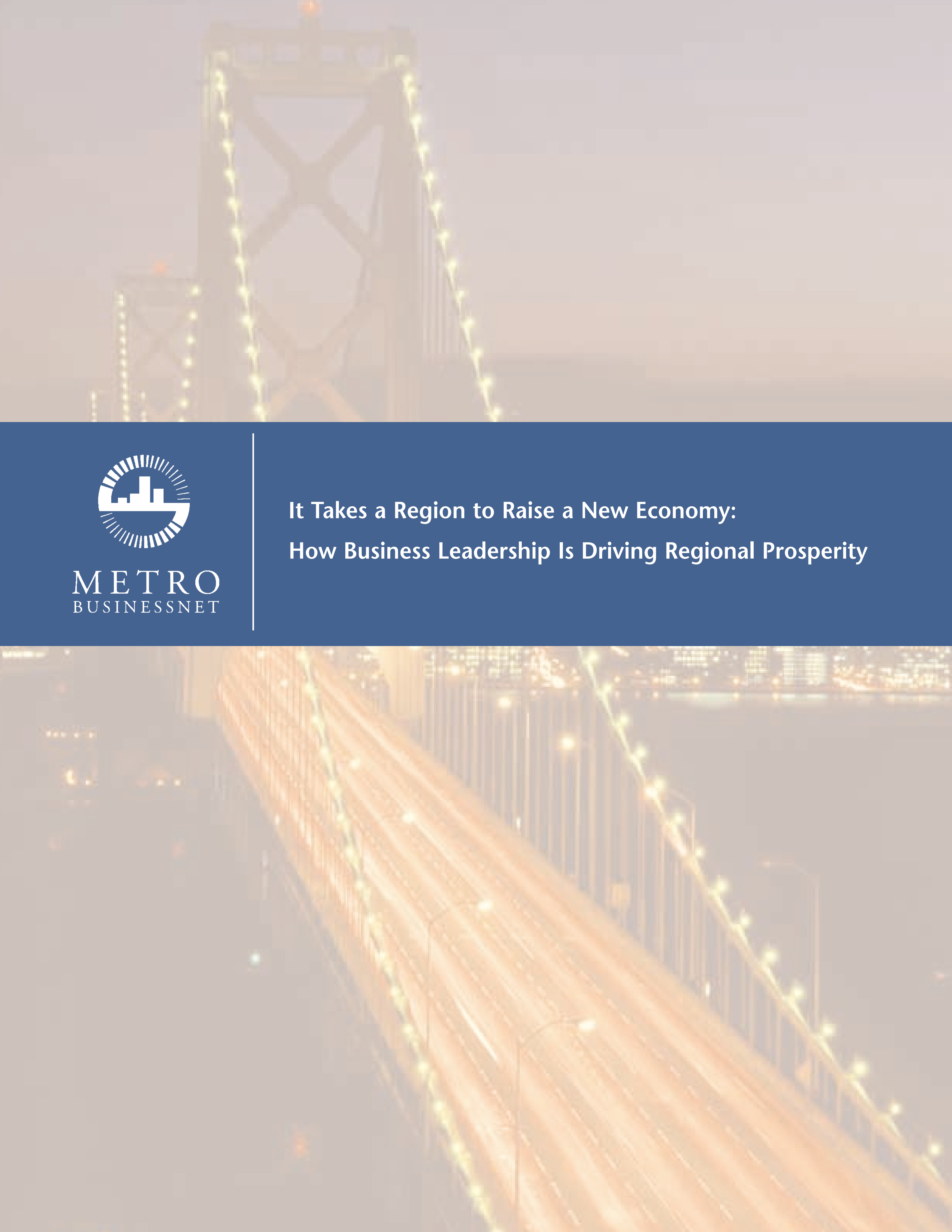

METRO BUSINESSNET

It Takes a Region to Raise a New Economy: How Business Leadership Is Driving Regional Prosperity

METRO
BUSINESSNET

MetroBusinessNet is a national learning network composed of regional business-civic organizations. It is demonstrating the critical ways business leaders can work together to address regional socio-economic challenges that impact business performance. The business civic organizations that compose MetroBusinessNet recognize that strong regions require new forms of collaboration — both between businesses and between the private, public and non-profit sectors. Working in partnership with community-based organizations, regional agencies, and other civic groups, MetroBusinessNet is forging new solutions to systemic regional challenges.

