The Competitive Inner City

Peter Ramsden, Gareth Potts, Ed Mayo, Polly Raymond

The inner city is all too often written off as a neglected problem area. But these same areas contain highly
successful businesses and entrepreneurs. This report provides a ground-breaking analysis of the competitive
advantages of the inner city. It concludes with recommendations to stimulate a new agenda of economic inclusion.

the inner city

100

NatWest

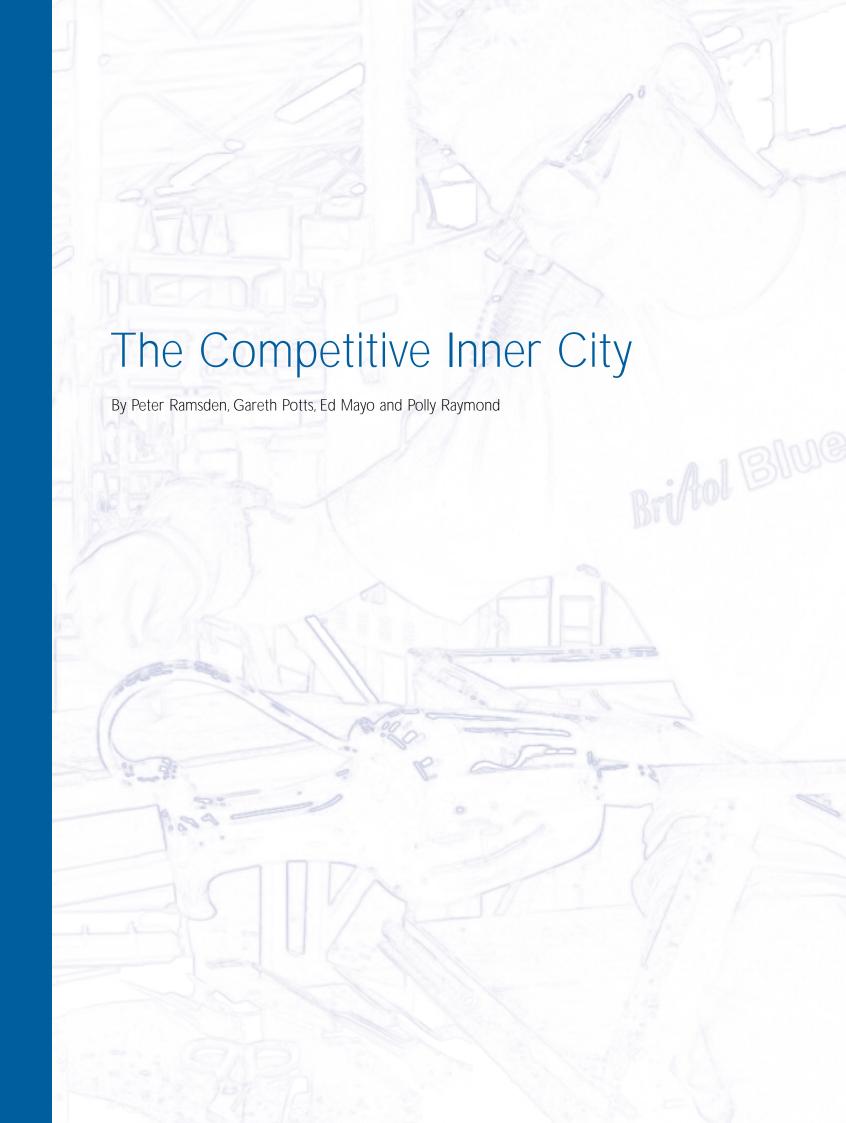The Royal Bank
of Scotland

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Foreword

"I welcome the publication of the Inner City 100 first report, which has demonstrated beyond doubt that there is a wealth of ideas and entrepreneurial talent in the under-invested parts of our cities. It has unearthed remarkable stories of business success and shown how barriers can be overcome, helping us move towards a society where enterprise is truly open to all. But there is more that can be done, and that is why the Government is introducing new measures including the Community Investment Tax Credit and the Community Development Venture Fund which will stimulate the emergence of more vibrant businesses like those featured in this year's Inner City 100. I look forward to seeing many of them nominated in the coming years."

Right Honourable Gordon Brown
Chancellor of the Exchequer November 2001

There is no doubting the pressing social need for the regeneration of many of our inner-city areas. But that should not obscure the commercial investment opportunities that already exist in those areas. The Inner City 100 by drawing attention to those opportunities, and encouragingothers to take advantage of them, can make an important contribution to urban regeneration, and has the Bank's strong support.

Sir Edward George
Governor of the Bank of England

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By Peter Ramsden, Gareth Potts, Ed Mayo and Polly Raymond

The New Economics Foundation

NEF works for a new model of wealth creation, which is inclusive, human scale and sustainable. Since 1986 we have been working to change the rules, developing new economic ideas to shift the balance so that people count. New forms of investment, new kinds of currency, new ways of measuring success, new ideas that put ethics and ecology at the heart of economics. NEF's work falls into three main areas, local economic renewal, participative democracy and the global economy.

Over the past fifteen years NEF has:

- Advised government task forces on financial exclusion
- Pioneered social auditing techniques for major corporates
- Developed new ways to fund small businesses in the inner city, through a ground breaking community investment tax credit
- Campaigned for new legislation on banking responsibility
- Achieved $34 billion worth of debt cancellation for the poorest countries of the world, through Jubilee 2000, now part of NEF.
- Initiated and implemented the idea of community time banks in the UK
- Demonstrated that rich countries can be held to account for climate change

The Team
Ed Mayo is Executive Director. The Director of Operations is Elna Kotze, Ashoka Fellow. Programme Directors are Thomas Fisher, Perry Walker, Ann Pettifor and Andrew Simms. Peter Ramsden is Director of the Inner City 100 and Rachael Osaigbovo is Project Manager. NEF has a staff of 35 people.

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Executive Summary

Key findings:

Enterprise is thriving in the inner cities. The Inner City 100 are one hundred of the highest-growth companies in the country's most deprived areas. They have demonstrated sustained strong growth in sales and employment, debunking the myth that the inner cities are doomed to unemployment and decay that can only be tackled by direct public financial support. The key findings of the research about the inner city economy are:

- Proximity to markets and to an available labour pool are the primary competitive advantages identified by these successful companies
- They have been successful through skilful marketing and management, not by paying low wages and competing on price grounds alone
- Links with universities can be beneficial in building skills and learning
- Access to capital remains a problem, perhaps exacerbated by an inner city base
- Skills shortages remain an important issue in the inner city
- Crime is an issue, but has not been a significant problem for most of the companies.

Enterprise and disadvantaged areas (Ch 1)

Britain's inner cities nurtured the industrial revolution and supported the industrial empires that made Britain "the workshop of the world". But the decline of manufacturing in the 1960s and 1970s led to dereliction, high levels of unemployment and endemic poverty.

Policy reactions to inner city problems were preoccupied first with social pathology, then physical redevelopment and prestige projects. Until very recently little attention has been paid to the economics of the inner city and the potential for local enterprise to contribute to regeneration. The purpose of this research is to highlight this entrepreneurial potential, through identifying 100 of the country's top inner city businesses.

The 15 cities covered in this research represent both a large market and a cradle of enterprise. The population in these deprived areas is 5.5m, or 9% of the UK total. Despite living in areas falling into the poorest quartile of the government's Index of Multiple Deprivation, this highly concentrated mass of people can be an attractive market.

Research by New Economics Foundation also demonstrates that it can be a highly entrepreneurial population. The cities have continued to lose businesses, and inner cities have lower business start-up rates than more prosperous districts as well as higher failure rates. But it is a myth that businesses cannot survive and grow in these areas, some of which have very high rates of new business formation. For example, Tower Hamlets, the country's most deprived borough, has approximately four times as many businesses per resident as Sunderland. The vibrancy of London boroughs, Bristol and Leicester contrast with the comparative scarcity of business networks in Liverpool, the North East and Glasgow.

Company advantages	No. of companies citing	Location Advantages	No. of companies citing
Specialisation	30	Proximity to customers	20
Range of products	24	Workforce availability	22
Customer service	24	Premises and Local Infrastructure	20

The Inner City entrepreneurs (Ch 3)

The Inner City 100 is a diverse collection of businesses. Their key characteristics are as follows:

- Almost one in three of the companies are manufacturers. But the service sector accounts for just over half, including 13% in IT-related industry.
- In the year 2000 Inner City 100 firms sold a combined total of just over £508 million of goods and services, following an average five-year growth of 274%. They employ over 5700 full-time workers, 3,500 more than five years ago (an increase of 161%). The median (midpoint or 50th company) employment is 32, including three part-timers.
- The Inner City 100 includes 11 social enterprises, trading in the space between the public and private sectors. Overall they performed well in the Index – 8 of the 11 were in the top 50
- Companies have been at their current address for an average of 7 years and in business for an average of 16. The vast majority rate their current location highly and 65% said it has become a better place to do business over the past 5 years. Just

under 40% have considered relocating but almost all (97%) would stay in their current inner-city area.
- 66% of companies are involved with their community and 70% consider the social impact on their community as important.
- The average age of the Inner City 100 founders is 45. They were 34 years old when the business began. But the spirit of enterprise starts young - two-thirds had thought about becoming an entrepreneur between the ages of 15 and 30. Almost half have immediate family members who owned and ran businesses while they were growing up. Nearly 40% of the Managing Directors had been engaged in entrepreneurial activities when they were young.

- Only eight women are running Inner City 100 businesses, with three other women in directorial roles. This under representation is much lower than the national average - business ownership by women in the UK is now 26%
- The 11 black and ethnic minority firms were divided into 3 Black/Caribbean, 3 Indian, and one each describing themselves as Black/African, Pakistani, Chinese, Jewish and Arab.

Competitive advantage and disadvantage (Ch 5,6,7)

The research examined two separate elements of competitive advantage – the attributes of the companies, and the attributes of their location in the inner city. The responses confirmed the view that the oft-touted benefits of cheap labour are not a key factor in business success. The Inner City 100 median wage stands at £5.20 (the average being just under £6). Instead companies identified elements of their business strategy – and especially marketing elements such as product range. The key advantages of the inner city as a base were the available labour pool, the geographic location close to customers, and the infrastructure – especially telecoms.

A less tangible inner city advantage is also evident in companies' stories. This is the "inner city buzz" – the lively, creative atmosphere that is often found in these areas. There is a downside to this, however, in the gentrification that often follows such a "buzz". De-industrialisation can result, as demands for upmarket residential property such as "loft-style" conversions can push up prices and force businesses to relocate.

Education can be overlooked as an element of the inner city infrastructure – especially tertiary education. The research found that a quarter of Inner City 100 firms had established links with local universities. There appears to be a growing role for higher education in building enterprise skills, knowledge dissemination and technology transfer.

Many Inner City 100 companies demonstrated the kind of social concern that is more usually linked to big business. For example:

- Contacts with schools, for example through work placements
- Reduced price or free services for local community clubs
- Sponsorship of community groups, such as football teams

A local workforce brings several benefits. Companies cited non-dependence on unreliable transport, because many staff walked to work; flexibility, because staff could change their hours at short notice; ease of recruitment, because word of mouth was an effective method of advertising and assessing worker suitability.

