

Building the Next Economy In Rhode Island's Cities

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“It is not surprising to find that most of Rhode Island's economic assets, as well as most of its social problems, are found in the cities.”

Cities Count, 2003

As Rhode Island's cities fare, so fares Rhode Island. Yet, the state's urban communities face unprecedented challenges. Between 1995 and 2000, two thirds of all net job growth in Rhode Island occurred outside the cities -- precipitating a significant out-migration of wealth from the cities to the suburbs. Manufacturing -- once the primary source of middle-wage jobs -- has lost 70% of its jobs in the urban core, while 50% of Rhode Island's typically lower-paying service sector jobs are based in its cities. Even if industry returned to the cities, workforce challenges exacerbate the economic development challenge. As noted in *Cities Count*, “high paying jobs in services, finance, sales and health care require different and in many cases higher skill levels than a large percentage of urban core residents have.”

The imperative of developing a skilled urban workforce is countered by severe economic constraints that serve to limit the expansion of educational opportunities for city residents. Between 1995 and 2000, Rhode Island's suburban and rural communities experienced a collective increase in property value of \$2.6 billion – compared to a gain of just \$96 million in the state's urban ring. During the same period, Rhode Island's five urban core communities suffered a **decline** of \$28 million in collective property value, robbing the cities of essential revenues and leaving them ill-equipped for achieving educational goals and meeting other municipal needs.

For Rhode Island's cities to thrive and prosper, they must be the focus of a revitalized, systems-based economic development policy that supports and subsidizes business development with new approaches and new tools. Without these interventions, urban flight and suburban sprawl will continue – and the cost of government will ultimately increase.

Future Opportunities, Future Needs (sidebar)

- Rhode Island cities need stronger economies: more well-paying jobs, more wealth earned across the spectrum of class and income levels, and a stronger tax base
- A larger community of entrepreneurs in all fields – technology, design, local neighborhood, and a wide spectrum of other areas -- will be required to shape the next economy for at least twenty years. 21st century entrepreneurs are drawn to the authenticity and diversity of cities.
- Each of the state's ten cities has a unique sense of place, defined by their character. This unique character – a quality that other communities have attempted to replicate, without success – provides an extraordinary competitive advantage which should be protected and exploited for future economic advantage.

- Many of Rhode Island's larger, more industrialized cities (i.e. Pawtucket and Providence) have long commercial corridors including vacant buildings. We would do well to convert (empty commercial strips) to form creative clusters of shops and service businesses, as well as residential property that would address the state's affordable housing crisis. Neighborhood revitalization requires commercial and town centers as anchors for development.
- Effective revitalization of Rhode Island's cities will require a systems approach in which community-building is symbiotic with economic development.

Achieving these goals requires innovation: urban economic and business development requires an integrated, system approach rather than the fragmentation of past practice. Secondly, future practice must nudge cities to aligned efforts with the next economy.

Creativity and Innovation in the Next Urban Economies

The industrial economy has ended, and the next economy – one fed by creativity and knowledge – has begun, fueled by the vitality and innovation of entrepreneurs. As Joseph Schumpeter described over 60 years ago, the economy ebbs and flows in disequilibrium – creating periods of what Schumpeter called “creative destruction” in which old economic orders fall and new ones rise. Economic cycles begin with innovations introduced by entrepreneurs and mature as those innovations are copied – eventually yielding an oversupply of goods and services, which creates economic stagnation and the ultimate destruction of the old economy. Entrepreneurs enter with innovation, prompting the cycle to begin again.

The next economy combines science and art, largely eschewing the massive volume of raw materials, which held value in the old, industrial community. Today, value is in knowledge, aesthetics, and the independent thinking of a new class of creative workers described by Carnegie Mellon University-based economic policy expert Richard Florida, PhD as “the creative class.” These agile minds will define and develop new media, new technologies, and new cures. As Andres van Dam, Vice President of Research at Brown University, notes: “The whisper in *The Graduate* was ‘plastics.’ Today’s whisper is **nano**, **bio**, and **info** all in one product.”

The creative economy becomes pervasive as more knowledge and more aesthetics combine to define a product or service in greater proportion than the mass. However, creativity alone is not enough. What matters is the innovation, which results from the creative application of multiple sources like nano (miniaturized technology), bio (understanding of the body), with information to form a bodily implant that can read and transmit signals and dose medicine inside the body.

