a private-sector–led cluster upgrading program, with support from participating private sector organizations. Successful efforts will build on existing and emerging local and regional cluster strengths, rather than chase "hot" industries such as high technology. Cities also need to find the right mix of traded and local clusters to address, especially the clusters that are strong in their inner city, city, and metropolitan statistical area (Delgado & Zeuli, 2016).

The full range of economic development policies should be aligned with clusters, including small business development (ICIC, 2014a), cluster-based workforce development, specialized infrastructure initiatives, and export promotion.

Support Company Growth and Upgrading

ICIC research has identified the major constraints facing high-growth inner-city businesses, which include the need for management education, business-to-business networking, and accessing contracting opportunities with other businesses and government. Access to capital is also a significant constraint, with 31% of high-growth inner-city firms reporting that insufficient capital has constrained their company's growth.[17]

Management and Leadership Education. Management and leadership education for inner-city-based companies represents a crucial need, and one where proven programs exist. Gaps in knowledge include business planning, organizational development, marketing, and strategy. Successful programs include Goldman Sachs 10,000 Small Businesses, which partners with Babson College and ICIC to enroll business owners in underserved communities in a comprehensive program of management education and mentoring support. As of 2014, the program has served more than 4,600 small business owners across 44 states. The curriculum includes 80 to 100 hours of management education. Of the companies that have participated, 57% have created new jobs (Babson College, 2014). Another example of a proven program is Interise, a nonprofit organization providing comprehensive training for small business owners in partnership with the Small Business Administration. This training has helped 68% of participants grow revenues (Interise, 2015).

A critical part of these and other similar efforts is to raise company aspirations and give CEOs the confidence that they can grow.

Connect Companies to Appropriate Growth Capital. Inner-city companies face capital access challenges, as discussed earlier. Like all small businesses, they need to understand different capital sources and how to successfully engage with capital providers. ICIC's Capital Connections program, launched in 2005, in partnership with Bank of America, has proven to be a successful model. It includes tailored management education by top-tier business school faculty who cover a range of critical areas such as strategy, planning, and capital structure. The program also includes practice in investor pitch presentations and intensive coaching sessions with investors. At the program's annual conference, participants pitch their businesses to capital providers. The program, now in nine cities and growing, has served more than 1,100 entrepreneurs who raised more than $1.3 billion in capital. This program illustrates that inner-city firms that received coaching and support were successful in capital raising, without the need for government intervention or subsidies.

Increase Company Recognition and Strengthen Business Networks. Inner-city businesses are still difficult to find, even if customers or suppliers know where to look. For example, in a study of the accuracy of business data in Boston, ICIC conducted an inventory of inner-city commercial districts and identified 380 companies that were not listed in the city's business database (ICIC, 2014b).

Programs such as ICIC's Inner City 100 program provide more visibility and credibility for inner-city firms. This program has identified and recognized more than 800 fast-growing inner-city firms since 1999, including some of today's most creative companies such as Coyote Logistics, Happy Family, Revolution Foods, and Terra Cycle.

Identifying and connecting inner-city firms to local business networks also opens up new business opportunities. For example, the Goldman Sachs 10,000 Small Business program creates a network of peers, advisors, and customers and provides access to public and corporate contracts. Goldman found that 84% of its graduates do business together (Babson College, 2014).

Expand Revenue and Contracting Opportunities for Inner-City Companies. Finally, revenue is the oxygen that drives business growth. Inner-city firms often face obstacles to knowing about and winning contracts with government, large regional companies, and inner-city anchors.

Anchor institutions, for example, provide important contracting opportunities for inner-city businesses. In 2015, 71% of fast-growing inner-city firms counted anchors as customers and a significant portion of their customer base is large companies: 48% serve the health care and medical industry, 44% serve the government and military, and 42% serve the education industry. Sixty-three percent cited contracting opportunities with large organizations and government as an important driver of their growth.[18] ICIC's 2014 analysis of six anchors in Newark, New Jersey, documented the fact that a 10% shift in total addressable purchasing to local businesses would result in an additional $33 million flowing into Newark inner-city businesses annually (Zeuli, Ferguson, & Nijhuis, 2014).