Access to capital is or has been a problem for 45 companies. There was evidence that banks' attitudes had changed for the better in the last few years. In common with many small businesses, cash flow was a predominant concern, stemming from inadequate working capital. But several companies had also explored venture capital to finance expansion.

But quality matters as well as quantity, and the availability of the right skills was a common barrier to growth albeit often not referring to the inner-city problem specifically. Only a handful of companies identified specific skills problems that they had experienced.

Crime was identified as a significant problem. But the problem is not widespread and does not affect all inner city businesses. Only 20 companies had suffered directly from crime in any form, and only five of those cases could be described as serious and/or persistent offences.

Conclusions: Smart public investment (Ch 8)

We conclude that public money is failing the inner city in two ways. First, it has failed to foster and support entrepreneurial activity. Most support has been in the form of benefits, regeneration and public services, a large part of which immediately leaks out of the local area rather than supporting the local economy.

Secondly, public money has failed to create the right incentives for the most powerful force for inner city improvement: self-help and mutual aid.

The National Strategy for Neighbourhood Renewal should bring new investment to inner cities, and this is welcome. But there is a deeper need for a strategic reorientation of public expenditure to form a springboard for economic opportunity.

We call for smart public investment to stimulate local enterprise and enable local market activity, specifically:

- Finance continues to be a problem for inner city business growth. Greater transparency is needed concerning bank lending and equity investment in under invested areas, as well as continued innovation in product development (from micro-credit to community development venture capital).
- More coherent business support services to connect with all sizes of inner city business.
- Better programmes to link inner city entrepreneurs with schools to provide role models, mentors and stimulate a culture of enterprise.
- The enterprise base of inner cities needs an enabling planning framework that has as its priority the retention and growth of sustainable inner city enterprise. Businesses wishing to expand need help to find appropriate premises. Competing high value land uses, for example residential uses in former industrial/commercial space, need to be carefully controlled to prevent the erosion of inner city workspaces.
- Inner city enterprises need to link into regional clusters and growth corridors. Larger companies can help by opening up their procurement to inner city firms.
- Inner city workforces need to be helped to access jobs both locally and in the region through skill development and by improved affordable public transport
- Improvements in urban public transport, and traffic management are required to reduce congestion and improve access times.

- Specific support is required to capitalise on the potential of women as well as black and ethnic minority entrepreneurs.
- The Inner City 100 Index showcases the role of social enterprises in helping to restart and pump prime local economic activity. In some cases, there is potential for social enterprises to be licensed to run public services, helping to innovate and involve a wider section of inner city residents than the public sector may be able to.

About the research (Ch 2)

Eligible companies came from 15 cities, chosen on the basis of size and levels of deprivation. Individual companies had to meet these criteria:

- Be located in an eligible ward of one of the 15 cities
- Be an independent company
- Have a minimum turnover of £25,000 in 1996 and £275,000 in 2000 and be profitable in 2000
- Have grown employment and employ more than 5 people in 2000
- Act in a socially and environmentally responsible manner

Three hundred nominations came from a wide range of bodies. The most nominations by city came from Glasgow, Birmingham, Manchester and Liverpool.

We collected key information on the nominated companies. This included an initial check on area eligibility and the year they were founded, followed by an eight-page questionnaire to the remaining companies, together with a request for company accounts for the relevant years. Preliminary rankings were made of the companies on the basis of unverified turnover growth and we then conducted interviews with the leading 120 enterprises. A qualified accountant compiled the final Index after a financial verification.

The Cities in 2000

Birmingham, Bradford, Bristol, Coventry, Glasgow, Leeds, Leicester, Liverpool, London, Manchester, Newcastle, Nottingham, Salford, Sheffield and Sunderland.

Five additional cities will be incorporated in the list in 2002.

Chapter 1
The Neglected
Inner City

The idea of the inner city was born in 1967. Of course, urban areas had long operated with districts of particular disadvantage. But 1967, in the form of the Plowden report on education, marked the first institutional focus on the neglected inner city. Up to this point, the post-war welfare state had applied universal solutions to education, crime, housing, benefits, health and the economy. The only spatial targeting was through regional policy. The Plowden report marked a turning point. For the first time a government initiative was focused on small areas within cities.

Inner cities themselves were going through major structural changes as part of the painful transformation from manufacturing to a service economy. In Victorian times, Britain had been the 'workshop of the world' with world dominance in markets as diverse as textiles, iron and steel, shipbuilding and engineering. Britain's great industrial cities had been the physical manifestation of this economic miracle.

By 1967, traditional industry in the cities was declining. The following two decades saw major job losses in manufacturing industries. Between 1971 and 1996 the leading cities lost, net, 1.4 million jobs[1]. Manufacturing made up the largest slice of these. Manufacturing output dropped and its employment in the leading 20 cities declined from 3.7 million people to 1.5 million over the same period - a reduction of 2.2 million. Over the same period other parts of the UK gained 2 million jobs.

The largest cities lost the most jobs, both in absolute terms and as a percentage of their workforce. London, at the top of the urban hierarchy, lost nearly half a million posts. Jobs were lost as a result of closures and downsizing, but also through relocation. New investment went to other parts of the country, to smaller towns and rural areas.

The result was widespread urban dereliction and high levels of unemployment, which in turn led to endemic poverty.

Cities like Liverpool lost jobs throughout the period and as employment fell the population also declined. The city had been the world's leading port but the shift to containers, combined with a lack of investment, destroyed its competitive position. Waves of regional policy failed to stem the city's job losses although new investment did come from

Cities and London boroughs eligible for the Inner City 100 in 2000

Glasgow

Newcastle upon Tyne
Sunderland

Leeds
Bradford
Liverpool
Manchester
Salford   Sheffield

Nottingham

Birmingham   Leicester
Coventry

London
Hackney
Haringey
Islington
Newham
Southwark
Tower Hamlets

Bristol

Figure 1.1 Paradigm shifts in urban policy

Year	Event	
1967	Plowden report on education identifies spatial concentrations of poverty in cities	From social pathology to structural problems
1973	Community development projects identify restructuring as the problem	
1975	Welsh and Scottish Development Agencies established	
1976	Glasgow Eastern Area Renewal project marks a departure from peripheral estates and New Towns policy	
1977	Urban white paper recognises economic origins of problem	
1978	Inner Urban Areas Act introduces partnerships, and urban programme	
1981	Toxteth and Brixton riots	Property led regeneration
1981	Urban Development Corporations (UDCs) for London and Merseyside	
1986	Riots at Broadwater Farm Liverpool, Brixton and other major cities	
1986 to 88	8 New Urban Development Corporations for Cardiff, Sheffield, Black Country, Bristol, Birmingham, Tyne and Wear, Leeds, Central Manchester	
1991	City Challenge: A partnership approach with competitive bidding and predominantly physical investment strategy	
1993	Single Regeneration Budget brings together funding streams for regeneration in one pot under one department (DoE)	
1994	Business Link to provide one stop shop for growth businesses	Partnership and community economic development
1994 to 1999	EU Objective 1 and 2 programmes include Social Cohesion approach in Strathclyde, Pathways in Merseyside, community economic development in rest of England targeted on disadvantaged areas of cities	
1994 to 1999	EU URBAN Community Initiative concentrates resources on inner city areas	
1998	New Deal for Communities	
1999	New Small Business Service launched with a wider remit for enterprise in disadvantaged areas and a Phoenix Fund to back experimentation	
1999	Scottish Executive creates Social Inclusion Partnerships	
1999	18 Policy Action Teams address problems of social exclusion	
1999	8 RDAs set up for England, London follows in 2000	
2000	First Urban White Paper in 23 years but physical emphasis remains	
2000	National Strategy for Neighbourhood Renewal	
2000	2000 Social Investment Task Force reports to Gordon Brown, recommends support for community development finance	
2001	Launch of Inner City 100 in Nottingham by Gordon Brown	Enterprise
2001	Tax credit announced in budget	
2001	Community Development Financial Institution Trade Association set up	
2001	DTI sets up Social Enterprise Unit	
2001/2	Apax partners to launch new 'Bridges' Community Development Venture Capital Fund	
2001	SBS announces 'City Growth Strategies' in partnership with RDAs	
2001	East Midlands Development Agency is the first RDA to take up an 'Economic Inclusion' agenda	
2003	Tax credit for disadvantaged neighbourhoods comes on stream	

Table 1.1 Inner City Companies

City/borough	Total population	% of population living in poorest quartile wards	Total VAT reg businesses (2000)	VAT reg businesses per 1000 people	Change in VAT reg businesses 1994-2000	VAT reg businesses per 1000 in poorest quartile
Birmingham	1,013,500	74%	19,615	19.4	93%	19.0
Bradford	483,300	65%	10,570	21.9	98%	19.2
Bristol	402,200	48%	11,125	27.7	109%	18.3
Coventry	304,200	57%	5,525	18.2	101%	17.7
Glasgow	609,000	n/a	10,355	20.7	93%	n/a
Hackney	194,800	100%	7,325	37.6	123%	31.7
Haringey	221,600	72%	6,480	29.2	116%	22.2
Islington	179,000	100%	9,985	55.8	119%	51.0
Leeds	727,700	42%	15,515	21.3	91%	21.7
Leicester	294,200	72%	7,270	24.7	99%	21.7
Liverpool	461,500	86%	7,220	15.6	95%	15.6
Manchester	429,800	90%	8,980	20.9	89%	23.5
Newcastle	276,000	64%	4,355	15.8	86%	15.7
Newham	231,300	100%	4,145	17.9	115%	15.5
Nottingham	286,700	80%	5,285	18.4	89%	20.5
Salford	226,000	82%	4,750	21.0	104%	21.7
Sheffield	531,200	51%	9,370	17.6	92%	16.5
Southwark	232,200	89%	7,835	33.7	123%	31.2
Sunderland	292,600	86%	3,585	12.3	96%	11.9
Tower Hamlets	181,400	100%	8,150	44.9	127%	36.9
City total/average	7,578,200	67%	167,440	22.4	100%	21.6

Source: NEF analysis of ONS data

companies like Ford and Hoover. Glasgow, Newcastle and Sunderland saw traditional industries, such as shipbuilding, go into steep decline. Manchester, Leeds and Bradford were seriously affected by restructuring of the textiles industry, as British textile manufacturers faced fierce competition from the Far East and Europe. Leicester lost jobs in hosiery, textiles and footwear.

Sheffield was a late entrant to economic restructuring. The city was relatively unaffected until the late 70s and had preserved near full employment. But over a dramatic four year period from 1979 to 1983 the city haemorrhaged jobs in the steel and engineering sectors. They lost 50,000 jobs, or nearly a thousand jobs each month, which was nearly a tenth of the population and over a fifth of the workforce.

Birmingham, Coventry and Bristol were also in the second wave to hit decline. Their employment had been in the sunrise industries, focused on higher value-added manufacturing and assembly. But when closures and downsizing came it was no less devastating. As the car industry succumbed to foreign competition the component manufacturers of the West Midlands

experienced dramatic change. In Bristol, cigarettes, aerospace and other manufacturing saw increasing job losses.

Government policy was slow to keep pace with the economic dimension of the inner city. Responsibility lay with the Home Office and it focused on crime and delinquency through an individual pathology model. Figure 1.1 illustrates the main stages of policy development.

