

# BUILDING SOCIAL CAPITAL:

## A New Strategy for Retaining and Revitalizing Inner-City Manufacturers

By Gregg A. Lichtenstein, Ph.D.

President

Collaborative Strategies

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### **Urban Industry Initiative**

The Urban Industry Initiative (UII) is a 3-year pilot project whose mission is to retain neighborhood-based manufacturing jobs, which remain an essential part of neighborhood economies in Philadelphia. The overall strategy of the UII is to retain and increase jobs both by helping manufacturers become more competitive and by strengthening the connections manufacturers have with their neighborhood. The UII has sought to achieve this objective by developing social and economic relationships—social capital—among neighborhood manufacturers. By linking companies together to share expenses, pool scarce resources, form strategic alliances, buy and sell from one another and exchange information as well as ideas, firms can grow their business in ways that were not previously available to them. And as participants in a thriving industrial community—a place with strong social capital—firms gain economic value from their location in an urban neighborhood. This means a stronger bottom line, and a company whose location is an asset rather than a liability. A key conclusion of this project is that in order to strengthen regional and community economies, traditional economic-development services must be supplemented with a strategy of social capital development among companies. The Urban Industry Initiative is supported by a grant from The Pew Charitable Trusts.

## Background

In spring of 1996, The Pew Charitable Trusts approached the Philadelphia Industrial Development Corporation (PIDC) about collaborating on a new community development initiative in Philadelphia. The Trusts and the community development corporations it supports had achieved considerable success in housing development and the delivery of needed social services. It was apparent, however, that without an adequate supply of high-quality jobs, these activities alone were insufficient to support a healthy neighborhood. Pew gave PIDC the opportunity to take the lead in anchoring the missing component—retaining and increasing neighborhood manufacturing jobs. This opportunity led to the development of the Urban Industry Initiative (UII).

The Urban Industry Initiative was designed as a 2-year (now 3-year) pilot, whose mission is to retain and strengthen neighborhood-based manufacturing businesses. The 10-square-mile section of lower Northeast Philadelphia covered by this project is home to over 330 firms employing 13,000 people and selling over \$3 billion worth of products and services, in all major industry sectors. (The sheer number and size of the manufacturing sector continues to be a source of amazement to everyone, especially area manufacturers themselves.)

While the number of manufacturing jobs is not growing in the city, these jobs continue to represent a crucial source of employment for neighborhood residents. In addition, many manufacturing jobs provide an employment path that leads to higher wages and stronger technical skills than most service jobs provide with a similar level of education. Manufacturing also represents a key importer of capital for neighborhoods and the city, bringing billions of dollars from outside the city, state, and country, and pumping it into local wages, services, and other manufacturing companies.

## Planning the Project

The goal—to retain neighborhood manufacturing jobs by assisting manufacturers—and its value were therefore clear. The difficult question for the project team was: What new could be added to the canon of manufacturing retention programs (in light of already existing Enterprise Zones, Empowerment Zones, and a litany of other municipal, state, and federal services directed to economic development)?

The initial design for the UII suggested that it would fulfill its mission “by providing more comprehensive, coordinated financial and technical assistance to these firms.” During the planning process, however, it became apparent that there are already numerous organizations whose function is to provide services to manufacturers and who already claimed these firms as their prospective, if not actual, clients. It was clear that if the project was to be effective it needed to be shaped by the answers to two critical questions:

- What makes this initiative unique and valuable from the point of view of the customer?
- What could we do to complement the efforts of existing programs, and at the same time achieve our goals?

This paper describes our answers to these questions, how we reached them, the responses we developed to these answers, and the impact that our responses are having in our target area.

## Twelve Findings from Company Visits

We decided to meet with as many firms as possible to learn about their needs before deciding upon a strategy for the program. Between January and June of 1997, we held personal discussions with over 100 manufacturing firms. We discovered that the

following is true of a large number of companies.