Even the neighborhood grocery store will have to innovate to compete with the chains. Local stores must draw on story telling to express their distinct character and outperform the big stores on service. Finally, neighborhood stores will have to band together as a marketing force or even agreeing on joining forces to collectively provide all the back room functions of the neighborhood business as one entity.

In the economy of innovation, the mind is the primary source of economic, civic or aesthetic value – in contrast to the industrial economy, where the hands did most of the work. The industrial economy required access to land and capital – steep barriers for urban entrepreneurs –to start and succeed. In the next economy, the barriers to entry are much lower; it is possible to launch and sustain a business from your mind in the spare room or the back yard. Thus, the creative economy is one force for more economic democracy.

Despite the new freedoms of the next economy, building a creative business is just as difficult as in the past – and modern business practices, still rooted in the industrial age, persist. The next economy requires new business practices rooted in the practice of innovation and continuously change.

The mind, and creativity, is a universal resource. Creativity is a basic instinct. It is as important to our good health as eating food. Every mind has creative potential – it must be tapped for its economic, social, and aesthetic value. The creative and innovative economy has no bias with regard to class or ethnicity. In fact, the creative economy wages will be low, middle and high. Creative businesses have the immediate potential to be in all our neighborhoods in our ten cities.

The creative ecosystems of our cities are the best incubators of the creative economy. The resonant character of our urban neighborhoods – character born of one-of-a-kind, unique shops and other amenities -- will seed the creative economy as creative people flock to our vibrant street scenes. A secondary economy of ethnic restaurants, jazz clubs and world music venues, and boutique hotels will provide new entrepreneurial opportunities for city residents of all skill levels. Creative people require these “third places” (i.e. after home and work) to gather for fun, connecting and relaxation in order to give their lives the fullness and color they need.

Creative businesses, which require ensembles of talent, thrive in the dense urban landscape, where connections quickly get made and skills can readily be combined to create new products and services – continuously fueling the creative ecosystem. In addition, the creative economy works best where creative agents and entrepreneurs cluster and rub together in a dense place like a city and continually fuel a creative ecosystem. Two people meet and realize each has half of the know-how required to bring an idea to the market. Service providers and other business partners also meet easily and quickly integrate into a business. The richness of our cities allows a cluster value network to quickly emerge, reflecting all levels and aspects of suppliers and providers in the cluster.

Urban Entrepreneurial Opportunities: Providence as a Case Study

Fifty-four percent of the Providence economy is shaped by creativity and innovation.

Call to Action: Building Providences Creative and Innovative Economy, developed by a diverse team of policy makers, practitioners and business people over an 18-month period, catalogs the growing segments of the city's next economy. Twenty thousand (18%) of the jobs in the current economy of Providence are held by creative and innovative professionals – people who work in design, biomedical science, arts and culture, technology, and knowledge creation. The 20,000 jobs anchor an additional 40,000 jobs in Providence.

Providence has experienced a net population growth of 45,000 over the past decade – yet, Rhode Island's capital city is one of few cities in America with population growth fueled primarily by new immigrants. It is one of the few American cities where poverty is on the rise.

Economic development victories such as GTECH's decision to locate in Providence notwithstanding, entrepreneurs – technologists and others who establish startup companies that may or may not grow to scale, but will contribute to the economic ferment of the city -- will drive the next twenty-year evolution of the Providence economy. Yes, Capital Center will probably attract additional office retail and residential uses. Yes, a research oriented pharmaceutical company may finally find its way to the city to take the growing biomedical cluster faster to scale. Yes, additional companies will relocate to the city. Business relocation and business

expansion are two legs of the urban strategy. However, after these moves, the reality of building the next economy of Providence stares us in the face: Entrepreneurship – home grown or attracted from elsewhere – must be a third leg of the strategy. We must nurture an entrepreneurial culture that fosters faster connectivity and more risk taking in Providence and other cities in RI.

Entrepreneurs are people who assume the risk of an enterprise and pursue business results without having all the resources lined up first. Entrepreneurs are passionate and called to change the market or serve the world. In building the creative economy, our cities will require a range of entrepreneurs from different disciplines: biomedical, artist, design, ecological, and technology. Our cities will require entrepreneurs with different intentions: youth, lifestyle and seasoned entrepreneurs.