MetroBusinessNet is designed and managed by FutureWorks, an Arlington, MA consulting firm focussed on regional institutions of economic, workforce and civic development. MetroBusinessNet is funded by the Ford Foundation.

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It Takes a Region to Raise a New Economy: How Business Leadership Is Driving Regional Prosperity

Metropolitan regions are now recognized as the central unit of economic activity in the global economy. Strong, competitive regions are essential to economic growth and prosperity. Yet today, many of our metropolitan regions are more segregated by race and income than they were 20 years ago. In an economic era that requires unprecedented cooperation, our regions are polarizing, not uniting. This is not good for business or society as a whole.

This paper makes the case that business leaders must work collectively to address the social and economic issues that threaten to undermine regional business performance. There is a rich tradition in America of business leadership in civic improvement and almost every community can tell good stories of individual business leaders who "give back." But building a strong, competitive region is hard work and individual corporate altruism is far too weak a foundation to support lasting civic improvement. Many business leaders understand intuitively that socially and economically stable communities are good for their firms, but the value proposition remains thin and individual action seems daunting. This paper offers a compelling explanation of why business leaders must work together to drive regional prosperity that is firmly rooted in expanded economic opportunity for all citizens.

SUMMARY

It's been said that it takes a village to raise a child, but in today's global economy, there's another truth facing business and civic leaders alike: It takes a region to raise a new economy. From the West Coast to the East, from Texas to the Midwest, corporate executives, community advocates and economic development experts are recognizing a shared interest in a healthy regional economy. Across the country, these leaders have begun working together to boost their metropolitan regions. In doing so, many are reaching outcomes of common interest: Social and economic equity tied to the improvement of the bottom line.

The common interest stems from the growing importance of metropolitan regions as the central unit of economic activity in today's global economy. Increasingly, businesses compete with one another not only in the head-to-head marketplace of products and services, but also in behind-the-scenes skirmishes where the assets of their home region — financial, social, physical, and human — emerge as strengths or liabilities. Regions with ample affordable housing, efficient transportation systems, high-quality schools, and vibrant urban centers lend competitive advantages to businesses that are based there. Indeed, businesses recognize that their competitive well-being is increasingly tied to a region's fortunes. They see that investment in the region's social and economic fabric is as much sound business practice as it is a gesture of goodwill.

No single business can effect wholesale regional change by itself, especially when faced with the challenges of urban sprawl, racial segregation, and the physical deterioration of the urban core. But individual firms have found a new, unifying voice with which to address these regional challenges: Regional business-civic organizations. These organizations rely on the strength and influence of business as well as the knowledge and expertise of public officials, development organizations, social-equity interests, and planning groups. Regional business-civic organizations already exist in many metropolitan regions, as regional chambers of commerce, boards of trade and councils of business. In partnership with other interests, regional business-civic organizations are uniquely positioned to act on a broader scale, tackling economic disparities that hurt individuals as well as overall business performance.

MetroBusinessNet, a national network of regional business-civic organizations, has already begun to show how this is done. In five very different metropolitan regions — Metro Chicago, the Northern California Bay Area, Greater Washington, D.C., the St. Louis area and Greater Austin — MetroBusinessNet has launched initiatives to show how the business community can encourage sustainable economic development and in the process, improve its own bottom line.

METROPOLITAN REGIONS: Growing economic engines

Metropolitan regions are the building blocks of the nation-state and the global economy. Businesses tend to cluster in metropolitan areas where they can draw upon resources provided at the regional level: Transportation infrastructure, research and technology, skilled workers, tax and regulatory climate, and buyer-supplier networks. The business management guru Michael Porter described this tendency in terms of industry clusters, which are concentrations of related and complementary businesses that utilize the resources of a region that are particularly suited to them. (Peirce,1995; Ohmae, 1996; Porter, 1998; Calthorpe and Fulton, 2000; Pastor, 2001.)