- Firms are extremely isolated; the social and economic threads that once existed among companies in the area have come undone as many firms have moved or closed their doors. Consequently, few business people interact with their neighbors, and there is no longer any psychological or economic identification with place. In addition, businesses feel ignored by the city because of being manufacturers and being located where they are. They also feel isolated from their neighborhoods as a result of social changes—the move of owners and managers to the suburbs, language barriers between themselves and residents, and racial and social shifts in the composition of neighborhoods.
- On our first visit, most companies (over 90%) did not have a clearly articulated need to which we could respond (with a recommendation or referral to an economic development assistance provider).
- Most companies did not trust us sufficiently to be honest about their most important problems and needs.
- Firms are aware of problems and perceive the symptoms, but they frequently can't identify the cause nor what actions to take.
- Company problems are multidimensional and complex—they are not amenable to a simple, single financial or consulting solution.
- Management and entrepreneurial skills vary greatly (and are missing in many companies), while technical skills are strong. Second and third generations do not have the same entrepreneurial spirit and experience as their founders.
- Marketing skills are weak or missing.
- Ability and willingness to change is low.

- As a result of their isolation, firms have no reference points by which to measure their current performance or evaluate ideas for improvement.
- The neighborhood is important in terms of local workforce, low-cost space, physical infrastructure and security (all economic factors). The decline in the quality of these factors is leading a number of firms to consider leaving the city within next five years.
- Many companies are in survival mode; they have little time and few resources for community participation.
- City firms are perceived prima facie as inefficient and noncompetitive by individuals and organizations outside of the area (an unconscious and indirect form of “red-lining”).

<b>Industry Distribution of Manufacturers in Urban Industry Initiative Territory</b>		
Industry Sector	Number of Companies	Percentage of Firms
Food Products	17	5.1%
Textile/Apparel	39	12.0%
Wood Products	20	6.0%
Paper, Printing, Publishing	56	17.0%
Chemicals	28	8.4%
Rubber and Plastics	18	5.4%
Metal and Machinery	118	36.0%
Miscellaneous	34	10.2%
<b>Total</b>	<b>330</b>	

  

<b>Size Distribution of Manufacturers in Urban Industry Initiative Territory</b>		
Size [by employees]	No. of Companies	Percentage of Firms in Area
Under 5	56	17.0%
5-10	62	19.0%
10- 4	68	20.5%
25-49	62	19.0%
50-99	37	11.0%
100-199	13	4.0%
200-299	7	2.0%
300+	5	1.5%
<b>Unknown</b>	<b>20</b>	<b>6.0%</b>
<b>Total:</b>	<b>330</b>	

## Evaluation of Findings

Some of these findings were, in retrospect, obvious; others surprised us.<sup>1</sup> One of the early driving assumptions behind the UII was that utilization of technical assistance by inner-city manufacturers is low because firms are not aware of its existence. The solution, therefore, would be to put more individuals “on the street” to inform companies about these resources. Our interviews did not substantiate this assumption.

Instead, we found that firms are frequently aware of the available technical assistance, but other obstacles stand in the way of their using that service. These obstacles have nothing to do with the supply of the service. The most significant of these impediments is that firms do not know how their problems translate into the need for particular services being offered by technical-assistance providers.

There are two reasons for this. The first is that firms understand the symptoms they are experiencing, but not the cause of their problems. Second, they don’t know how to judge which of the solutions being offered will work best for them. In other words, they have no perspective or experience from which to make an informed decision about a technical assistance project. This decision is further complicated by the fact that many businesses do not sufficiently trust the advice of service providers (who they do not know) because they perceive them as biased and motivated to sell the particular solutions that they are offering.

The utilization of technical assistance has little to do with the supply (or firms’ knowledge about the supply), but rather, about the ability of firms to use it. This means that the challenge lies within the firm, not the service providers.

## Conclusions Drawn From Findings

As a result of these findings, we concluded that any effort to deliver technical assistance to neighborhood-based manufacturers (particularly

those with under 20 employees) must reflect the following realities.

- A relationship of trust must be created before an honest conversation can be held about business needs.
- The demand for available technical assistance resources must be created (not assumed) by helping companies understand the need and recognize the solution.
- Firms must focus on multiple business needs (e.g., operations, customers, finance, etc.) and the inter-relationship of these needs.
- Initial efforts with companies should lead with marketing and market development, because sales, not cost-cutting, provides the motivation for business improvement.
- Businesses need to develop skills they can use to adapt to changing circumstances, rather than blindly adopting new business practices or behaviors that might have a limited life.
- Special emphasis must be placed on developing or attracting the necessary entrepreneurial and managerial skills (as opposed to technical skills) that they need to grow their businesses.