A word about the notion "small business:" Providence and RI is predominately a small business state. Nevertheless, the debate rages over the size and impact of a small business. Some use 100 employees as the defining benchmark of a small business! Some say a small business operating like a gazelle that doubles in volume every year for five years and yields many jobs quickly. Yet, most of the next economy businesses emerging in Providence are truly small: two, three, five, ten or thirty workers. One of the local rising star technology companies, Ibis Consulting, employs sixty people. Ibis Consulting provides services that recover and format lost data in white color crimes like Enron, one of its client's projects. Small business in Rhode Island will be diverse and vary in scale in impact and type. We need them all.

In Providence, there is a range of business opportunities waiting for urban entrepreneurs. In the home-based area, there is a need for caterers, house-cleaning cooperatives, childcare cooperatives, and urban gardening. In business services, there is an opportunity to develop an administrative and marketing cooperative to organize all the independent Department of Transportation minority contractors. Wherever there is a group of individual professional service providers, there is an opportunity to build a business.

The creative and innovative economy also offers new opportunities for channeling the energy of our youth. At-risk kids also have entrepreneurial energies, and young people who have had legal trouble have learned – for better or worse – how to run a business. Why not transform this energy and skill into positive capitalistic pursuits? For example, the Armory Revival Corporation in Providence is desperate to find young artisans who can work as contractors to repair slate roofs, replace cornices, and do other detail work in the restoration of Providence's extraordinary housing stock. The work is entrepreneurial, creative, and pays well; yet, young people are not entering this trade – leaving only elder professionals with the necessary wisdom to carry on the work.

Another opportunity is in the waste stream. RI produces too much waste. The Johnston landfill will close by 2008 and there is not comparable land to use. Our options are limited: either we ship our waste out of state (if another state will take it) at a premium on taxes, or we reduce or reuse the waste through ecological and sustainable businesses. Ecology and sustainability is a nascent industry ripe for pioneering urban entrepreneurs. Clean Scape in South Providence is one example of an ecological business that recycles waste and uses urban workers to do it.

Biomedical research, centered in the Jewelry District and South Providence, along with design and innovative business services in the Downtown and Promenade, represent the next major growth opportunities in Providence. Both of these industries represent significant opportunity for today's residents – and provide a positive economic environment to which our youth can return after college. Consider this possibility: An inner city graduate from the Met School or Times

Square gets the science bug, goes to college and returns to Providence with a breakthrough idea and builds a biomedical company here. In turn, the company grows to employ a lot more urban people.

The Urban Ventures Model: Tempering Urban Business Risk by Surrounding the Urban Entrepreneur with a Network of Professional Resources

Eighty percent of new enterprises do not survive past the fifth year. Urban Ventures (UV) helps to temper the business risk and increase chances for success by surrounding urban entrepreneurs with value added business building resources and supporting the entrepreneur for long-term sustainability – incubating startups and taking operating businesses to the next level.

The traditional government incubation policy is to subsidize rent for large spaces and provide administrative support and conference rooms. In the old industrialized economy of our cities, large space housed manufacturing operations. Recent studies of effective business incubation show that creating successful urban businesses require much more than space, secretary and a meeting room. In fact, space and meeting rooms fall lower on the list of success factors than other more impact-oriented interventions focused on mentoring and business building. Tapping knowledge, using technology, and collaborating is more central to success in the creative economy than subsidized space.

Consider the support services historically provided in an incubator as a business opportunity. What if meeting space, office space, administrative support and other such services are in the market, sold by an urban entrepreneur, to the other entrepreneurs, and not by an incubator.

Urban Ventures practice subsidizes the cost of skilled professionals who help the entrepreneur build the business – meeting the needs of creative and innovative companies, who traditionally utilizes less staff and manufacturing intensive and are often composed of a network of several businesses located in multiple sites. These kinds of businesses also tend to be more wired, using the Web in communication and to partner.

Urban Ventures represents a working model of the next generation of business building – which each urban city and the entire state is the incubator.

Under this model, entrepreneurs are clustered together; UV is currently working with 12 adult entrepreneurs in two clusters. Most of these entrepreneurs are located outside the Urban Ventures facility on Colfax Street. A cluster coordinator guides the development of the entrepreneurs and serves as a business coach. Two additional clusters involve Youth Entrepreneurship – one at the Met School and one developed in collaboration with AS220 and West Elmwood Housing Development Corporation.