Consider the example of an aerospace manufacturer in the Seattle, Washington metro region that competes with an aerospace manufacturer in the Hamburg, Germany region. Underlying their market competition is the hidden battle based on a host of factors that differ in each region: Efficiency of transportation routes, adequacy of energy and water supplies, workforce preparedness, research and technology, buyer-supplier relationships, tax and regulatory climate, and social capital. That battle is even waged within companies: Razor giant Gillette makes its product in Boston and Berlin, with production shifting across the Atlantic based on factors as varied as local taxes or the regional supply of skilled workers. Increasingly, a business' success is inextricably tied to the metro region it calls home.

Economists view metropolitan regions as areas whose size is ideally suited to achieve low-cost economies of scale. Some of our nation's most vibrant research and development communities are organized at the regional level. A prime example is the Research Triangle near North Carolina's Raleigh-Durham metropolitan area, home to one of the country's largest research parks, which includes 42,000 employees and draws research expertise from three universities. Skilled labor pools and transportation systems are further examples of business assets that are often organized at the regional level.

Yet metropolitan regions are small enough to allow businesses to create working relationships, developing trust and familiarity among partners that is difficult to achieve on a global, national or even state level. Trust is built through proximity and repeated interaction, which in turn stimulates collaboration, new technologies, and innovation. The growth of the computer and software industry in northern California's Silicon Valley is a testament to the success of this cooperative, trust-building model. (Peirce, 1993; Saxenien, 1994; Porter, 1995; Orfield, 1997; Barnes and Ledebur, 1998; Pastor, Dreier, et. al. 2000; Dreier, Mollenkopf, and Swanstrom, 2001.)

Healthy metropolitan regions attract businesses

Smart businesses choose to locate in healthy regions. The quality of a region's workforce, housing stock, land and infrastructure are all crucial to attracting and keeping businesses. Companies select locations based on their cost compared to other sites, but also based on an entire package of regional offerings: Physical resources, infrastructure, markets, intellectual capital.

Quality of life is part of what makes a region healthy. Businesses are paying more attention to quality of life in location decisions. In our nation's information- and knowledge-based economy, jobs increasingly follow talented workers. A skilled, educated workforce, in turn, looks for regions with a high quality of life, including a vibrant arts and culture scene, plenty of affordable housing, abundant recreational opportunities, and quality educational opportunities. In the words of Richard Florida, author of *The Creative Class*, "What matters most now are those attributes and characteristics of particular places that make them attractive to potentially mobile, much sought after talent." (Segedy, 1997; New England Council, 2000; Florida et al, 2002; Florida, 2002.)

A number of recent studies highlight the connection between healthy regions and the location of successful businesses there. A region with strong social capital increases individual business and regional economic performance. The World Bank defines social capital as "the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions." Economic transactions including innovation, research and technology transfer, and job searches are more efficient when embedded in social networks. Robert Putnam, author of the seminal work *Bowling Alone*, argues that participation by community leaders in business and civic networks increases collaboration and reduces mistrust among those leaders when they interact in the public policy arena. In a region where trust and cohesion are the rule, business is able to minimize lengthy battles over public policy and utilize public resources efficiently. Other researchers have shown that social capital is a significant predictor of economic growth in nations and regions across the world. (Putnam, 1993, 1995; Knack and Keefer, 1997; Whiteley, 1997; Skidmore, 2000; World Bank, 2000.)

Critical to the health of a metropolitan region is its central city, a place where business can access specialized services and workers can take advantage of cultural amenities. The central city of a metropolitan region nurtures density, which in turn stimulates economic dynamism and productivity by attracting specialized corporate services such as banking, law, and accounting. Theater, art, advertising, investment banking, and design flourish in high-density cities. And increasingly, young, educated workers choose to live in regions with rich cultural offerings — typically located in the region's central city. A metro region's suburbs, on the other hand, offer a range of housing choices, open space, and lower-cost real estate options for business. It is difficult to imagine a vibrant metro region that doesn't strike a balance between its central city and its suburbs.