At the same time, we realized that, while we needed to achieve a significant level of scale if the economies of these neighborhoods are to be transformed, our resources (as well as those of other agencies with whom we work) are limited. To be successful, we needed a way to leverage resources over a large number of firms.

Our strategy for retaining and revitalizing inner-city manufacturers, therefore, had to reflect both the needs of the firms and our project’s resources and constraints. The project’s resources did not permit us to address the external problems faced by businesses—taxes, crime, education. We were also doubtful about only addressing internal improvement issues. There have been many cases of technical assistance agencies helping firms to become more competitive, only to have these firms

leave the area once they have become stronger. Our approach had to help firms become more competitive and strengthen their roots in the neighborhood.

The question we asked ourselves was: What kind of place-based or location-specific strategy could we implement that would give firms a strong economic benefit from staying in the city?

### **A New Strategy for Revitalization: Building Social Capital among Firms**

The strategy we chose to pursue is to develop social and economic relationships among neighborhood manufacturers. By linking companies together to share expenses, pool scarce resources, form strategic alliances, buy and sell from one another, and exchange information as well as ideas, firms can grow their business in ways that were not previously available to them. Through these connections, firms also gain economic value from their location in urban neighborhoods. This means a stronger bottom line, and a company whose location has become asset rather than a liability. These multifaceted ties and connections that we have been cultivating constitute the “social capital” of our neighborhoods.

This approach responded to the needs that we saw among companies. It was also a means to substantially expand our resources, by leveraging the resources of companies. In addition, it addressed the two original questions we had set out to answer: what can we add that is unique from the point of view of the customer, and how can we complement existing resources. It was clear that no one else was doing this kind of social capital building; so in this way we hoped to distinguish ourselves to businesses and add new value for them. It was also our expectation that by cultivating relationships with businesses, we would be able to perceive what services were needed then

connect them to those resources, from among those that already existed.

### **Designing the Approach**

One member of the UII team had extensive experience working with groups of firms and brought this background to bear on the project. We began to articulate an approach to building social capital that had the following elements.

- Begin with “spark plugs”—typically those companies on the cutting edge, either out of desperation or forward thinking. Also begin with those companies that have the most economic impact and those that are most connected to other firms in the neighborhood.
- Develop relationships (of trust) with individuals and firms through one-on-one meetings and networking settings, and learn about their needs, not just their problems. This requires diagnosis (a new function in technical assistance), not simply providing information about services. Ongoing contact is required to build these relationships and to conduct a diagnosis of some depth.
- Develop relationships among firms as a way of creating demand for change. Firms trust their peers and learn from each other through moral support and a healthy sense of competition—“if he/she can do it, so can I.”
- View every firm as a set of assets (rather than deficiencies) to themselves, other companies, and the community. Find ways to match the strengths of one company to the needs of another, thereby strengthening the skills of both, before or in lieu of referring them to a technical assistance agency.
- View the entire set of companies as a portfolio of related or potentially related firms. Bring a holistic, as opposed to an

individualistic, perspective, and treat them as a group by looking for connections.

- Establish multiple entry points into individual companies (CEO, plant manager, marketing director, etc.) using multiple approaches (learning networks, joint production networks, resource sharing, etc.).
- Where possible, lead with revenue generation efforts.
- Under conditions of uncertainty, commit to taking action as a way of researching needs and testing solutions. The results of trying different projects will give you the answer to what companies need and what does or doesn't work. This is a more productive use of limited resources and a very important strategy if one needs to produce results in a short period of time.
- Be both opportunistic and strategic in developing projects. Look for good projects that meet firm needs rather than firms that fit with pre-determined projects.
- Choose projects with the highest "developmental" multiplier (i.e., potential to positively influence other companies in the area) to implement first.
- Go after a critical mass of highly visible and influential companies to drive change in the area. Use the "80/20 rule" (80% of your business comes from 20% of your customers) and the "principle of least effort" (create the greatest impact with the smallest expenditure of resources).
- Develop multiple, overlapping and related networks in order to create sufficient conditions to change the economy of the entire neighborhood in a positive way (i.e., light lots of little fires).