At the city level the industrial working class was slowly being marooned. Either they had the wrong skills for the new service jobs that were being created or they were too far from the new industrial estates and business parks on the motorway junctions and in the smaller towns. The job losses impacted disproportionately on unskilled men, especially those men over 45 who, in many cities, were never to work again.

Meanwhile, other groups were experiencing the neglected inner city problem in a sharpened form. Unemployment rates for young black men reached 50% in many communities (90% in Toxteth) and by the early 80s it was not surprising that these developments, allied to other factors such as

inappropriate policing methods, boiled over into a series of riots across Britain, with Brixton and Toxteth especially hard hit in 1981 and Broadwater Farm in 1986. In response, Michael Heseltine established Task Forces in Merseyside, London and the Urban Development Corporations. These took an economic approach but focused on property and physical regeneration. They tended to ignore the local enterprises. They were also widely criticised for excluding the communities themselves. A more positive model, but not widely taken up, came from the first enterprise trusts/agencies set up in St Helens and elsewhere by John Davis, the first Chair of the New Economics Foundation. The approach was influenced by the ideas of the radical economist Fritz Shumacher, author of "Small is Beautiful".

Meanwhile, cities thought big was best. They outdid each other to build arenas, stadiums, conference facilities and concert halls. Some, such as Sheffield, are still paying the price for believing that major sporting events will provide the breakthrough.

It has taken thirty years for society to start to address the question of inner city enterprise in any serious and systematic way. Only now are

these areas being seen as potentially vibrant markets, rich with strong elements and traditions of enterprise.

The Inner City Market

The inner city population of the 15 cities eligible for the Inner City Index in 2001 is 5.5 million people, i.e. around 9% of the UK population. Table 1.1 shows the cities and their disadvantaged populations, according to the definitions used for this research.

Thirty years of economic restructuring has had a marked effect on the inner city market. Initially the inner city economy was weakened, still dependent on traditional sectors and slow to respond to new opportunities. In many cities it had been an economy dependent on large enterprises often employing as many as 10,000 people, but these companies had gone. The support infrastructure including local universities and colleges were geared up for the old economy. New jobs that were created in the 80s and 90s in these cities were overwhelmingly part-time service sector jobs, taken up by women.

Today, the inner city remains typically an area of relative disadvantage. The Neighbourhood Renewal Unit has identified eighty-eight local authorities with high levels of disadvantage. These include, largely, five types of areas: inner cities, outer estates, freestanding towns dependent on traditional industries, mining

communities and coastal towns. Of these five groups the inner cities (including disadvantaged outer estates) constitute over half of the total number of authorities and, by virtue of their larger size, nearly two thirds of the populations. If social exclusion is to be addressed, it has to include strategies for addressing the neglected inner city.
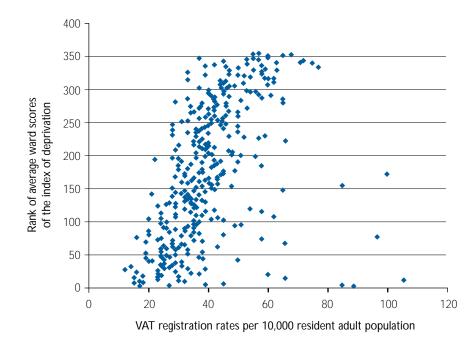
Yet on a more positive note, some commentators argue that there are more recent signs of an urban renaissance in the inner city, with a renewal of the physical infrastructure and signs of business diversification and new sectors emerging. There is growing evidence that the inner city is an important market opportunity. Even in disadvantaged neighbourhoods considerable numbers are in work of some description. The density of people and enterprise creates market opportunities.

The Enterprise Ecology of the Inner City

Table 1.1 shows figures for businesses (VAT registered) in the Inner City 100 cities, as well as the average for the cities. For the UK as a whole, the period 1994-2000 saw a minor increase (2%) in businesses. But the Inner City 100 cities were on average stagnant in business birth rates over the same period. Ivan Turok and Nicola Edge identified that "there has been no general revival of the major cities" between 1981 and 1996…

Figure 1.2 Comparing VAT registrations with measures of relative deprivation

Source: VAT registration data for 1998 (DTI statistics); Indices of Multiple Deprivation 2000 (low rank is most deprived)

relative to other parts of the country". [2] This table shows that this overall trend has continued.

However, the table also shows that the picture is more complicated at the city level. Nine of the cities and boroughs have showed growth in enterprise numbers – in the case of Coventry and Salford only modestly, for Bristol a 9% growth over the period, and for the London boroughs, impressive growth rates in the range 15-27%.

In contrast, eleven of the cities have fared less well. For Bradford, Leicester and Sunderland, the loss of businesses has been modest, but it is a surprise to see that Birmingham – never backward in promoting its entrepreneurial flair – has seen a greater decline than Liverpool, and has performed no better than Glasgow. Manchester, Nottingham and Newcastle all lost over 10% of their businesses in the period.

If the story is mixed at the city level, it is even more diverse when we look at the enterprise ecology at ward level. Table 1.1 shows that the proportion of the cities' populations living in England's most impoverished wards ranges from 42-90%. It is no surprise that there is less enterprise than in more prosperous areas of the city. The poorest wards in the Inner City 100 do on average have fewer businesses (21.6 enterprises per thousand residents compared to the city average of 22.4/000). In the cases of Bradford, Bristol and the London boroughs, the enterprise gap is dramatic.

But the inner city has a healthier enterprise ecology than other disadvantaged areas such as mining communities, coastal towns and rural areas. Inner cities also have significant local demand, being densely populated and often underserved.

Figure 1.2 shows VAT registration figures for 1999 alongside the new Index of Multiple Deprivation for England. In general disadvantaged areas have lower start-up rates than more prosperous districts as well as higher failure rates leading to fewer surviving businesses.

However, the graph also shows that there is no simple correlation. Many London boroughs have both high start-up rates and high levels of deprivation. Camden and Westminster data were excluded from the sample because their VAT registration levels were so high that they would have made the graph impossible to read. Camden is the 51st most disadvantaged area but has over 150 registration rates per 10,000 of adult population. This illustrates an important point. While poverty is clearly

consistent with low rates of business activity and employment generation, high start-up rates and business activity can also sit alongside poverty with little interaction between the two. The key for wider regeneration is the extent to which inner city enterprises employ local people and build trust and confidence.

VAT registration data ignores the high proportion of sole traders and micro-businesses that operate beneath the VAT threshold in the inner city. Including these smaller start-ups would show a better picture of entrepreneurial activity. Many Inner City 100 winners, discussed later in this report, showed first year turnover of less than £54,000, the current VAT threshold.

However, applying the VAT data on the numbers of enterprises per thousand population (the final column of Table 1.1) demonstrates that the size of the enterprise base of the inner city varies considerably from city to city.

This is presented graphically on Figure 1.3 where the size of the red circles indicates the numbers of businesses per thousand adult residents.

Here we clearly see the enterprising appearance of parts of London, as well as Bristol and Leicester. We see too the comparative scarcity of business numbers in Liverpool, the North East and Glasgow. Tower Hamlets and Islington have approximately four times as many businesses per resident as Sunderland, yet perform worse on the government's Index of Multiple Deprivation. So it is not simply a case of rich versus poor. Nor is it an unqualified one of North versus South, as a comparison between Leicester and Birmingham shows.

Of course, large numbers of businesses do not necessarily mean high employment, good profitability, competitive advantage or long-term sustainability. But a dense ecology of micro-businesses is evidence of enterprise culture. The opportunity of the Inner City 100 is to assess how far this translates into enterprise success and wider inner city competitiveness and renewal.

Figure 1.3 VAT registrations per 1000 adult residents

(Source: NEF analysis & mapping of ONS data)

Chapter 2
The View from
the Inner City

One mile away from the garlanded pavement that marks the brutal murder of Stephen Lawrence, stands the Ferrier Estate. The neighbourhood, named after a 1960s opera singer Kathleen Ferrier, is a grey spread of low and high-rise blocks in South East London. The Ferrier has become an archetype for modern inner city ills. Conveniently located for journalists from Wapping or Central London, or indeed ministers from Whitehall, the estate has been dubbed over the years; a "living nightmare" *(The Independent)*, "a ghetto of violence and despair" *(New Statesman & Society)* and a "transit camp …a combination of a hospital, factory or prison" *(Sunday Telegraph)*.

Stigma creates stigma, and once set, it is hard to break a reputation as a place to escape from. But few had tried to listen to the voices of residents themselves. So when singer Tricia Alexander arrived on the estate, she set out to prove that the community could not all be monsters, and to find the humanity behind the headlines. The result was a remarkable inner city oral history, Voices of Ferrier (Greenwich Community College Press, 1995, London) that paid tribute to the dignity and struggle of residents to improve their lives. As Andrew Yunge Gordon put it to her, "people who live here are beginning to realise their own power".

Elsewhere in society, success in business or society creates a platform of recognition and respect. However, because the inner city has been stigmatised as tough and violent and a target for public sector regeneration, success is overlooked. Even at the city level, there has typically been little recognition of genuine inner city success stories. They did not fit the image of the neglected inner city. Even if they started in inner cities, perhaps success was attributed only to low cost premises and a low-pay workforce and they were not expected to stay. And because the 'solution' to the inner city 'problem' was built on strengths rather than weaknesses. That is not to deny weaknesses and challenges that exist in inner cities. But, by compiling a picture of the state of inner city enterprise, it is possible to start to shift mindsets, particularly in the business community, towards working examples of what gives life to inner cities. If you ask what isn't working, you can reiterate what you may already know – what is wrong. If you enquire as to what works, you learn something that you can use to make change.

Inner city entrepreneurship needs to be recognised for its intrinsic value in rebuilding communities. That is why the Inner City 100 was created by the New Economics Foundation, with the support of the Royal Bank of Scotland and NatWest. Rather than focus on the problems, our aim was to seek out the root causes of success. One inspiration was Tom Bloxham, Chairman of Urban Splash and a regional winner of the Young Entrepreneur of the Year Award in 1999. He runs a highly successful inner city

renovation company and has consistently argued that he is not alone, that "there are many young entrepreneurs like us".

The Inner City 100 drew on a model created by Michael Porter and the Boston based non-governmental organisation he founded, the Initiative for a Competitive Inner City (ICIC) in the USA. They formed a partnership with Inc magazine, a national small business weekly magazine that agreed to publish the list. In its first three years the US Inner City 100 has had a major impact in raising the profile of inner city business and in helping to identify competitive advantages which drive the businesses as well as the barriers that they face. The US Index uses the same methodology for measuring growth as the Inc 500, a well-established US high growth index.

In the UK, under the leadership of Ed Mayo, the New Economics Foundation had pioneered a new policy agenda for enterprise finance and inner city renewal. In 2000, Mayo and colleague, Peter Ramsden, were looking at a range of initiatives from the United States as part of the research support to the Social Investment Task Force, reporting to the UK Treasury. They decided to consult with partners in the UK to see if it would be possible to transfer the methodology of the Inner City 100. What resulted was major financial support from the Royal Bank of Scotland group and a media partnership with the Financial Times. Early support was also obtained from the Small Business Service, HM Treasury and the East Midlands Development Agency. A partnership agreement was signed with ICIC to transfer the know-how that would be needed to develop and produce the first Index in the UK.