Many anchors have developed local contracting and procurement programs, which reveals growing awareness of their importance and benefits. Anchors use a variety of strategies, including soliciting bids, promoting opportunities at networking events, inviting potential suppliers to pitch to the hospital, providing information about certification, and offering capacity-building training. ICIC has found that a rigorous demand analysis that identifies priority purchasing opportunities that can be shifted to local businesses can help anchor institutions establish effective local purchasing strategies.

Major implementation challenges include leadership, resources, management incentives, and insufficient capacity in local smaller businesses.

Moving to Action

To address the increasing economic inequality plaguing the United States, inner cities are a critical place to start. Today, inner-city economic development efforts are still often small scale, implemented in isolation from other cities, and frequently not part of any comprehensive plan. As a result, many have failed to achieve their full potential. The action agenda we offer outlines a proven and comprehensive set of steps that will work if pursued strategically and on a sustained basis, as supported by our work in places such as Boston, Newark, and New Orleans.

ICIC has partnered with the City of Boston over the past two decades to launch innovative programs aimed at improving the inner-city business environment, such as the successful Back Streets program that created industrial zones and dedicated resources to infrastructure improvements.[19] In Newark, ICIC has worked with city leaders over the past decade to develop cluster growth, anchor engagement, and retail investment strategies.[20] Former Mayor Cory Booker acknowledged that ICIC's engagement in Newark served as his playbook for the city's economic development plan. In New Orleans, ICIC's analysis served as the foundation for a cluster-based economic development plan launched in 2013 called ProsperityNOLA.[21] This plan is also linked to anchor engagement initiatives, the growth of inner-city businesses, and improving the prosperity of inner-city residents.

Development initiatives for inner cities still focus heavily on meeting the immediate needs of disadvantaged populations, and underinvest in economic growth plans to develop businesses and create jobs. Although meeting the immediate needs of inner-city residents is important, this alone will not lead to sustainable transformation. Inclusive growth will require *both* economic and social progress. But without an independent, rigorous measure of social progress, we cannot understand the relationship between economic development and social progress. The Social Progress Index, launched in 2013 as a holistic approach to benchmarking countries' social performance, is a tool cities can use to assess their progress.

In the wake of the Great Recession, small business development organizations and programs have proliferated in all cities. However, these initiatives are largely uncoordinated, untested, and focused on start-ups. Cities need to adopt more strategic and effective approaches that rely on well-developed curriculum and strategies that focus on scaling inner-city businesses within strong and emerging clusters.

Our recent research suggests that many cities are now incorporating cluster growth strategies in their economic development plans (ICIC, 2014a). This is bolstered by new federal programs, such as the U.S. Small Business Administration's cluster initiatives. We need to leverage this trend to ensure that cluster growth in the inner cities is also being supported.

The inner-city business environment will benefit from reallocating some public resources to address crime and improve infrastructure. At the federal level, Promise Zones, enacted in 2014, provide an interesting model of sustained public support. By the end of 2016, 20 communities will be awarded a Promise Zone designation. The program targets high-poverty urban, rural, and tribal communities and provides them with significant resources over a 10-year period to create jobs, leverage private investment, increase economic activity, expand educational opportunities, and reduce violent crime.[22]

Effective workforce development programs in inner cities benefit greatly from sector-specific public–private partnerships in the inner city. For example, the "TechHire" initiative, announced by President Obama in early 2015, will invest $100 million in programs that help underserved Americans gain the skills necessary to access job opportunities in the technology industry. The "Ban the Box" initiative, which helps formerly incarcerated citizens with accessing employment, will also help address inner-city unemployment.

Perhaps the most hopeful sign is the increasing number of universities and hospitals that are implementing anchor strategies in inner cities. As more and more companies have moved from corporate social responsibility to creating true shared value (Porter & Kramer, 2011), the opportunities for hiring and buying locally are growing. The impact on inner cities can increase substantially.

Inner cities can become an important engine of metropolitan and regional growth and can help turn the tide on U.S. competitiveness. Catalyzing market-based business development in inner cities is the only true solution for revitalizing our core urban communities and reversing rising income inequality.