### **Key Social-Capital-Building Projects**

Our social-capital building projects were undertaken in response to particular needs that

were expressed during our meetings with firms. These, however, were not projects that were requested by the firms themselves, and for that reason, would not have been revealed by surveys or questionnaires. Each project was an experiment—an action-research effort—designed to test particular hypotheses about firms' needs and the feasibility of our solutions. The answers would be determined by what firms actually did, not by what they said.<sup>2</sup>

We continued to make discrete technical assistance referrals<sup>3</sup> as well as loans<sup>4</sup> (through a small loan fund we had established for this initiative), as our grant required. But most of our efforts were directed to finding new ways to strengthen manufacturers and rebuild their connections to the neighborhood. To achieve that objective, we pursued the following projects.

#### **Manufacturers' Meetings**

The Manufacturers' Meetings are quarterly open networking forums among manufacturers—the first of their kind in the area. Four meetings have been held so far. The simple rule for the meeting is: no speakers, only firm-to-firm interaction. The agenda includes company introductions, announcements, news and recognition of accomplishments, resource exchanges, discussion of issues of mutual interest, and open networking time. At the first meeting, the firms themselves expressed shock at how many manufacturing firms were still operating in the neighborhood. Issues raised at these meetings gave birth to other initiatives, such as the joint-electricity-purchasing program. This program also raised interest in the industrial marketing program and the industrial park initiative.

Over 71 companies (and multiple participants from individual businesses) have attended at least 1 of the 4 meetings; 29 companies have attended 2 or more meetings. Over 100 known exchanges of different types (information, buy/sell, resource borrowing, advice-giving, etc.) have occurred through these meetings.

### **Plant Manager Network**

The Plant Manager Network was established to provide an opportunity for exchange among middle managers who are very isolated and have no peers in the organization due to their position as neither worker nor owner. Bi-monthly meetings offer an opportunity for problem solving, resource exchanges, and sharing of knowledge, during a plant tour and post-tour discussion. Many plant managers of firms in the area have certain expertise but limited exposure to other manufacturing environments. It is hoped that this forum will serve as a means of developing management talent for the future—individuals who can assume the helm of firms when current ownership retires.

Fourteen companies have participated in the five meetings held to date. Over 54 companies, however, have expressed a strong interest in the program. The managers have told us that their low level of participation is due to the difficulty they experience in taking time away from their shops, not their interest. These firms are typically thin at the management level and have no other individuals capable of assuming charge of the factory when the plant manager is away. We are currently considering ways to adapt this program in order to generate greater participation.

### **Supplier Alliance**

A supplier alliance is a team of complementary manufacturing specialists who can produce complete systems or product assemblies for customers on a high-quality, total-cost-effective, zero-inventory basis. The objective of this program is to create teams of manufacturers that are capable of capturing new business opportunities that none could secure individually. We have assembled a core team of five job shops, supported by a constellation of over a dozen specialty manufacturers, to produce electro-mechanical products and assemblies for customers in a variety of industries. The UII is currently marketing the alliance to prospective customers. In the

*Collaborative Strategies*, 411 N. Exeter Avenue, Margate, NJ 08402, P: (609) 487-8488, F: (609) 487-8889, Email: [galichten@aol.com](mailto:galichten@aol.com)

meantime, 4 of the 5 companies in the group (none of whom knew each other previously) are now doing business with one another.

### **Industrial Marketing Program**

Our industrial marketing program consists of an intensive 10-week marketing “bootcamp” that educates owners about industrial marketing and helps them build a detailed implementation plan for marketing their company. It is the only training program of its kind in the region. The program also includes a referral network to highly specialized marketing service providers (in the private sector) who can assist in the implementation of various components of the marketing plan and whose assistance can be purchased in increments as small as one hour. Over 14 different businesses have participated in the two sessions that have been offered. In the most recent course, one company developed a new product with the help of another participant. The product is now in its late stages of development and testing, and the intent is to sell it on QVC (where the company has sold products previously). Plans are also underway for a Sales and Marketing Directors group that will share best practices among larger firms from the area.