The Inner City 100 is not just about positive thinking, an attempt to redress the balance in the way that the inner city is portrayed. The insight behind the Index is that effective solutions are built on strengths rather than weaknesses. That is not to deny weaknesses and challenges that exist in inner cities. But, by compiling a picture of the state of inner city enterprise, it is possible to start to shift mindsets, particularly in the business community, towards working examples of what gives life to inner cities. If you ask what isn't working, you can reiterate what you may already know – what is wrong. If you enquire as to what works, you learn something that you can use to make change.

The methodology for compiling the Inner City 100

In developing the Inner City 100, NEF has made a number of changes to the original methodology, to adapt the index to enterprise conditions in the UK. The Index proceeds in three key stages.

1 Eligibility: the determination of eligible cities, wards and types of company.
2 Nominations: the launch of a nomination process across the UK, supplemented by database research.
3 Verification: research through questionnaires, company accounts and interviews, accounts verification, analysis and preparation of the Index.

Chancellor of the Exchequer Gordon Brown launched the Inner City 100 on February 9th 2001 at the Nottingham Business Centre. This was followed up with nine regional launches that were supported by Advantage West Midlands, East Midlands Development Agency, London Development Agency, Northwest Development Agency, One NorthEast, South West of England Development Agency, Yorkshire Forward, Merseyside Special Investment Fund, Scottish Enterprise Glasgow.

1. Eligibility

To be eligible companies had to:

- Be located in an eligible ward of one of the 15 cities
- Be an independent company
- Have a minimum turnover of £25,000 in 1996 and £275,000 in 2000 and be profitable in 2000
- Have grown employment and employ more than 5 people in 2000
- Act in a socially and environmentally responsible manner

The fifteen cities were chosen on the basis of size and levels of deprivation (Table 2.1). Wales was excluded from the first year's Index on advice from the Welsh Development Agency. However, the 15 cities covered in 2001 will form the core of an expanded and more comprehensive list of inner city areas for 2002. Between five and ten new cities will be added as well as some extensions from core cities into surrounding conurbations.

Wards were then selected within each city on the basis of disadvantage. The criteria for eligibility were that wards should fall into the lowest quartile (25%) of the established Index of Multiple Deprivation. This approach was used for the cities in England. These wards

Table 2.1 Inner Cities selected in 2001

Region/Country	City	% of total population in wards in most deprived quartile of Index of Multiple Deprivation	population in wards in the most deprived quartile of Index of Multiple Deprivation
North East	Newcastle	63	176,600
	Sunderland	86	252,300
Yorkshire and Humber	Leeds	42	306,800
	Sheffield	50	268,800
	Bradford	65	314,700
East Midlands	Nottingham	79	228,400
	Leicester	71	211,400
North West	Liverpool	86	397,200
	Manchester	89	385,300
	Salford	81	184,200
West Midlands	Birmingham	74	754,800
	Coventry	56	172,400
South West	Bristol	48	193,200
London	Newham	100	231,300
	Hackney	100	194,800
	Tower Hamlets	100	181,400
	Haringey	72	159,700
	Southwark	89	207,700
	Islington	100	179,000
Scotland	Glasgow	na	500,000
Total			**5,500,000**

were then converted into eligible postcodes for easy identification of firm eligibility. This produced an eligible list of approximately 400,000 postcodes. A similar approach was adopted for Glasgow using postcode sectors for disadvantaged areas provided by the Scottish Executive.

2. Nominations

Three hundred nominations came from a wide range of bodies. The most nominations by city came from Glasgow, Birmingham, Manchester and Liverpool (see Table 2.2 below). In the case of Birmingham a significant proportion were self-nominations, reflecting good local media coverage especially from the Birmingham Evening Post.

Table 2.3 shows nominations by type of nominator. Overall the independent enterprise development agencies (comprising the Scottish local development companies, enterprise agencies, creative development agencies and black and ethnic agencies) made

up the bulk of the agency nominations with a combined total of 104 out of 172. In Glasgow the decentralised network of local development companies stand apart as the most successful nominators in real terms as they generated 33 nominations from just one city. This perhaps indicates how well they know the businesses on their patch. Among local authorities Manchester had the most nominations with 20 followed by Salford with 9 and Newcastle on 7, Sunderland with 2 and Leicester and Coventry with 1.

The other route to nomination was through database research. This included the use of a range of enterprise lists (Fast Track, Shell Live Wire etc), in particular the Experian Corporate Researcher database. This draws on incorporated enterprises that file their accounts at Companies House and captures financial data going back up to 5 years. However, one gap in the underlying dataset is that disclosure rules for small companies mean that many do not file complete accounts.

Table 2.2 City representation in nominations and final list

	Nominations	No on list	Success rate %
Birmingham	47	22	46
Bradford	8	0	0
Bristol	21	3	14
Coventry	7	1	14
Glasgow	48	9	19
Leeds	5	3	60
Leicester	7	2	28
Liverpool	37	11	30
London	26	11	42
Manchester	39	17	44
Newcastle	14	9	64
Nottingham	15	4	27
Salford	7	2	29
Sheffield	9	3	33
Sunderland	5	3	60
Non eligible	5	0	–
	300	**100**	

Table 2.3 Nominations by type of nominator

Type of Nominator	Number of nominations
Self nomination	96
Local authorities	36
Independent agencies	35
Local development companies (Scotland)	33
Chambers of Commerce	13
Banks	12
Other businesses	10
Enterprise agencies	8
Creative development agencies	8
Black and ethnic business associations	7
Universities	4
Business Links	4
Regional Development Agencies	2
Other	32
Total	**300**

3. Verification

As nominations closed, we set out to collect key information on the companies. This included an initial check on area eligibility and starting year, followed by an eight-page questionnaire to the remaining companies, together with a request for company accounts for the relevant years. Preliminary rankings were made of the companies on the basis of unverified turnover growth and we then conducted interviews with the leading 120 enterprises. The final Index was compiled after a financial verification by a qualified accountant in relation to the eligibility criteria.

Chapter 3
The Competitive
Inner City

In this chapter, we present the key characteristics of successful inner city enterprise, based on the Inner City 100 Index. The Index itself is set out at the end of this report.

Despite the de-industrialisation referred to earlier, manufacturing remains strong in the Inner City 100 with 30% of our companies falling within this category. The service economy however dominates the scene – with 56% of companies, including 13% in IT-related industry. Inner-city business is big business – in the year 2000 Inner City 100 firms sold a combined total of just over £508 million of goods and services, built on the back of an average five-year growth of 274%. They employ over 5700 full-time workers – a 3,500 (161%) increase in the last five years. The median (mid-point) employment is 32. Part-time job creation has also been seen – over 800 workers are currently employed by the companies on this basis (3 per company being the mid-point figure).

Social enterprises trade in the market for social aims. They fall in the space between the public and private sectors. Overall they performed well in the Index - 8 of the 11 were in the top 50 with Liverpool, Glasgow, Sheffield and Bristol being well represented. None came from Leeds, Manchester, Birmingham or Newcastle. Activities undertaken by these firms included internet training and new business development (Hoxton Bibliotech), business units and advice (East Bristol Enterprise Ltd.), provision of services to homeless people (Glasgow Simon Community), reclamation of waste materials (Reclaim, Sheffield) and furniture recycling

(Furniture Resource Centre, Liverpool). Care, recycling and regeneration are strong sectors for social enterprise.

The growth of the Inner City 100 companies appears to be sustainable – in the sense of companies staying in the area and actually committing themselves to these same locations. The average number of years at a company's current address was 7 years. This is a function of company age, the company's satisfaction with the location and their capacity to move from it. Eighty six per cent rate their current location as a good or excellent place to do business, and 65% rate their location as a better or much better location as a place to do business compared to 3-5 years ago. Although just under 40% have considered relocating their company, almost all (97%) of these are considering relocating within a few miles of their current site. Eighty six per cent have considered expanding their operations - of which 96% are considering expanding on or near their existing location.

In terms of the businesses' futures in the next two years companies were asked in the questionnaire to pick from a list of possible courses of action. The main one selected was acquisition (51%). This was followed by plans for succession (32%) and the raising of equity capital (30%). Courses of action more likely to jeopardise the afore mentioned gains (merger and sale) were less prominent – 19% and 18%, respectively.

Another sign of the increased value of inner city economic success is that 66% of companies are involved with their community and 70% consider the social impact on their community as important.

Table 3.1: Company locations and birthplace of founders

Location of companies	Total Inner City 100 companies	Origin of founders from outside city	% founders from within region
Birmingham	20	Malaysia, Kenya, Jamaica (2), Other UK (3), Other regional (4)	65
Bristol	3	Other UK (2)	33
Coventry	1	Other UK	0
Glasgow	9	Other UK (2)	78
Leeds	3	Other regional (2)	100
Leicester	2	Other regional and Other UK	50
Liverpool	11	Other regional (3), Other UK (2), Nigeria	73
London	11	Other regional, Other UK (6), USA, Cyprus and Columbia	18
Manchester	15	Other regional (3), Other UK (5), Iran, Pakistan	33
Salford	2		100
Newcastle	9	Other regional (2), Other UK	89
Nottingham	3	Other regional, Other UK	67
Sheffield	3	Other UK	0
Sunderland	3	Other UK	67

Entrepreneurial backgrounds

The average age of the Inner City 100 founders is 45; the average year they founded their company was 984, making them 34 at the time. The spirit of enterprise starts even younger. Two-thirds of founders had thought about becoming an entrepreneur between the ages of 15 and 30, although for many the roots of entrepreneurship may lie even earlier. An impressive 49 firms (48%) have immediate family members that owned and ran businesses whilst they were growing up. Although difficult to prove conclusively, most of the owners felt able to discern this influence upon their subsequent careers.

Several firms had been taken over from relatives. These included LE-AL (Manchester) and Arthur Colquhoun Ltd (Glasgow). The latter has been in the Gregan family for three generations and its current Managing Director, 28-year-old Michael Gregan, learnt the business after joining the company as "general dogs-body" and working in every department. Michael had always thought that one day he would end up running the company and although still just 28 has already been the boss for 6 years. He feels that his father, the previous Managing Director, has inspired him.

Inter-generational entrepreneurship is illustrated by Newcastle based Blue River Design's Managing Director, Simon Douglas, who's grandfather had been one of the few businessmen to emerge from the city's Byker area, where he had managed to acquire a fish shop. Douglas's father helped out in the shop and later inherited the business. His next step was to start a poultry farm outside Newcastle. Douglas and his brother worked part-time on the farm as kids and learned to appreciate the harsh realities of business and the importance of hard work. When he started his first business in his early 20s, Douglas felt the family influence when he refused to go bankrupt: "my Dad would have been shocked - the stigma of being bankrupt, you'd have to sting some of your suppliers. So we instead closed the business and began paying back our suppliers a little at a time".

Nearly 40% of Managing Directors engaged in entrepreneurial activities when they were teenagers. These included the Managing Director of Action Graphics (Birmingham), Bristol Blue Glass, Dundees (Newcastle), and Peninsular Business Services (Salford). As a Birmingham teenager Action Graphics Managing Director, Dave Foxall ran boat trips along the River Severn and later hired out nightclubs up and down the country at which he booked well-known DJs and sold tickets locally. At the age of 14 Bristol Blue Glass's

Managing Director, James Adlington had started buying copies of the Evening Standard on a Saturday evening and delivering them to local houses in time for them to check the pools results before they were on TV. His mark-up on the papers was 500%. At one point business was so good that he had to employ a friend to help with deliveries. When Dundees' Managing Director, John Philips was in school he started a window cleaning business – the precursor to selling clothes and bicycles.