SIDEBAR

Urban Ventures is an accelerated program of intensive personal and practical support aimed at tempering business risk. Components include:

- Intensive assesment of business idea and business skills
- Evaluation of market opportuntiy and positioning
- Direct mentoring and support from a business coordinator as business coach
- Customized learning and business building plan developed as prescription for growing the business

- Access to practitioners and consultants
- Board of directors formed for every company
- A facilitated community of learners among cluster participants in which each entrepreneur helps each other with business problems
- Access to equity capital (Not part of the current menu of services)

Most urban businesses grow via bootstrapping and cash flow, supplemented by loans. Urban Ventures partners with the entrepreneur by supporting him or her with a professionally "vouched" plan of action for building the business – tempering the risk of the lender or the large customer who is looking for something more externally validating than what the entrepreneur presents.

SIDEBAR

Building a business is a continuous process of learning and doing. Urban Ventures has identified twenty business skills required for business success to include the areas of: life purpose, market and sales, finance, operations, and business model. These skills are not all found in the founding entrepreneur. The skills are distributed among the team as an ensemble. Urban Ventures completes an assessment of the skills and surrounds the entrepreneur or team with approved high valued added, skill building professionals as part of his or her prescription and learning plan.

A Recommended Network and Infrastructure for Building the Economy of Our Cities

The most viable engine for building the urban economy is to an effective network of partners among the publicly funded service providers. A Network of partners, can serve urban entrepreneurs by translating the state's economic development strategy – building industry clusters and preserving our places with character -- to our cities. This is the missing infrastructure that is required to implement *Cities Count* recommendations.

Urban Business Development Providers that are Candidates for the Network

Various publicly funded organizations provide business development assistance and training to small businesses in Rhode Island. Beyond Urban Ventures, there are five additional key players.

The Micro-enterprise Association, Small Business Development Centers (SBDC) and Center for Women & Enterprise (CWE) all provide business development assistance to their clients.

Micro-enterprise Association of Rhode Island: Provides four-week mini business training to aspiring entrepreneurs at multiple satellite locations. This is exploratory in orientation. The participants generally are still developing the full skill sets for running a business and many are in the idea generation stage. This service gets people thinking and pointed in the right direction. Micro-enterprise Association also provides problem solving skills building training to young adults through 9 different Rhode Island high schools.

Small Business Development Centers (SBDC): Through its seven satellite offices throughout RI SBDC assists start-ups and established companies in starting, running and growing their businesses. SBDC offers business development workshops and training to a wide array of clientele. It also uses independent consultants in the delivery of its business development services and training. It has the largest pool of consultants in the state. Consultants provide service based on their areas of expertise. A consultant's commitment to a client is limited to the number of hours allocated (averages 6 to 10 hours per client).

Center For Women & Enterprise (CWE): Funded by the SBA, Center for Women & Enterprise provides training and business consulting services to women owned businesses. It also runs the “Power-Up Program” -- a 13-week business-training program for women entrepreneurs.

Design and Business Entrepreneurship Center (DBEC): Funded by the Rhode Island School of Design, DBEC provides office space and business development services to start up businesses in the design, art and product development field.

The Four Slater Centers: Provide investment capital and mentorship to start-up businesses in interactive technology, biomedical/life sciences, design and manufacturing innovation, and marine and environmental. Slater Center portfolio companies are candidates for venture capital or other private investment, with the potential of growing into a gazelle-like big employer within a few years. The director of a Slater Center directly mentors his entrepreneurs and the Centers provide seed investments.

Urban Ventures (UV): As noted previously, UV engages the urban entrepreneur for the long-term. The focus is on developing an individualized business and personal development prescription that builds on the dreams, aspirations and business goals of the entrepreneur. Urban Ventures is a business results model, e.g., what level of revenue is the company anticipating? Result drives learning process and process drives tasks assigned in the prescription.

Use Business Development to Drive Economic Development

Our cities need innovation in growing the economy. It is critically important to make a distinction between economic development and business development and aim for both. The renovation and conversion of abandoned buildings into offices is an economic development activity designed to increase the tax base, improve a community and enhance the utilization of a physical asset. Business development taps into the goals and dreams of entrepreneurs for independence, passion and wealth creation. It is about enterprise creation and business sustainability. The result -- provided the business is sustainable -- can be job creation and retention.