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Notes

1. ICIC defines an inner city as a set of contiguous census tracts that have higher poverty and unemployment rates than the surrounding region and, in aggregate, represent at least 5% of a

city's population. Each inner-city census tract must meet either of two criteria: (a) an absolute poverty rate of at least 20% or (b) a relative poverty rate that is at least 150% greater than that of the metropolitan statistical area (MSA), as long as the median household income is 50% or less than that of the MSA or the unemployment rate is at least 150% greater than that of the MSA. ICIC excludes student populations in its calculations because they skew poverty measures. ICIC only identifies inner cities in cities with a population of at least 75,000.

2. U.S. Census Bureau 2013 American Community Survey 5-year estimate; ICIC analysis. Minority population is defined as the population classified in any race and ethnicity group other than non-Hispanic White.
3. U.S. Census Bureau ZIP Business Patterns, 2003 and 2013; ICIC analysis. Surrounding central-city job growth is for all 438 cities with a population of at least 75,000, and it excludes inner-city jobs.
4. U.S. Census Bureau ZIP Business Patterns, 2003 and 2013; ICIC analysis.
5. Retrieved from Central Indiana Corporate Partnership website: https://www.cicpindiana.com/about-cicp
6. Decennial Census 2000; U.S. Census Bureau 2013 American Community Survey 5-year estimate; ICIC analysis.
7. ICIC Inner City 100 2015 Extended Application; ICIC analysis. Full-time employees are full-time equivalent.
8. U.S. Census Bureau County and Zip Business Patterns, 2013; ICIC analysis.
9. ICIC Inner City 100 2015 Extended Application; ICIC analysis.
10. ICIC Inner City 100 2015 Extended Application; ICIC analysis.
11. U.S. Cluster Mapping Portal website: http://clustermapping.us/cluster
12. Bureau of Labor Statistics Education and Training Assignments by Detailed Occupation, 2012; ICIC analysis.
13. U.S. Census Bureau 2013 American Community Survey 5-year estimate; ICIC analysis. Labor force participation defined as the percentage of population 16 years or older in labor force.
14. ICIC Inner City 100 2015 Extended Application; ICIC analysis.
15. The U.S. Cluster Mapping Portal provides more than 50 million open data records on industry clusters and U.S. regional business environments to promote economic growth and national competitiveness. The site also furnishes academics, policy makers, economic developers, members of the private sector, and the general public with customizable visualizations of key data points and comparisons. The project is led by Harvard Business School's Institute for Strategy and Competitiveness.
16. ICIC Inner City 100 2015 Extended Application; ICIC analysis.
17. ICIC Inner City 100 2015 Extended Application; ICIC analysis.
18. ICIC Inner City 100 2015 Extended Application; ICIC analysis.
19. ICIC's What Works for Cities Case Study, "Boston's Back Streets Brings Economy Back to Its Roots," http://www.icic.org/connection/blog-entry/what-works-bostons-back-streets-brings-economy-back-to-its-roots/bp
20. In 2004, ICIC was engaged by the Newark Alliance, a nonprofit organization founded by Newark business leaders to support the broader needs of the Newark community, to develop a market-driven economic development strategy (Opportunity Newark) for the city of Newark. ICIC's strategy was designed to advance Newark's progress over the previous decade in reducing poverty and unemployment by creating jobs and wealth for Newark's residents by leveraging the city's competitive advantages around four target clusters: (a) Transportation, Logistics, and Distribution Services; (b) Health Services; (c) Education and Knowledge Creation; and (d) Entertainment, Arts, and Retail (Newark Alliance, 2006). In addition to Opportunity Newark, ICIC and the Boston Consulting Group conducted a study on bringing retail to Newark in 2006. This work identified retail opportunities in Newark by ward, based on new construction and development as well as by retail gaps. More recently, in 2014, ICIC completed an analysis for the Prudential Foundation on how the city's anchors can use their procurement to expand local businesses (Zeuli et al., 2014).
21. Retrieved from http://nolaba.org/prosperityNOLA.aspx
22. Retrieved from U.S. Department of Housing and Urban Development website: http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/economicdevelopment/programs/pz/overview

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