For Lee Williams, Managing Director of Universal, "one of the turning points to put me on the road of entrepreneurship really happened when I was about 16. My school at the time had entered a competition called 'Young Executives of the Year'. Its links were based on getting a certain business to give the school they were associated with a particular type of problem that they were facing. So the school had to come up with the solution. My school recognised I had the talent to lead this team from the school which, at the time, I didn't really realise I had. Anyway, I designed the project and got all my mates to make the thing and, low and behold, we won. We won the Midlands regional competition and beat the top Grammar Schools. We were just an inner city comprehensive school so it was a tremendous accolade and I think I probably started to believe in myself a little bit after that, as a result. The company that set the problem, the project, they snapped me up and said, look we want you to come work for our design team. I was sixteen and wanted a career in engineering and so I joined them and did my engineering qualifications through them and stayed about 11 years".

Twenty six per cent had established companies before. Previous business experience, not always successful, has also benefited the Inner City 100.

In several of the cities there was evidence of a strong attachment between the city or region of birth and the Managing Directors' current location. We also found several instances of Managing Directors going away to study or travel but eager to return home having done so. An example here is Alex Smiles who returned to his native Sunderland following a degree elsewhere and brief spell working in the City of London. As the table indicates, London is different, only 2 of its businesses having been set up by Managing Directors born there, perhaps reflecting the cosmopolitan nature of the city.

Gender

We found eight women running or jointly running businesses and three other women in Directorial roles. This under representation is not surprising given that, over the last twenty years, womens' business ownership in the UK has risen from a low base of 7% to 26% [3] . Today, just under half as many women as men are trying to start a business in the UK. By contrast, in the US more than two thirds of new start businesses are women led.

When asked about the effect of gender on business Sue Craven of Armstrong Craven noted how, in the early-mid 1990s, the business was deliberately limited to four or five employees – partly because she and her husband had two daughters in that period. After the enforced periods of maternity leave were over the company began growing more rapidly to its current level of just over 60 employees.

A more common issue raised in the interviews was chauvinism. Fracino's Angela Maxwell does not feel that her gender has been a positive or negative factor in her running of the company or in its success but notes that, from time to time, she encounters resistance from some customers who express a preference to deal with male colleagues. One noted that being a woman in business probably has more disadvantages than advantages, particularly when starting out. She felt that she wasn't treated particularly seriously and that her effort to make contact with the local Chamber of Commerce was a disaster from start to finish.

There appeared to be little mention of networking activity more generally. Sue Craven claimed that not only does she not belong to any women's business organisations but also that she didn't know of any. However, her North West neighbour, Maggie O'Carroll at TRAIN 2000 in Liverpool is in the North West Regional Women's Business Network.

Some women clearly serve a specific female client base. Gabrielle Parker, the founder of Diverse, spotted and filled a gap in the local market in Islington for high-class womens' clothing. Much of TRAIN 2000's success comes from their abilities to deliver relevant gender-focused training programmes. Another Liverpool business, Crystal Clear International Ltd, is centred upon beauty salons although this market is not entirely for women – Managing Director Sharon Hilditch met her husband (and co-founder) through an early beauty salon venture – of which he was a customer. For several others (Hazel Marsh at MCM Architecture, Nicola Palmer at Culverts and Penny Newman at Café Direct) gender was not mentioned, although Penny Newman had a good female role model and mentor in Anita Roddick OBE, her former line manager and founder of Body Shop International.

Black and ethnic minority businesses

The 11 black and ethnic minority firms were divided into 3 Black/Caribbean, 3 Indian, including one Sikh, and one each describing themselves as Black/African, Pakistani, Chinese, Jewish, and Arab. Birmingham had the most black and ethnic minority business with five of the total. Company Managing Directors identified strongly with their ethnic origin. In addition to chairing the Birmingham Black Business Association, Lee Wllliams, Managing Director of Universal Service Solutions in Birmingham is also Vice President of One Hundred Black Men. This is a group of businessmen who visit schools and the community and hope to act as role models for younger Afro-Caribbean boys who are particularly at risk. As he notes, "I come from a single parent background and went to an inner city comprehensive school. If I can do it anyone else can do it, and that's the sort of message that I'm trying to bring to the community. We can do it".

Similarly the community engagement of Christopher Shokoya-Eleshin, Managing Director of the construction company of the same name, includes sponsorship of the Liverpool Combined Caribbean Cricket Team (he is a Nigerian cricket international) and free refurbishment of the team's ground. As will be seen in chapter four, the lack of work opportunities for black people in the construction industry in Merseyside has been central to the company's raison-d'etre.

The black and ethnic connections may also have strong business dimensions. In 1999 Light Computer Systems in Leeds won the award for Retailer of the Year at the Asian Business Development Network annual conference. Similarly, TAGZ in Manchester saw their success recognised by the UK-based Asian Business Network when they were awarded Asian Business of the Year. The three Punjabi Kalsi brothers that run Kalsi Plastics have based their business within the Tylesley area of Birmingham. Finally, B-Plan Information Systems Managing Director Shirko Abid helped to set up the Kurdish Cultural Centre in London in 1984. He and his brother came to live in the UK permanently after the Gulf War and studied for degrees before setting up their software business.

For three companies (Light Computer Systems Ltd, Manchester Print Graphics and Happy Computers) the Managing Directors saw their ethnicity as a non-issue. For five companies the Managing Directors felt their race/ethnicity had been a disadvantage. One Managing Director feels that the local white community, when dealing with him, have always scrutinised his company. Another, Christopher Shokoya-Eleshin, found that the disadvantage of being based in the inner city was the perception of his company by the banks. In the company's early days of operation the perceptions held by public agencies of black led inner city businesses were also a problem. Scheff Foods Managing Director, Mohan Chauhan, feels that his ethnicity has presented some barriers to the development of the business – in particular that it can take longer to gain people's trust. This has not been a problem in his previous business, as this had seen him selling goods to the Asian market.

One Managing Director believes his ethnicity has hindered rather than helped his career. He has encountered some racism, but is usually able to distance himself from such people and not work with them. He admits that racism can be more difficult to detect and deal with in a boardroom situation where one is trying to be diplomatic. At another company the Managing Director feels banks and venture capitalists fear that because he's an immigrant, there's a greater risk that he'll leave the country and return 'home'. He also feels that they have and still do request senior management change essentially for racist reasons.

Christopher Shokoya-Eleshin is succeeding in developing an African market through his international connections. He is the only Inner City 100 that has capitalised on their origins to target niche markets and build on overseas ties. Midland Linen Services' Jeffrey Yap claims that, as a service representative for a Midland's laundry service company in the early-mid 1970s, "I had a big advantage because, when I was wholesaling to the industry, I would knock at the door and they'd say, "oh, the one and only Chinese laundryman", and I would say "yes the one and only". That's how I broke the ice and I did very well as a sales rep".

Ethnicity is an important workforce issue too – at least in terms of businesses. Seventeen of our companies drew over a quarter of their workforce from ethnic minorities although only at Scheff Foods does this figure exceed 75%. Again, Jeffrey Yap's words illustrate the point well. "I employ across a broad range, I could fly the flags of the United Nations here. I was born in Malaysia, my mother was Chinese and wife is from Hong Kong, which now has the Chinese flag. I have an Iraqi guy, I have guys from Bangladesh, India, I have got Sikhs, Hindus all people, I have got Irish, English speaking. You name it I've got it. They come from within a four-mile radius of the plant. There's not much skill involved in laundering but I think this sort of labour is more likely to be found in the inner city."

Chapter 4
Six Inner City
Entrepreneurs

**One step ahead of the field -
Amelia and Pip Thorne,
Company Directors, TechnoPhobia**

TechnoPhobia, the highest ranked enterprise in the inaugural Inner City 100, was founded by two people with an eye for the future. In 1995, when the web was relatively unexplored, Amelia and Pip Thorne used their software and design backgrounds to establish this technology consultancy with a turnover that has soared from £40,000 to just under one million in five years.

Yet they have limited the potential growth to ensure long-term sustainability. According to Amelia Thorne, "we always said that we would no more than double every year because we wanted to maintain quality and have a controlled growth". This strategy has paid off. While the collapse of global technology markets has culled most new companies, TechnoPhobia has retained every one of its loyal clients and is even winning new clients in this year's contracting markets.

The Thornes' forward thinking is applied across the business. They encourage clients and employees to exploit Sheffield's smooth running public transport infrastructure and have adopted an ethical policy that is taken more seriously than marketing rhetoric. "We've turned down work before now because we've felt uncomfortable with the line of business that potential client is in."

These entrepreneurs are strongly linked to Sheffield and their company's success owes much to the inner city area. It's not just a place to do business according to Amelia Thorne, "it is where we live". Premises, with the style and polish TechnoPhobia needed to attract clients, are affordable in the city's buzzing Cultural Industries Quarter. The networking opportunities have also been plenty – Amelia and Pip Thorne both regularly attend forums and share ideas in what has become a creative industries cluster. Support agency links have been vital, adds Amelia Thorne: "if we were not in the city we probably wouldn't have made them".

Being based in Sheffield's thriving inner city has meant salary demands have been less restrictive than those they may have experienced elsewhere. However, lower salaries have not limited the company's attraction to skilled workers. In fact, some employees have traded London's salaries for Sheffield's quality of life.

As Amelia and Pip Thorne see it, there are new market opportunities in equipping companies to use technologies to engage with minority ethnic communities and consumers. They are

investing in new services to exploit this niche. With a flair for marketing and a clear, patient business focus, its founders are constantly pushing TechnoPhobia one step ahead of the field.

Creativity leading performance - Jon Bains, Chairman, Lateral

Web design agency Lateral is an example of the inextricable link between the new media sector and inner city locations. Hoxton is a hub of creative culture, which accommodates informal work patterns that allow networking and creative energy to spread beyond the office. "It's about being in a place where things are happening and there's other media people around you - it's an inbuilt community", says founder Jon Bains.

His employees thrive by overlapping work and leisure patterns made possible in such a compacted area. The networking opportunities are essential, he explains, "I can stand outside for a cigarette and catch up with five people".

This model is central to Lateral's success. Recruitment has been relatively easy and Jon Bains - in touch with competitor movements and industry trends - can keep his finger on this industry's fast changing pulse. A five-year growth pattern incorporating a three-fold increase in turnover is proof that it works.

Lateral has opted for organic growth over high borrowing, which Jon Bains claims, explains why Lateral has survived where competitors have fallen. Having spent the Internet boom resisting huge pressure to grow fast and sell in the short term, he is one of a rare breed of IT entrepreneurs that remained focused on the realistic nature of his business. "We look at our business as much the same as plumbing. Somebody pays us to do something and we do it. You wouldn't invest £100,000 in a plumber."

Jon Bains is devoted to the new media sector and the inner city location that houses it. Lateral started life in another inner city location where they set up a free cyber café for local artists and designers. He now plans to take this community building a step further by helping to establish a new media business association.