SHARING THE LOAD: Regional challenges are business challenges

Just as a vibrant, healthy metropolitan region improves business prospects, so too can a region's challenges hinder business growth. When a region is faced with a mismatch between jobs and housing, inadequate infrastructure, and a shortage of skilled workers, local businesses are held back from realizing their full potential. Long commutes to city jobs from suburban homes cut into worker productivity. Inadequate energy and water supplies increase business costs. A lack of appropriately skilled and educated workers stifles workplace innovation and prevents company growth. The link is clear: Regional challenges are also business challenges.

Poverty, racial segregation, and the physical decline of the central city exacerbate these challenges. The social and economic cost to business increases as income inequality widens, minority communities become more isolated, and the central city physically deteriorates.

A growing body of research establishes this business-community link. According to Robert Putnam, the isolation of poor, inner-city residents from mainstream institutions and opportunities creates alienation and hostility. This widespread breakdown of trust threatens civic engagement, interferes with communication, and undermines the capacity of public and private institutions to solve common problems on the regional level. Furthermore, a wide gap in income between the city and suburbs has been linked to slow job growth across the entire region. (Ledebur and Barnes, 1993; Putnam, 1995.)

Racial segregation within a region cuts at businesses' bottom line by reducing opportunities for workplace diversity and breaking up healthy communities of consumers. In the short term, diversity in the workplace enhances revenues by enabling companies to identify with their customer base, preparing them to compete in a diverse global marketplace, and broadening their pool of brainpower to make key decisions. Richard Notebaert, former chief executive of telecommunications giant Ameritech (now SBC Communications), referred to the short-term financial impact of diversity in a speech to the National Black MBA

Association. Notebaert noted that a group of the 50 best companies for minority employees compiled by *Fortune* magazine had outperformed the S&P 500 over the past five years. (Notebaert, 1998.)

In the long term, businesses need prosperous consumers. Segregation and income inequality push whole segments of society out of the marketplace, depriving companies of potential consumers. The Initiative for a Competitive Inner City, a national organization founded by Harvard Business School Professor Michael Porter, has shown that the inner city is an overlooked market with substantial purchasing power. Over 500,000 companies employing 5.6 million people realize this potential and do business in the nation's 50 largest inner cities. A recent report by CEO for Cities points out that the purchasing power of the largest 100 U.S. cities exceeds that of all but six countries in the world. (Weissbroud, 2001; ICIC, 2002.)

But despite their impressive economic potential, inner city communities become riskier business opportunities when plagued by poverty and physical deterioration. Pothole-filled streets, boarded-up buildings, poor-quality schools, uneducated workers, and high crime translate into high costs and risks for business. The Committee for Economic Development estimates that inner-city crime accounts for $50 billion in lost business each year.

Over the past several decades, resident and business flight from the urban core has led to a pattern of sprawl development in metropolitan regions across the United States. This pattern of development stretches scarce resources by forcing regions to build and maintain new infrastructure networks such as suburb-to-city superhighways and public transit routes. (Richmond, 1994; Committee for Economic Development, 1995; Stegman and Turner, 1996; Dreier, et al; 2001; powell, 2002.) In addition, sprawl has contributed to increasingly segregated metropolitan regions and a costly mismatch between where people live and work. (powell, 2002.)

A new agenda emerges, with business at the forefront

A new agenda has emerged for metropolitan regions across the country. At its center is a strong link between the health of a city and the economic dynamism of its surrounding region. The vision pursues a trio of interrelated goals: Promoting successful businesses through regional economic growth; promoting social equity; and encouraging environmental sustainability. In doing so, economic development, community development, and regional planning align to become mutually reinforcing. Stephen Wheeler, the prominent lecturer and regional planning consultant, calls this approach the "new regionalism." (Hershberg and Duckworth, 1992; Wheeler, 2002.)

Building this vision requires a credible actor to carry it out. In most places, it takes a multi-sector partnership of private, public, and nonprofit interests: Business, public officials, neighborhood-based development organizations, social-equity interests, and regional economic development and planning groups. Experts increasingly recognize that business leaders must play a key role in these efforts. Business brings the ability to mobilize money, the expertise in organizing and implementing complex undertakings, and the continuity of presence that extends beyond the term of the average elected official. Local government is constrained by political parochialism and the desire for autonomy. Social-equity groups, for their part, have a singular focus and represent only one part of the metro region equation, while regional planning and economic development groups lack the prestige and muscle to mobilize a wide range of actors. (Austin, 2000.)