### **Shared Resource Initiatives**

Small to medium-sized companies have many of the same needs in running their businesses as larger companies. They cannot, however, afford to hire staff or consultants to address these needs the way that large companies can. In response, we have proposed the idea of sharing resources among companies or purchasing as a group. By pooling demand, small firms will collectively be able to afford a critical resource that would otherwise be unavailable to them. At least a dozen firms have expressed an interest in obtaining part-time professional marketing assistance to function as part of their management team (as opposed to functioning as consultants). Manufacturers have also expressed an interest in creating a common human resource function, for recruiting, training and managing employees.

Our initial group-purchasing project has been a significant success to date. We assembled a purchasing group among 70 manufacturers to buy electricity in the newly deregulated energy market. By coming together as a group, companies have been able to leverage the participation of a consultant to manage their electricity purchasing. Few of the companies involved would have been able to secure this expert management alone. The weakness, however, of joint purchasing activities, as we have learned through this electricity project, is that these efforts are time consuming to arrange and do little to stimulate interaction among companies. At the same time, this project did provide access for us to some companies that had not responded to other activities. So we are approaching new group purchasing programs carefully to be sure that the investment justifies an adequate return of company interaction.

#### **Industrial Park Initiative**

A series of discussions with several firms who were thinking seriously of leaving the city within the next three years, led to the formation of the Port Richmond Industrial Development Enterprise (PRIDE)—a group of 12 firms that have come together to stem the decline of their neighborhood and recreate it as 21st century industrial park. In the nine square blocks that have been targeted by this group, there are 45 manufacturers, employing nearly 1,000 workers, many of whom live in the neighborhood. This group has developed a 5-year plan and is successfully raising funds from neighborhood firms, the city and the state to finance security, cleanup and physical infrastructure improvements. The project has recently received the strong endorsement of Mayor Rendell (in the form of financial assistance and interest in using the group as a prototype for other neighborhoods.) Additionally, several firms who met each other for the first time through PRIDE (although neighbors), are currently doing business together. Firms from other areas of the city have expressed an interest in moving into the area, if the improvements are

made, in order to be close to this concentration of firms.

Perhaps most encouragingly, upon hearing about this initiative at a recent Manufacturers' Meeting, another group of 10 firms has recently initiated discussions about how to collectively address problems and create new opportunities in their neighborhood. Again, this is bringing together a group of businesses, many of whom have never been in contact before.

#### **The Location Problem**

We stopped counting after we had identified 12 manufacturers with plans to leave the neighborhood within the next five years because of its deteriorating condition. Each of them alone was too small to receive any attention from the city, but collectively they accounted for 350 jobs and over 430,000 square feet of space. None of them wanted to go, but none of them thought it was rational to make additional investments in their current space. None of these companies knew that there were other manufacturers who were faced with identical decisions. We knew that if we could only bring them together, we could turn around a trickle that was quickly becoming a tide. It worked and within weeks of convening each group of firms, they joined forces to form what are now two nascent urban industrial parks. Almost every firm on that original list is staying - and making sizeable investments in their current location.

#### **New Product Development Forum**

New Product Development Forum is designed to help manufacturers identify, develop and successfully launch new products. The group, which includes 12 companies (representing 1000 jobs) and meets monthly, is being facilitated by an expert in the new product development process who also works with firms on a one-on-one basis. The Forum is co-sponsored by the Ben Franklin Technology Center of Southeastern Pennsylvania.

**New product development** is rarely a strong suit of old-line inner-city manufacturers. One of our equipment-building companies had not introduced a new product in over 50 years. As a result of our new product development program, we introduced the owner to a professor at Drexel University, in the hope that they could identify a new application for his high-speed rope twisting technology. Within three hours, the two had identified an application to twist composite materials, and they are now pursuing funding to develop a prototype.

Another company, a manufacturer of magnetic shielding and high-end metal furniture, has just entered a new market for trade show exhibits and product merchandising, as the result of a serendipitous event. While preparing a tradeshow booth for their furniture line, they designed some unique plexi-glass borders, using materials they had on hand that were silk-screened to simulate a living room. While not intending to market them, they received over 60 orders for these dividers, from such places as Neimann-Marcus, Nike, and General Motors.