Consisting of around fifteen companies in the Hoxton area, this cluster plans to bring maturity to their sector by standardising contracts and other working practices. "I think it's going to be really important in the future, especially for small companies like us, to be pitching in a consistent way," he says. The companies involved "should be competitors but are more like friends". The inner city future, for Jon Bains, lies in intelligent collaboration.

Located to become world beaters - Andrew Reid, Managing Director, Mastclimbers

Business writer Rosabeth Moss Kanter comments in her book 'World Class'[4] that "being the best in the neighbourhood is not enough nowadays. Business has to be among the best in the world just to survive in the neighbourhood". One inner city enterprise that is likely to survive is therefore Glasgow's Mastclimbers. Mastclimbers is the world's second largest supplier of specialist access systems to the construction industry. It's 336 per cent growth rate since 1996 is the result of vigorous innovation, according to its Managing Director Andrew Reid.

The company provides access equipment and trained staff in the refurbishment of high-rise buildings. Being based in the inner city, and therefore close to a concentration of tower blocks in Glasgow, has allowed the company to seize opportunities missed by competitors and explains the company's world beating performance. "We've perfected our methods so the work can be done with savings of up to 30 per cent compared with traditional practices," says Andrew Reid.

The business also benefits from the transport links and ease of recruitment. Mastclimbers employs many local people, often retraining the long-term unemployed. Andrew Reid says this policy is another key differentiator: "Most of our workforce are recruited from the dole queues, so they're looking for an opportunity, have the right attitude and a willingness to commit to the retraining process. So you end up with very loyal workers. It's hard work but it pays off".

Andrew Reid has led the formation of business forums and the creation of clusters and has been active in the development of the Scottish network Entrepreneurial Exchange. Being an entrepreneur can be lonely when you are continuously trying to force the boundaries of change, he says, and being involved in such clusters eases this burden. "You can explore ideas and opportunities more easily in a group of like minded people."

Mastclimbers is leading a new and developing industry. It holds the 'Investors in People' award and has been instrumental in devising industry standards to ISO level. Andrew Reid, extremely serious about maintaining safety within his company and the wider industry, is working with the Health and Safety Executive and British Standard Institute to draw up a code of practice.

Mastclimbers has a trademark of efficiency and excellence, which has been made possible in a large part because of its inner city location.

Breaking down the barriers - Angela Maxwell, Commercial Director, Fracino

As a global exporter of coffee equipment, Fracino has in its Commercial Director, Angela Maxwell, an inspirational leader with inner city Birmingham's tradition of innovation in her blood.

Over the past five years the company's formidable growth has been organic, mostly self-financed and sustained by a strong emphasis on quality, service and collaborative staff relationships. Angela Maxwell takes pride in what she calls the company's "strong social ethos", including a policy giving directors salaries only marginally higher than shop floor workers. This policy works, she claims, since her workforce is one of the company's key competitive advantages.

The other advantages afforded by Fracino's inner city location – including great links to transport, low property prices and relative ease with recruitment - are key differentiators for Angela Maxwell. She is therefore devoted to the Wyrley Trading Estate, which has nurtured Fracino, and leads a local action group set up to improve the area.

As a woman in a male-dominated industry, Angela Maxwell has quickly dismissed the occasional prejudice and reluctance to deal with a female company representative. The message has always been: "I am the public face of Fracino. I am responsible for its sales and marketing and as such people need to deal with me…there is no choice".

She applies this no-nonsense attitude to the looming recession, which she believes "the country is talking itself into". Optimistic still for 10% growth over the coming year Angela Maxwell says "it's business as usual". Bracing Fracino for the bumpy ride ahead, she has recently recruited a new member of staff responsible for improving cash flow and invoice progressing.

Angela Maxwell continuously strives to get the best from her company. Fracino has much recognition from the business and support communities including Investors in People and British ISO standards accreditation. She extends this pursuit of excellence beyond the company walls through her role as European Adviser to the DTI agency, Trade Partners UK. Her qualities of leadership not only define her company's success, but echo across the neighbourhood in which she works and wider commercial networks.

Recognising ignored opportunities - Christopher Shokoya-Eleshin, Managing Director, Shokoya-Eleshin Construction Ltd

Christopher Shokoya-Eleshin has built a business model that works for social justice as well as the bottom line. In the early 1990's he recognised that the construction industry's reluctance to employ black workers was a missed opportunity. When this observation was backed up by discussions with many colleagues and associates, he established a training-based, regeneration-focused company called Shokoya-Eleshin that employs people plucked easily from a vast pool of inner city residents.

Since then the company's turnover has risen by over 900 per cent to £1.7m. Early on the company grew sharply winning substantial contracts in inner city Liverpool. This led on to successful tenders for contracts throughout north England – in North Liverpool, Blackpool and Huddersfield.

His industry-standard training methods speak for themselves with a significant proportion of previously unskilled employees remaining in the industry. Through one contract alone the company trained around sixty people of which an impressive seventy five percent remain employed.

Shokoya-Eleshin attributes this effectiveness to a commitment to deliver real work experience and NVQ-geared programmes that actually succeeds in bringing sustainable employment to local people from marginalised communities.

The company has been an inspiration to its inner city neighbours, with a further fourteen local construction firms - the majority of which are black-led - all winning contracts. Strong local supply chains, sub-contractor pools and community networks are forming the basis of a burgeoning construction industry as a result.

Shokoya-Eleshin argues it's the inner city's strong networks and rich human resources that have been fundamental to this success. "I believe that it is really the networks that enable an area to exist and grow and in our area this involves large numbers of black residents." In a nutshell, he argues the inner city works as a place for him and his colleagues "because we're comfortable here".

Shokoya-Eleshin now intends to take his winning business model to inner cities nationwide where he believes it can achieve similar success.

Chapter 5
The Competitive Advantage of the Inner City

The Nature of Competitiveness

Recent work on inner city renewal owes a significant debt to the ideas of Harvard University Professor Michael Porter. The author of key texts on business strategy and national competitiveness [5] turned his attention to the inner cities in the mid 1990s and applied many of the principles he had developed in his earlier work to this issue of regeneration. They included his concept of business clusters, first advanced in connection with national competitiveness, which yield advantages because a collection of similar businesses in a particular area creates a critical mass that produces many spin-off benefits.

A cluster is "a system of interconnected firms and institutions whose value as a whole is greater than the sum of its parts," according to Michael Porter. Like an ecosystem, clusters aid productivity by providing access to:

- specialised inputs and employees,
- information
- complementarities
- institutions and public goods
- incentives and performance measurement

Clusters also aid innovation and new business formation. In fact, Porter points out that "many if not most new businesses … form within existing clusters rather than at isolated locations". [6]

In a seminal article in 1995 [7], Porter set out his theory that conventional approaches to inner city renewal had failed because they had not integrated economic issues and the need to create viable businesses that could provide employment that benefited the local economy. "The social model has inadvertently undermined the creation of economically viable companies. Without such companies and the jobs they create, the social problems will only worsen," he argued.

Porter's work has not gone without criticism in the USA: principally for its suggestion that community based organisations are not effective vehicles of urban regeneration and for its perceived laissez-faire optimism. It is not the purpose of this report to test the US experience, although, as has been seen, the UK Inner City 100 contains successful social enterprises that are making a real contribution to local economies. Instead our aim is to use Porter's conceptual framework as a point of departure for thinking about inner cities and business competitiveness in a UK context.

Methodological Issues

How do you get companies to talk about competitiveness? When we asked companies about the competitive advantage of their locations we took several things for granted. Firstly, we assumed a given definition of location. However, despite being commonly used as the basic unit for measuring deprivation, most people do not know which ward they live or work in and it is not a geographical unit that people use to think about where they live. More significantly, we do not have a 'control' set of non-inner-city conditions against which to compare inner-city conditions. Business people lack full information on other possible locations – particularly on other cities. What seems acceptable to one company may be wholly unacceptable to another located elsewhere.

To combat such problems we used a detailed questionnaire as an entry point to identify issues worth pursuing in follow-up interviews. This allowed us to ensure that companies substantiated their claims and also to pick up important issues that busy Managing Directors might simply have omitted when completing the eight-page questionnaire.

In the questionnaire we asked companies to comment on seven means by which their area might constitute a competitive advantage or a disadvantage. These were 'location', 'local demand', 'workforce', 'sites and premises', 'capital', 'crime/security', 'regulations' and 'incentive programmes'. There was an eighth category into which they could write other factors that lay outside our categories.

On the basis of this, we selected firms and locations for which these factors constituted 'critical' advantages or disadvantages, and examined these through more in-depth semi-structured interviews conducted with the relevant Managing Directors. We were looking at two types of competitiveness: the competitiveness of firms and the competitiveness of the area that hosts them. This chapter sets out the competitive advantages of the inner city. Chapter 7 addresses barriers that inner city enterprises identified.

Table 5.2: Inner City Competitive Advantages

Competitive Advantages	Key Factors	Key Survey Evidence
Proximity to customers	Customer-Supplier Proximity	20 companies cited (+6 citing supply)
Workforce	Available Workforce	22 companies cited
	Available Skilled Workforce	18 companies cited
Premises and Local Infrastructure	Land/Building Availability	18 companies cited
	Access to telecommunications	20 companies cited
Support Networks	Public Grants, Loans and Advice	15 companies cited (one or more)

What differentiates inner city enterprises from their competitors?

When looking at their business in overall terms, without reference to the impact, positive or negative, of being based in the inner city, the companies claim to derive their relative success from three basic avenues:

- specialisation
- the range of goods and services they offer, and
- customer service.

One element stands out from this, that the cost/price advantage appears unimportant. Such advantage can come through any of the classic factors of production: land, labour or capital. There is no evidence that these classic factors are the reason for success in the inner city. Most importantly, the companies did not derive competitive advantage from under paying their workforce. The Inner City 100 median stands at £5.20 (the average being just under £6).

Table 5.1: Main source of differentiation from competitors

Response	No.
Specialising	30
Range of products	24
Customer service	24
Other	15
Workforce	4
Cost/price advantage	3
Total	**100**

The Critical Advantages for Inner City Competitiveness

The Inner City 100 companies identify four critical advantages in terms of inner city competitiveness, that have supported their business growth:

- Proximity to customers
- Workforce
- Premises and local infrastructure
- Support networks

Proximity to Customers

The critical competitive advantage of inner city locations cited by most firms was proximity to customers. In addition, six firms claimed that proximity to suppliers was also a critical advantage of their location.

Here the importance of location lies less in proximity to the city as to the surrounding region. Only 11 companies secured at least 50% of their custom locally but 47 drew over 50% or more of their custom from the region in which they are located. Similarly, only 13 companies secured at least 50% of their inputs 'locally' but 56 drew 50% or more of their supplies from the region in which they are located.

Despite the importance of the regional level, 34% of companies report having some international sales. Only 8 firms secure 20% or more of their supplies internationally.

Whilst just-in-time production/service methods may well underpin this, only in one case was it made explicit. For Manchester Print Graphics based in central Manchester, such methods were embodied in their motto: "your timeline is our lifeline". Mohamed Isap, the Managing Director, notes: "the biggest advantage is the access to clients and the ease of getting the finished materials back to them. For the time-sensitive businesses in the area this is key".

Time-to-market is important for Dundee's sandwich company in central Newcastle. It claims to enjoy significant cost savings through not having to transport their sandwiches long distances. Beyond this, local food may compete well because it is fresher.