Providing entrepreneurs, single services like marketing or finance make entrepreneurs skillful in one business function. However, without changing their mindset and behavior, entrepreneurs cannot continue to adapt beyond the original processes developed at the inception of the business. They cannot solve their business problems with their current level of understanding of single disciplines like marketing. It requires a mind shift to see the whole business and all the parts as a system. Changing entrepreneurial mindset and behavior is the centerpiece of Urban Ventures' work.

Growing the Urban Economy And Increasing the Strength of the Network: Policy Debates and Action Items

Recommendations for Policy Consideration

1. Pursue Job Creation and Wealth Creation

The confusion over job creation as a goal stems partly from the confusion between means and ends, between public and private and between economic development and business

development. “Jobs” are a public policy goal—one that is presumably easily measured, with highly visible results expected to reduce unemployment, increase job quality, etc.

However, entrepreneurs do not go into business to create jobs. Rather, their primary goal is enterprise creation and business sustainability. A sustainable enterprise is a means to the end – job creation and job retention. Wealth creation is a by-product of business sustainability. Thus, there are two policy objectives to pursue and evaluate: job creation and enterprise growth and wealth creation.

2. *Target a Range of Urban Businesses*

As the economy of our cities evolve, equal attention must be paid to the growth of neighborhood economies and businesses and fast growing, gazelle-like companies that focus on the whole city, region or nation. The focus and attention must be on incubating urban start-ups and taking current businesses to the next stage. The focus also needs to be on business building and tempering risk for sustainability, not just physical incubation space.

3. *Subsidize Skilled Business-Building Professionals to Accelerate Urban Enterprise and Not Only Physical Spaces*

Our cities and state can make a real impact on growing successful urban businesses by subsidizing more consulting services.

Actions to Consider Taking

1. Broker and identify large customers (i.e. the State and major corporations) for urban business with a professionally vouched, plan of action. In advance, identify the business building variables that will temper the risk and incorporate the solution in the action plan.
2. Invest in an accessible online, web-based workroom so every urban entrepreneur can work in the 21st century. Make the workroom affordable to urban entrepreneurs.
3. Give urban entrepreneurs access to equity capital that is patient in its return.
4. Identify academics that are also practitioners, and other university resources, to build the network of skilled professionals required to surround an urban business to increase the chances of success.
5. Solve the problem of the need for business development space and lab space through diverse options, including market forces, rather than a subsidy with city tax dollars.

Conclusion

The final *Cities Count* Report makes our challenge clear: our cities desperately need economic revitalization. The call is for more jobs and more circulating local wealth so the tax base grows and the cost of government services decreases. Thus, our economies need growing via economic and business development.

Cities can explore three parallel strategies with different levels of effort: retain current business, attract new business from elsewhere, or grow more entrepreneurs either from the city or from elsewhere. Each city will make policy decisions on the deployment level for each strategy.

This paper is about urban entrepreneurship as the forgotten or least used of the three strategies. At this point in the business cycle, entrepreneurship is a very impact-full tool for economic and business development.

Urban entrepreneurship today is a new game. It requires fresh thinking and new practices. As *Cities Count* states: "Without a better coordinated delivery model to strengthen local capacity, the challenge of improving our cities will be difficult."

The entrepreneurial support system must be coordinated with a fresh approach. First, entrepreneurs need more connection to their place — the city — so they feel the pulse of what is happening and become visible in its evolution. Secondly, support for urban entrepreneurs is less about subsidizing space and more about subsidizing business-building supports. Third, urban entrepreneurs want business sustainability and thus need customized, practice-based support for the long-term and not just a course or program. Fourth, in a knowledge/creative economy, continuous learning and access to best practice and tools are as vital a resource as cash. Fifth and finally, the diverse array of entrepreneurial resource providers can be organized as a confederated network to more effectively surround the entrepreneur with resources: less duplication and more targeted coordination.

Urban entrepreneurship requires a healthy policy conversation among city leaders, policy makers and practitioners of developing entrepreneurs. Urban Ventures stands ready to engage in the conversation.

The authors are members of Urban Ventures' urban business building team. Robert Leaver, CEO of New Commons (formerly known as Organizational Futures) has consulted to the company for the past three years on overall strategy, organizational design and the learning process of entrepreneurs, a period during which he has also served as project manager and network facilitator for several projects for building the creative economy in Providence. Justin Aina, Executive Director of Urban Ventures, is a seasoned practitioner of urban business development. He has been involved in the overall direction of the creative economy since its inception in 2001.

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