### **Marketing Internship Program**

The Marketing Internship Program places undergraduate business students from local universities in neighborhood manufacturers in order to provide these businesses with the staffing they need to design and implement their marketing efforts.

### **Matchmaking Local Expertise**

We have begun to systematically link individual companies with other companies whose expertise or specialized assets (physical or human) can help them meet their need at no or low expense. Over two dozen connections have been formally made (along with numerous informal ones). These peer relationships have been enormously effective and many of them have continued beyond the initial situation for which we brought them together.

### **Mentorship Efforts**

We have made a match between the young owner of a small machine shop, who has strong technical skills but needs to develop his managerial skills, and a retired CEO, who has managed two large aerospace firms and was once a journeyman machinist. The need for coaching is particularly acute among firms with under 20 employees, whose small size means that they are unlikely to have middle managers with functional expertise and access to sophisticated networks of advice. We are considering expanding our efforts in this area and creating a systematic program.

### **Marketing Interns**

Our marketing intern program was started the moment we discovered that the biggest obstacle for our companies in the industrial marketing program was in implementing their newly developed plans. While they now had a plan, they did not have the time or staff to implement it. We created a solution for this problem by recruiting Wharton undergraduate marketing students, who wanted hands-on experience during the spring and fall semesters or over the summer. At \$10-\$12/hour, we placed 11 interns in various companies, where they have had an immediate impact. Based on one intern's probing questions and subsequent market research, one mid-size manufacturer of trash compactors changed their market focus to a different niche. The power of this decision was demonstrated when, after a few days, the intern brought two bid packages for over \$2 million worth of business to the General Manager's attention, in this new market segment.

### **Linkages With Other Networking Initiatives**

The UII is helping to organize local suppliers to the craftsmen in a refinishing network that has been assembled by the Community Development Corporation of the Frankford Group Ministry. We are also working with the Philadelphia Development Partnership to provide opportunities for micro-enterprises to sell their services to area manufacturers. One idea under consideration is the formation of a

machining alliance among the over 15 two-to-three man machine shops in the UII area. The purpose of this alliance would be to strengthen internal management, improve shop-floor quality and begin to offer their services as a group directly to larger customers.

#### **Doing Business Together**

With isolation comes lost opportunities for doing business together. Two companies, who shared a common wall but had never met until we introduced them at our first general manufacturing meeting, had been in their buildings for almost 70 years! After tours of each others' plants, they discovered that one firm could do the work that the other had been farming out to a manufacturer in Ohio. From this simple exchange, the second firm has acquired a \$100,000-a-year customer and can provide just-in-time delivery using a hand-truck.

When another company needed packaging for its new product, it found the necessary advice and production capacity in the neighborhood. No less than one hundred new business transactions have resulted from the UII's networking activities over the past two years.

### **Building Social Capital Requires “Industrial Organizing”**

The defining characteristic of these social-capital-building efforts is that they require firms to interact directly with one another. These relationships of interdependence are what distinguish these projects from those in which a third party, such as an association or a chamber of commerce, addresses common needs by serving as a single conduit through which to aggregate demand. These types of arrangements, typical in purchasing services such as health insurance or worker's compensation (or in our case, electricity), do not require any interaction among the participating firms. As a result, they do not build social capital.

Building social capital requires a different kind of effort—what we call industrial organizing. It

differs from community organizing in that we are not organizing all the participants around a single cause, but rather around multiple, and sometimes unrelated needs. We are creating the conditions that enable firms to work collectively to achieve a multiplicity of ends, by virtue of their “membership” in a community with similar and complementary, but not necessarily identical needs. The complexity of industrial organizing arises from the fact that success requires attention to both similarities and differences among businesses as well as a high degree of customization.