Passing trade is another factor that certain inner city locations can confer. Arthur Colqhoun Ltd is close to the city centre and picks up such custom. Loxley Colour Labs is close to two other photographic wholesalers, helping to bring in trade as they have a similar client base. Drawing in custom was also cited by one retail outlet, Diverse, which is based in a previously down-at-heel part of Islington in which a number of other upmarket retailers have started to locate. Americana International, a clothing company in Manchester, similarly suggested that being close to the Manchester Apollo, Granada Studios and a celebrity PR agency, means they get a good deal of celebrities (including Robbie Williams and Victoria Beckham) purchasing their goods. The sales may not be much, but the business has been quick to spot the opportunity for free advertising.

In London, MCM Architecture provides building design services to large companies with corporate headquarters. This makes its Bankside (Southwark) location ideal for dealing with the many customers with national and international headquarters in the City. Shoreditch based Teswaine Business Communications is a successful and tightly managed service company supplying many blue chip companies mostly in the City. Their Southwark neighbour, Happy Computers, is an IT training organisation, which notes that a central location in London is important for demand. However, like MCM, their location is perhaps not easily characterised as 'inner-city' – as revealed by the company Managing Director's claim that "local demand for services has increased and that doesn't happen in Tower Hamlets".

Proximity is not restricted to London. The Leeds based IT training company, Remarc Technologies, maintains that its city centre location is important in terms of customer ease-of-access whilst also highlighting the 'cultural proximity' of staff to customers: "the fact that they are local and understand the moods, you know, even down to just, daft as it may seem, the fortunes of Leeds United".

In a number of cases, the customers are located in inner city areas themselves. This is particularly true in relation to state and non-profit backed sectors, such as social housing. The rising role of not-for-profit housing associations (including their receipt of large

transfers of stock from local authorities) constitutes an opportunity for entrepreneurs and a new market for companies able to maintain and service properties – particularly in large urban and suburban housing estates. Housing associations support regeneration in disadvantaged areas, as well as delivering their core business of housing provision, so are also likely to focus on a more localised supplier base. Six of our companies made reference to these processes.

Leicester based gas installation company Thorpete is located close to its early customers – Leicester Housing Association and the Leicester office of the East Midlands Housing Association. Thorpete forged strong ties with its early customers and has gone on to win the bulk of such contracts with the several other agencies in Leicester and its surrounds. In Birmingham, Evans Electrical has benefited from the emphasis of Birmingham City Council on the use of local labour, which has benefited local companies. In the same city, Universal reports that one of its biggest customers, Focus Housing Association, sources 90% of its procurement with local companies.

Liverpool based Shokoya-Eleshin have also led the way in terms of securing work for inner-city ethnic minorities in housing association construction work. Its work for Liverpool's Riverside Housing Association on that city's deprived Carter-Thackeray Estate received praise in the Race and Diversity Awards recently introduced by the Federation of Black Housing Organisations and the National Housing Federation. Similarly, RMB Maintenance Services are employing people within the Handsworth area of Birmingham.

Workforce

A quarter of Inner City 100 companies listed workforce availability as a critical competitive advantage of their location. The follow up interviews revealed the more impressive fact that over 40 per cent of all the companies recruit predominantly from the local areas close to their premises. Half of the 56 employees at Dundee's sandwich-making firm in Newcastle live so close to the premises that they walk to work. This means less reliance upon the vagaries of local transport – a point also noted by Cleone Foods in Birmingham and LE-AL in Manchester.

Proximity also makes it easier for workers to work at short-notice and/or to work flexible hours. Bob Dunn, the Managing Director of Dunn-Line coaches in Nottingham, explains, "it's a very flexible business. It's not like opening a factory and everybody's there for eight in the morning. We have staggered start times from, you know, between sort of five and seven thirty".

A willingness to work by staff is also stressed by Multi-Lab in Newcastle's Newburn area. The Managing Director gave the example of where a large order had recently arrived at the end of the firm's normal working day. He went down to the factory floor and asked the staff if they would be willing to work overtime and they all agreed to stay on.

For Senator Pageboy Group, a call centre located on Liverpool's Wavertree Technology Park, flexible working hours are the order-of-the-day for a company operating 40 different shift patterns. The company currently works 24 hours, and is looking to expand into other time zones to take up slack periods. Almost all of the staff live within two to three miles of the company's location and such local recruitment has been a feature of the company. In contrast to many call centres, it recruits relatively few students – preferring to attract staff that will stay a long time with the company.

With local staff available, informal, and therefore cheap, recruitment methods are popular. Word-of-mouth recruitment explains why the eight women on the production line at Houghton International Electrical Services are all from the local Walker area of Newcastle. Similarly, almost all staff at Peakhouse Foods in the Nechells area of Birmingham are from the local neighbourhood. At Insurerepair in Glasgow's Gorbals area, many staff come from the local Easterhouse area and indeed from the same families or friendship networks.

At Brushware in Birmingham staff are mainly from the local area. They aim to recruit staff locally and tend to use word-of-mouth to do so. Between a half and three-quarters of the workforce are from minority ethnic groups – a reflection of the local area. Although important, however, local networks are not as significant overall in terms of recruitment as local job centres.

Companies such as Hydrapower Dynamics and Pacific Business Products (both Birmingham), Netsource and Peninsula (both central Manchester) stress the benefits of access to a citywide labour market. Locations close to the city centre and with access to public transport, for example, help to attract young urban professionals to work.

Will Dracup, Managing Director of Non-Linear Dynamics (Newcastle Quayside), for example, notes, "the spread of employees is in a total circumference around Newcastle and therefore for ease of transport it's going to be the best location. A lot of people don't want to run a car and here it's just two minutes up into town and half a minute to the pub across the road and people love it, really love it".

In terms of workforce issues more generally, not only did 18 companies see a skilled available workforce as a critical advantage to them but we also found 22% spend more than 6% of their turnover figure on training each year. That 27% spend less than 1% is perhaps partly explained by the fact that internal (intra-firm) courses and mentoring were the most important mechanism for training. Over 95% thought it 'very important'. Other important training mechanisms included profit and non-profit training, colleges and 'on-line' training.

In keeping with this emphasis on human resources, many companies also realise the benefits of various work-life schemes for all full-time employees. Sixty eight per cent are offered flexi-time, 38% do some degree of job-sharing and 29% have some degree of tele-working. The full-time employees are also offered bonus plans (82%), profit-sharing (36%), share options (13%) and ESOPs (9%). Workplace democracy also appears valued by many companies. Eighty three per cent involve employees in developing their business strategy (92% when limited to managers alone). Over ten companies stressed the great value they found in the Investors in People. This training provision is reflected in a workforce turnover figure of 12% a year.

Premises and Local Infrastructure

A quarter of respondents cited the positive advantage of their sites and premises. In interviews, it emerged that a significant minority, 18 of the Inner City 100, were operating out of premises that had been converted from previous industrial space.

- Americana Group, a fashion company, is making full use of an old converted warehouse in South Central Manchester.
- In Liverpool Dove Design and Shokoya-Eleshin both occupy premises in Brunswick Dock – refurbishments funded, in this case, by the public sector.
- Protel Systems occupy offices in a historic converted Coach House in the St Paul's area of Bristol. The premises are supported by the local enterprise agency and funded as a response to the riots that had hit the area from the early 1980s.

Such premises offer possibilities not only for business competitiveness but also for improving the local heritage and built environment. Other types of industrial spaces to be converted from decay by Inner City 100 firms include central business district offices (Manchester Print Graphics), disused factories (Hydrapower, Birmingham and ETEC, Sunderland), car showrooms (Light Computers, Leeds) and even a recently vacated ambulance station (Apex, Newcastle).

Railway-related sites and premises have also been important. Blue River Design, located a few hundred metes from Newcastle Central Station, occupy a large Victorian building formerly used by British Rail. Their part of the building used to be an old welding area and was virtually empty. Staff and friends did much of the renovation and interior design. Space is something inner cities apart from London have as an asset. This is particularly true of disused and derelict former industrial sites like Newcastle's Walker Riverside area which following refurbishment is now occupied by Houghton International Electrical Services.

Certain types of industry may be attracted to areas of dereliction. This was true of Alex Smile's Sunderland based scrap metal business. For Bristol Blue Glass the choice was almost pre-scripted – a move to Ratcliffe, the site of Bristol's traditional glass-making industry, and to premises that had recently been used for glass processing.

In terms of wider business infrastructure, telecommunications was cited as important, although there was not sufficient evidence to assess whether this was a distinct factor in relation to inner cities. In terms of IT resources used by the Inner City 100 firms: 24 use Electronic Data Interchange, 91 the Internet with 32 using broadband links, 42 an Intranet and 49 a Local Area Network. This is a high level of digital uptake.

For B Print and Design of Newcastle, business is very much computer and technology based, because they have to transfer and communicate data all over the country. The fastest way to do this is to use ISDN (a telephone line capable of transferring digital communication). Although, not all older inner city premises have such technology built-in, they do have higher levels of ISDN and cable access than small towns and rural areas.

Support Networks

The Inner City 100 companies are well networked. Seventy-nine belong to associations as follows:

- Chambers of Commerce (52)
- Trade organisations (35)
- Federation of Small Business (11)

Fourty six companies received non-financial assistance since their start-up. The sources for this were accountants (mentioned by 30 firms), Business Link (27), peers (21) and enterprise agencies (16).
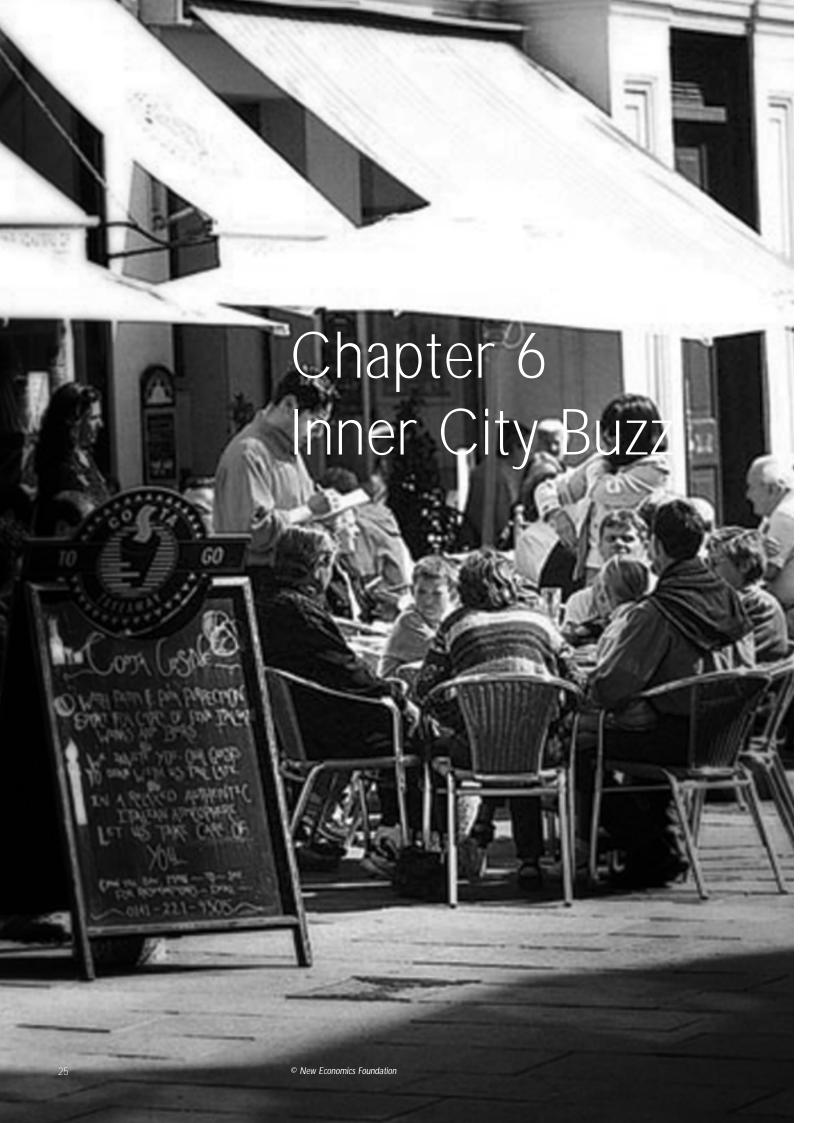
Companies such as A. Algeo, Brushware, Concept and IPEC praised the help they received from Business Link in sign-posting them to sources of finance, such as a DTI export marketing research grant. However one of these noted the absurdity of being denied a grant because they were a hundred yards or so out of the designated area - a comment made by a handful of firms about grant eligibility in general. Other help included directing firms to appropriate premises. Several firms (Dunn-Line, Fascia Mania, Non-Linear Dynamics) mentioned the value of Business Links Personal Business Advisors as a sounding board and source of reassurance. This included initial business reviews (a process Hunter Systems is currently going through) and monthly discussions. Indestructible Paints noted how Business Links helped them undertake a SWOT analysis of their business, which identified a managerial weakness and sought to rectify these through encouraging the firm to take a Diploma of Management Science.