Business is able to unite and lead these sometimes diverging agendas into a regional pact with staying power and common purpose. A range of economic and political researchers have endorsed the leading role of business in addressing the challenges and opportunities of metropolitan regions. Jeremy Nowak argues that in the metropolitan context, business has the best understanding of local labor needs, the regional economy, the residential marketplace, household services, and asset accumulation issues. Manuel Pastor calls for business leadership to tackle issues of metropolitan inequality and poverty. John Foster-Bey calls for close partnerships with business to develop regionally-relevant job training programs and promote access to jobs. Neal Peirce says businesses play a crucial role in inserting clarity, accountability, and public purpose to regional projects. (Peirce, 1993; Foster-Bey, 1997; Nowak, 1997; Austin, 2000; Pastor, et al, 2000.)

LEADING THE WAY: Regional business-civic organizations

Businesses have a key role in leading the new metropolitan agenda, but no company can attempt the task alone. Businesses acting together through regional business-civic organizations can change the metropolitan agenda by changing business practices and by influencing public policy. Regional business-civic organizations are commonly recognized as chambers of commerce, councils of business, and boards of trade. A new generation of these organizations is rising in a clear break with the past, embarking on a path that is at once more collaborative, democratic, accountable and inclusive.

Regional business-civic organizations fill a void in the need for metropolitan leadership. William Russell, Aetna's vice president in charge of real-estate investments, recognized this void a decade ago. "There is no concentration of power or decision-making to bring off complicated projects in any sort of smooth way," he said. He knew that only by organizing with others, by "pooling the power," could businesses carry out otherwise complicated, long-term improvement proposals that ultimately help the companies themselves. (Frey Foundation, 1993.)

In recent years, regional business-civic organizations have harnessed the collective energy of business leaders and begun to act. With their concentration of power and decision-making, they are well-positioned to stimulate business leadership and resources on a regional scale and put forth a new agenda for sustainable, equitable, and competitive regional economic development. In many regions around the country, regional business-civic organizations are already making an impact.

METROBUSINESSNET: This is not your father's chamber of commerce

MetroBusinessNet (MBN) is an action learning network composed of regional business-civic organizations from around the country. It is demonstrating the critical role these organizations are playing in their respective regions and capturing the important lessons they are learning.

From the Bay Area to the Beltway, from the Lone Star State to the Midwest, MetroBusinessNet partners are at the forefront of a new business activism:

- In St. Louis, the Regional Chamber and Growth Association works to revitalize the region's central city by locating a plant and life sciences industry cluster in an urban corridor of St. Louis. Plans are underway for additional clusters in information technology and advanced manufacturing.
- In Texas, the five-county Austin Area Research Organization works to lure private capital investment to Central East Austin. Within five years, similar steps will be taken in two other of the region's low-income communities.

- In the San Francisco Bay Area, the Bay Area Council mobilizes business leaders from the nine-county region to invest in real estate and Brownfield restoration to reenergize distressed neighborhoods.

- In Chicago, Chicago Metropolis 2020 creates and distributes The Metropolis Plan — a computer-based model of the six-county region which asks residents how the region should develop in terms of land use, transportation and housing.

- In Washington, D.C., the Greater Washington Board of Trade — a regional chamber of Commerce representing the District of Columbia, northern Virginia and suburban Maryland — introduces social equity as a key indicator of the region's economic health and designs a strategy for business leadership to tackle the region's growing socio-economic disparities.

These are but a few examples of the way regional business-civic organizations are reinventing themselves to tackle the complex challenges facing our metropolitan regions. Across the country there are many more examples.

For comprehensive information on how regional business-civic organizations can engage in the regional development agenda, visit MetroBusinessNet at: www.metrobusinessnet.net. Our website provides the examples, case studies, and tools regional business-civic organizations need to develop their knowledge and capacity; engage successfully with community partners; and forge long-term strategies for sustainable and inclusive economic growth.

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