#### **Uncovering Assets**

When we first met with Norm we didn't quite know what to suggest. As a manual screw machine shop, he was accustomed to responding to military bids that came to him through the mail or over the fax. Those leads had gone cold, and at 71 he was faced with learning how to either market his business or close it. He didn't want to do either. We learned that he loved to teach, so we referred him to the newly forming teaching factory for the machine trades—PHAME (Philadelphia Area Accelerated Manufacturing Education)—that was desperately searching for machine shop instructors. It was a perfect match. Now PHAME is even leasing Norm's building as an overflow training site. Machines that had gone quiet are humming once again. And we are hoping that many of the students he trains will be placed at companies in the neighborhood.

### **Early Results Are Exciting**

Many of kinds of projects that we have initiated have been undertaken individually elsewhere on a very limited basis, but nowhere, to the best of our knowledge, have they all been done together, in such an intensive manner, in so small and targeted an area. Through this concentration and intensity and diversity of activity, we hope to create momentum and a critical mass of company growth that will lead to an economic transformation in these neighborhoods.

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With staffing of about 3 full-time equivalents, the UII has had substantive interactions with almost 200 of the 330 firms in our territory, during 24 months of operation. This figure represents significant market penetration. The UII has developed very close working relationships with about 60 leading companies, reflecting our strategy to follow the 80/20 rule—80% of your business comes from 20% of your customers. Our annual operating budget has been approximately \$400,000.

To date, our accomplishments include:

- The formation of two new local manufacturing associations, involving over 70 industrial businesses which employ over 1700 people, and an emerging third group, which could include over 70 businesses and 3,000 employees (at least a dozen firms are known to have reconsidered and changed their relocation plans as a result of the formation of these associations);
- Pennsylvania's first industrial improvement district (which has been pledged over \$1.1 million in support from the City of Philadelphia and has already implemented a program of private security, private cleaning and a redevelopment plan);
- A new product, which resulted from a collaboration between two area companies that met in our industrial marketing course, and is expected to generate \$400,000 of new business in its first year;
- An electricity-purchasing cooperative of 70 manufacturers that has saved these businesses over \$140,000 in five months;
- Applications for over \$2 million dollars in research and development funding, as a result of the New Product Development Forum, from firms that have never formally engaged in R&D;
- Over \$200,000 in new sales for five small companies as a result of their participation in the UII's industrial marketing course;

- Eleven loans totaling nearly \$700,000, which leveraged over \$2 million in private investment and led to the creation of over 50 new jobs and helped retain 250 jobs;
- Placement of 11 university business students in local manufacturers as part-time and summer marketing program managers;
- Receipt of \$50,000 from the City to address the opportunity of vacant site redevelopment; and
- Over a quarter of a million dollars of known commerce among businesses as a result of introductions made through the UII (the actual figure is most certainly higher)

## Benefits to Companies

The participating companies have received three kinds of benefits:

### Material

Material benefits are the increased sales from access to new customers, lower costs from pooled resources and bartering, access to new capabilities, and lowered risk from better information and the opportunity to share resources.

### Psychological

The psychological benefits are the greater sense of community (one businessman told us that he recognizes more people around town now), a growing pride in and commitment to the neighborhood, and a conviction that they can improve the quality of their business environment through their own efforts.

### Developmental

The developmental benefits are the opportunities to learn and grow (e.g., "the marketing workshop has helped us to think differently about our business") through new business relationships and through an increased use of technical assistance services.

Each of these benefits was produced by the relationships that grew in a particular neighborhood. Location becomes important, not because of inexpensive input factors (like land, labor, etc.), but because of the power that comes from being able to connect and utilize the resources of other firms.

### **Qualities That Support Success**

The results that the Urban Industry Initiative is generating come from that fact that it is:

- Proactive in its approach to working with businesses (a number of companies have told us that we were the first organization to ever contact them to ask what kind of help they needed);
- Responsive to market opportunities and business needs raised by the firms, rather than offering a pre-determined menu of assistance;
- Effective in working with firms that have fewer than 20 employees and limited management depth—the very companies that are the source of large numbers of new jobs;
- Place-based and grass-roots, working intensely in a defined area and utilizing local resources to support its efforts;
- Complementary to large-scale investments being undertaken around the city (combining a trickle-up with a trickle-down approach to development); and
- Focused on a long-ignored category of neighborhoods with the potential for a large return on investment—the slowly declining industrial neighborhoods that still possess a large number of manufacturing jobs.

