

A graphic consisting of a grid of small squares in various shades of orange and grey, arranged to form a stylized skyline or cityscape.

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**PROFESSOR MICHAEL E. PORTER
REMARKS GIVEN AT THE LAUNCH OF *CITY MARKETS***

London, Wednesday 21 June, 2006

I. Introduction

- Thank you, Dermot. It is a pleasure to be here and to see how far the Centre for Cities has come in such a short time.
- I have been an enthusiastic supporter of the mission of the Centre since its inception. I know that Lord Sainsbury and I share a similar outlook on the importance and role of cities in the economy and of the role of the private sector in making cities work.

II. *City Markets* Report

- The Centre for Cities *City Markets* Report makes a number of points.
 - a. First, that not all inner cities, (areas that have higher than average poverty and unemployment rates – what you call “deprived areas”) – are alike. They should not all be treated alike. Some have a significant business base, others are primarily residential; some are connected to vibrant regions, others are not. Every inner city needs a unique strategy, the essence of the City Growth approach.
 - b. Second, encouraging new business is not the whole story to business-led revitalization of inner cities. Established and outside companies play an essential role as well, as the Initiative for a Competitive Inner City’s (ICIC) retail work attests. While some of our most entrepreneurial pockets are often found in inner cities – particularly among immigrant communities, entrepreneurship is not for everyone.
 - c. Having said that, entrepreneurship is an essential part of growing the overall economy and encouraging innovation. It is especially important to wealth building for disadvantaged groups, and businesses formed in a community are more likely to hire local residents.
 - d. What we know is that close to 80% of new job growth in regions comes from the existing business base. Retention and expansion strategies for

growing the existing business base are crucial. A cluster approach to business development stimulates and benefits both new and existing businesses, one of the reasons why the cluster model is so important.

- e. Third, the report points to government's role as one of addressing market failures, for example, removing barriers to investment in property markets, or filling in information gaps. We wholeheartedly agree with this, but government does not know what those market failures are.
- f. It is only by working in conjunction with the private sector to identify specific barriers and create solutions that market failures can be addressed. Also, the problem is not just "market failures" but investment deficiencies in various areas.
- g. This requires tailored approaches based on the competitive advantages and disadvantages of the particular cities.

III. The City Growth Agenda

- Creating tailored approaches based on competitive advantages and disadvantages is what the ICIC has undertaken in the UK for the past five years.
- With the support of Chancellor Brown, ICIC, in partnership with the Small Business Service, launched the City Growth effort across 10 cities in the UK and an additional 7 communities around London.
- I'm pleased to have some of our partners at the Small Business Service here today, including Ann Carter Gray, Pricewaterhouse Coopers, as well as many of the City Growth Project Managers.
- This team worked tirelessly and done a remarkable job moving this agenda forward in their respective cities. My thanks and congratulations to all of you, who have truly begun to change the trajectory of economic development in the UK.
- When ICIC partnered with the Small Business Service five years ago to bring this new model to the UK, we knew there were some fundamental differences between the two countries: local political structures, local fiscal structure, the role of the public sector, the nature of the social safety net, differences in levels and culture of entrepreneurship.
- However, we knew one thing to be true. A market-oriented, private sector led approach to inner city economic development is essential and largely missing from current strategies in the US and in the UK.
- The public sector is a critical partner. In the UK, unlike the US, the central government knows it has an important role to play. But we cannot expect government to create a for-profit economy.

- We need the private sector, the engine of job and business growth, to not only be on the bus but also in the driver's seat when it comes to economic development.
- Our objective here is to address one of the most pressing challenges facing our countries, certainly in the US – growing economic inequality. Tackling this issue requires strategies that increase prosperity for everyone.
- For years, inner city economic development in the UK has been largely driven by the public sector, with a separate strategy for social policy and economic policy.
- But the problems in our inner cities are fundamentally economic in nature, and without a healthy job and business base, our critical social issues around housing, health care and education will not be solved.
- The only way to increase prosperity is by increasing productivity. It doesn't matter very much what you do. A region can be prosperous in agriculture, clothing or computers.
- What matters is how you do it – how you compete. If you compete with a lot of skill, if you compete with good technology, if you compete with efficient processes, you can be prosperous. On the other hand, you can be the most high tech, sexy industry on the planet and if you don't have the right ingredients to be productive, you'll go bankrupt.
- There are some who would like to replace the “competitiveness agenda” with the “creative agenda”. This is misleading and dangerous. Creativity without competitiveness can lead to great frustration and unrealized potential.
- City Growth is about cities choosing to compete.

IV. **The City Growth Approach**

- Many of you may already be familiar with City Growth, but let me lay out a few key principles about the initiative:
 - It is not a new institution or organization.
 - It is a new way of thinking, a new approach that is based on rigorous analysis of the local and regional economy. Its strength lies in a few key principles and ideas around urban economic development and
 - At the core of City Growth is a shifting and realigning of existing leadership, resources and energy behind a common strategy at the city level.
 - City Growth starts with convincing the constituencies, and building a solid fact and analytical base.
 - City Growth is essentially an inclusive effort that works to align the myriad organizations and initiatives that influence economic development around a common agenda that is based in economic realities.
 - It does not require vast sums of new money to be implemented
 - It is not a policy tool that can be easily tested

- Without a strong economic foundation of competitive businesses, sustainable economic development will not occur in our inner cities
- Without this foundation, we cannot generate the resources necessary to address some of the pressing social issues we face in housing, education and health care.
- There are simply not enough public and philanthropic resources to solve these issues. We must look to the far greater resources of the market to help solve what is essentially an economic problem.