### **Challenges of the Social Capital Approach to Economic Development**

There are many unique challenges to successfully implementing this kind of strategy for economic development. Social capital is an intangible—it is difficult to describe, measure, evaluate and change. Many of the activities in which we are engaged seem inconsequential to outsiders, until concrete results begin to appear.

The challenges of this approach stem from its:

- Focus on forming relationships, not simply completing transactions;
- Unique skill requirements—diagnosing, facilitating and organizing;
- Labor intensive nature, at least until transactions are generated;
- Open ended and opportunistic (as opposed to deterministic) process, making prediction and certainty difficult;
- Need for patient investment to support the process of developing the necessary “social infrastructure;”
- Mismatch with existing government and foundation funding categories and processes.

### **Advice to Those Who Would Like to Pursue Similar Efforts**

Innovative experiments like the Urban Industry Initiative require certain favorable conditions in order to succeed. First, it is important to create a separate organization or unit in which to operate, because social capital building uses very different methods of operation from traditional economic development programs, and there can be considerable conflict. Second, it must be staffed with individuals that have skills in diagnosing a broad range of business

needs, facilitating change (by focusing on the challenging interpersonal dimensions of that process), and organizing diverse sets of businesses. Third, the program must be open to change and be quick on its feet, since building social capital requires constant improvising and opportunistic behavior. This is truly a case where traditional methods of research and planning are not appropriate; rather, it is better to engage in a process of “ready, fire, aim.”

### **Possible Next Steps**

While the social-capital-building strategy of the Urban Industry Initiative has emerged full throttle, the program is still very much a work in progress and in its early stages. We expect it will be a successful initiative, if sufficient resources continue to be invested to bring the activities we have started to fruition.

Next steps for the UII could include:

- Continuing to test new approaches to building social capital;
- Organizing successful pilot projects into sustainable on-going operations; and
- Ultimately expanding or moving the geographical coverage of the Urban Industry Initiative to involve manufacturers in other areas of the city.

### **Conclusion: A New Vision of the Future**

There is a growing sentiment that something is missing in the current model of economic development. Technical and financial assistance are necessary but not sufficient to produce the kind of economic success regions are seeking. The normal service-delivery system must be supplemented with something more. What is needed is a strategy that produces the conditions that help transform companies and economic communities into dynamic economic powerhouses. We believe that the missing function involves building social capital.

Our objective is to intentionally emulate the dynamics and inter-firm relationships of successful economic regions and industrial districts around the world, such as Silicon Valley, Route 128, Research Triangle, Emilia Romagna in Italy, Baden Württemberg in Germany and Tokyo, Japan, in ways that are customized to our unique local conditions.

The old inner-city neighborhoods of the northeastern United States were once a thriving mixture of industrial, commercial and residential economies. Manufacturing provided jobs to local residents, who supported commercial enterprises through their wages. We have the ability to revitalize and reinvent those neighborhoods to reflect the competitive realities of the global economy. Such a place-based mission can be achieved by using a strategy of building social capital.

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<sup>3</sup> Statement by county manager for the Delaware Valley Industrial Resource Center that the UII is now the leading source (at this time) of referrals within his territory.

<sup>4</sup> Our lending efforts are now focused on companies willing to make a commitment to work with other companies where and when mutually beneficial.

**Endnotes**

<sup>1</sup> These findings have been corroborated by other research done by the Industrial Technology Assistance Corporation and Michael Porter both of whom used different methods to arrive at their conclusions. See:

- *Burst Growth Manufacturing Companies, Leaders for a New Generation of New York City Industry*, Industrial Technology Assistance Corporation Research Report, April 1998;
- *Burst Growth Discussion Paper*, Industrial Technology Assistance Corporation, Matt Mitchell & Jon Zeltsman, Draft: 4/15/97
- Notes from Michael Porter presentation, Foundation for Architecture Conference, October 7, 1998 in Philadelphia.

<sup>2</sup> All too often there is a difference between what people say and do. For this reason, the best marketing research is based on consumers' actual purchasing behavior, not their response to surveys. For example, in answers to surveys, almost no one buys tabloid newspapers such as The National Inquirer, and yet that paper sells approximately 4 million copies a week.