V. **What have we learned?**

- City Growth has so far addressed 10 cities, 17 areas (seven in London)
- Over 200 private sector leaders have been directly engaged through strategy boards representing hundreds of hours of pro-bono contributions of their time
- Over two thousand companies engaged indirectly through interviews and focus groups
- Close to 100 public and non-profit sector leaders have been engaged
- In the last round of City Growth, 15 different clusters were selected for focused work.
- Local clusters were retailing and construction. Traded clusters included: aerospace, entertainment (TV and film) food and drink, maritime/marine, transportation logistics, tourism
- In many cities there have been fundamental reorganizations of the existing institutions that engage the private sector;
 - New role for chambers of commerce
 - More business-focused city councils like the head of the Liverpool Council who has become the “Champion for Business”
 - Restructuring of private-sector engagement in Local Strategic Partnerships
 - Active involvement by universities
- And City Growth strategies have provided a laboratory and a lens into the key competitiveness issues facing their regions
- Each city developed a different strategy:
 - In Leeds, a growing manufacturing base related to the former textiles works was discovered that few knew existed. This reminds me of the case of medical devices in Massachusetts.

- In Park Royal, in western London, the large transportation and logistics cluster, particularly important for just-in-time deliveries in the food industry, has focused on critical infrastructure issues to get trucks and deliveries in and out of the area efficiently, as well as ameliorating crime and grime.
- In Manchester, the focus is on integrating the south of the city into the city's larger economy; leveraging a successful history of producing world-class music by building a music cluster that can capture all aspects of music production – from performance to production and distribution.
- In London, City Fringe has developed a successful jewelry cluster (its work has just been recognized by the Enterprising London award).
- St. Helens is building its tourism and leisure cluster and has leveraged 14.2 million pounds in public funding behind its strategy.
- Cross-cutting issues are similar across the cities:
 - Workforce development is always in need of improvement: truck driver training courses for example, in Park Royal for the transportation/logistics cluster where there is an extreme shortage of drivers
 - Land and property audits: Completed in St. Helens and Liverpool to address issues of brownfields and lack of suitable premises for businesses, a nearly universal problem.
 - Infrastructure: Creation of a business advisory board on transportation and infrastructure concerns in Portsmouth, and improving bus service to the Luton Airport to accommodate 24-hour operations
 - Partnerships with local universities: In Luton, the university created seminars for ICT businesses on the new EC Directive on the disposal of electronic wastes (WEEE – Waste Electrical and Electronic Equipment)
 - Private Sector Institutions: The UK is short on cluster based industry associations and other groups that support business growth in contrast to lobbying.
- No single initiative is going to turn around distressed urban areas, but creating a strategy based on a strong evidence base, which City Growth has done and tackling the big and small issues is what becoming competitive is all about
- The UK needs to create the institutional capacity for businesses to not only participate, but lead in addressing competitiveness and economic development in their cities;

- Currently entities that actually give power and voice to business are few and far between
- On the whole, the UK business community is frustrated by its lack of a voice on issues and the indifference that it often feels from the public sector about the key concerns to business
- This sense of indifference is in part linked to the structure of the current centralized tax regime and argues for greater devolution of taxing powers and greater accountability at the local level
- UK cities need to become more business-oriented in addressing business-environment issues. Some of these include:
 - Planning and land use policies: too often there are significant information gaps and residential development is prioritized over commercial development
 - Workforce development: training needs to be demand-driven and tailored to local cluster demands
 - Crime against business and transportation infrastructure need to be treated as competitiveness issues and not addressed separately, off in their own silos
 - Engaging local universities in the business agenda – through research and development, business development and advisory services, and procurement

IV. Conclusion and Next Steps

- City Growth is off to a good start, but it has just touched the tip of the iceberg when it comes to engaging the private sector in urban regeneration in the UK. Doing this right, and doing this well, will be the number one challenge for economic development going forward.
- City Growth needs to be rolled out across the country
 - Part of the RDA's mission
 - With dedicated, matching funding to incentivise local effort
 - With a Private Sector Foundation to provide top up funding and continuity to the effort
 - With matching funds to encourage private sector institutions to form
 - With a much better base of economic geography data with which to compare and analyze city and regional economies.
- Five years ago the Chancellor set in motion a host of market-oriented strategies and programs for pushing a market-based, private sector approach to urban revitalization
- This agenda cannot be lost in the effort to rationalize programs. Economic development is a marathon, not a sprint.

- Rather than settling for the progress made to date, there needs to be a push to extend what has been learned in these first five years for at least another 5 years and institutionalize the learning.
- The private sector needs to show that it is serious about leading and not following on this agenda. A national roundtable of private sector leaders including City Growth business champions should be created to advise on how best to continue to change the paradigm from a public-sector led model with an indifferent private sector, to a private-sector led model with public sector support.
- Those responsible for this agenda in the government must not lose the current momentum and find ways to strengthen and expand this approach across the country.
- I am confident, those who are here today, and other public and private sector leaders and the Centre for Cities will provide this leadership needed to make this urban economic development model available to all distressed communities. It is the only real solution.

Professor Porter is Bishop William Lawrence University Professor at the Institute for Strategy and Competitiveness, based at the Harvard Business School.