In a similar way, local Chambers of Commerce picked up positive comments from all but a few companies that were members. The main benefit is networking, for information and business, as R H Patterson & Co Ltd found when it first joined its local Chamber and signed up new customers. Other benefits have included assistance with export markets.

The Managing Director of Cleone Foods in Birmingham Wade Lyn, visited a food show in Germany in 2001, with support for expenses from the Birmingham Chamber.

A number of companies made comments on local authorities or enterprise agencies, stressing the importance of support with sites and premises. Apex Radio praised Newcastle City Council's Lynwood Business Centre. At the time, this offered time-limited start-up discounts, supported by regeneration and local authority funding. The company later moved as it wanted full-time access to its premises (the Lynwood Centre being closed on weekends) but the Managing Director Jim Curry noted that the Centre "played a good start in helping the business get started".

Non-Linear Dynamics started in the Quayside Commercial Business Development Centre. According to its founder, Will Dracup this "was just a cupboard basically, it was just me in it writing my code. They had three people working there who were really friendly and very professional in terms of the way they answered the phones if I was out. From there we went to the Newcastle Technopole which was a great idea, you know get loads of 'techie' companies together and they will sort of bounce off each other. In practice there wasn't a sort of central canteen so everyone went into their office, we all worked different hours and so you never saw anybody else, but it was a good enough place to operate".

Chapter 6
Inner City Buzz

Three factors that emerged as strong characteristics of the Inner City 100 companies were the positive dynamic of urban renaissance, links with local universities and a strong sense of social responsibility.

Urban Renaissance

Whilst several companies pointed to the attraction of city centre life, in particular to young urban professionals, there is also a story to be told around inner city 'buzz', an intangible, creative atmosphere. The highest-growth Inner City 100 firm is located in Sheffield's Cultural Industries Quarter. The founders were local residents, having lived there for over twenty years, well before the cultural quarter began to emerge. Such clusters or creative quarters are however important to ten of the Inner City 100 firms. Examples include B-plan Information Systems, part of an embryonic software 'cluster' on the Manchester Science Park and Astra Signs, a graphics company in that same city's Northern Quarter.

One aspect that can be important about such places is the image they confer upon the companies. Thus, for Americana International, proximity to the Apollo and the Granada studios has underpinned their 'cool' credentials, and their location in a converted mill has, they feel, added an 'underground' feel to their efforts. Similarly, Blue River Design moved from North Shields near to Newcastle city centre in order to "build our brand".

GB Posters in Sheffield stressed keeping up with the latest cultural trends as a central reason for choosing a central location. They claim that in seeking to offer a lot of cutting-edge posters such a location meant they "Would see that the name of a band is sprayed on walls more than other bands. We actually live the product because we'd go out and actually see groups or we'd see films or listen to music. One of our close rival businesses are actually based on a farm in Kent and I'm sure they suffer because of it".

This milieu effect was noted in the Shoreditch-Hoxton ('Shoho') area's renaissance. Hoxton is located at the point where the expanding City of London meets the East End. Three of the Inner City 100 companies fall within this corner of the capital. The Circus Space claims that its success has been bound up with "the new wave of cultural explosion in Hoxton", having arrived in 1994 as signs of the area's subsequent boom were just starting to emerge. For Hoxton Bibliotech this same area and period supported what they were trying to do, in terms of helping less advantaged

groups to share in new media developments. The Managing Director, Neil Barklem noted how he used to socialise locally with the then little-known young and avant-garde British artists Tracey Emin and Damien Hirst. As was seen in Chapter Four, Lateral also illustrates the hub of new media activity in Shoho.

These companies suggest that the area has allowed them to learn what others are doing and to recruit workers – often through social networks and chance social encounters in the area's pubs, bars and restaurants. They add that many of their most obvious rivals are "just our mates" – with whom they may make joint pitches for work or help out (for example, "a few guys in a bedroom setting up a little company"). Lateral and a dozen or so other independent web agencies are currently trying to establish a local association. The aim is to share what would normally be commercially confidential information – such as how they all pitch for business – and save on solicitors' fees. Creative industries have a strong clustering tendency, also seen in Sheffield with the success of the Cultural Industries Quarter.

Of course such clustering is not new – as Sabre Jewellery, located in Birmingham's historic Jewellery Quarter can testify. The area offers access to the right services to run their business, without employing too many staff of their own. This includes sub-contractors like polishers and diamond-setters and diamond-cutters, fabricators for converting fine gold to sheet, to wire and strip. However, the company estimates that around 8,000 people are still involved in the jewellery quarter – down from its 60,000 heyday. They also painted a less co-operative picture of the Quarter than Lateral did of Shoreditch – effectively describing a highly competitive and individualistic area where inter-firm information flows are limited.

But creative firms may not rely on their localities indefinitely – certainly not for custom. Potential Developments is an artists management and events production company based in Manchester. It moved out of the cultural hub (the inner city Northern Quarter) four years ago to another central location. London and New York are the key markets that it saw the need to focus on. However, it continues to act as a mentor for new start businesses with the same local industry advice agencies that originally helped set the company up.

Gentrification

Who gets the benefits of urban renaissance? One story reported by a dozen companies across the UK was that of 'gentrification' with the middle class moving in and edging-out the indigenous working class. Gentrification can have a negative effect on enterprise by colonising workspace and squeezing it out.

Arthur Colquhoun Ltd in Glasgow had not wanted to leave the Gorbals area that it had occupied since 1912 but it has become more desirable. 'Yuppies' are moving in and rents have risen so that companies can no longer afford them. In Newcastle, Blue River Design observed the clamour for business and residential space in central Newcastle that has made location there less attractive. Bristol Blue Glass is one of the few remaining companies in a central Bristol building (owned largely by a property company) which is due to be demolished to make way for single-person flats. In Birmingham, Evans Electrical fears escalating property prices will serve as a likely future break on their continued growth – certainly in their existing location.

There is a marked London effect in relation to property prices. Clerkenwell based Printers Calverts operate in an area fast becoming de-industrialised and where property commands high prices for conversion to residential lofts. They face relocation, even though this may disrupt the company's good contacts with the local, largely Bangladeshi, population. In Islington, the owners of fashion shop Diverse believe the company has benefited from the general popularity of their area of the borough but that this is offset by high local property rental costs.

In Hoxton, The Circus Space suggest that although some vendors were canny enough or concerned enough to build in clauses that enabled there to be some sustained activity, regeneration of the area "was about creating wealth and I don't think that the preservation of this area as an alternative bohemian cheap place for artists, frankly, was on the commercial agenda. At the end of the day, work-spaces weren't made available".
In adjoining Shoreditch, Lateral thinks it may

be experiencing déjà vu. It had previously been located near increasingly fashionable London Bridge – close to the Vinopolis wine centre and the Tate Modern. The firm was based alongside a mixture of musicians, artists and new media people - spread across two cheap buildings. This building has now been converted into luxury flats despite the 'community' of companies and individuals fighting for 18 months to stay in the building. Now they are based in Shoreditch, but feel the same process of gentrification knocking on the door.

The inner city buzz attracts new people and new investors. It does not substitute, however, for age-old concerns and lessons about who captures the benefits of economic change.

Knowledge and innovation links with urban universities

Around a quarter of Inner City 100 firms had established links with local universities. There is a high representation of graduates amongst company founders and senior staff (40). Christopher Shokoya-Eleshin, for example, started his firm after completing a Masters degree in Construction Engineering at Liverpool University.

A range of other links with universities point to the growing role of higher education in terms of enterprise skills, knowledge dissemination and technology transfer:

- MCM Architecture London, MCM Leeds, Blue River Design (Newcastle) and Concept Telecom (Nottingham) testify to the value of under-graduate work placements – in order to assess suitability for longer-term employment and, sometimes, to offer a fresh insight into the business.
- With this in mind Remarc advertises on university web pages at local universities and Concept Telecom advertises on bulletin boards at various universities (not just locally).
- Glasgow based Mastclimbers operates a graduate-training programme with Strathclyde University.
- IPEC sponsors students at Manchester University to carry out research and development work for them.
- Hoxton based 'The Circus Space' runs its own BA Honours degree in Theatre Practice (Contemporary Circus) – a collaboration with the London based Central School of Speech and Drama.

Four Inner City 100 firms are located on university science parks: Manchester's B-Plan, Poptel and IPEC, and Coventry based Improvision (Warwick). Indeed, IPEC was originally based in a university incubator unit.

Several companies are pursuing postgraduate-level qualifications through the company. One popular mechanism used by a number of firms is the Teaching Company Scheme. This is a DTI supported postgraduate placement programme often linked to a research degree undertaken in companies. The work programme is geared towards company needs overseen by an academic mentor at the University.

Chris Waterfall, Managing Director of Improvision, recently received a first-grade Certificate of Excellence. The award was made in recognition of the research undertaken with the University of Warwick Computer Science Department to develop new and highly advanced software. Of the 49 companies who were awarded the Excellence rating, Improvision was one of 7 to win a further award for the outstanding quality of the research and commercial success of the technology.

Embedded Enterprise

Corporate social responsibility is conventionally regarded as a 'big business' activity, with small business being seen as lagging on conventional measures, such as take-up of social and environmental reporting. However, while they might not use the jargon of larger firms, the Inner City 100 includes a remarkably high number of firms engaged in activities for the benefit of the community. This included:

- Staff support, for example in the form of cost-price buffets offered by Dundees when employees and their family need it, from parties to funerals.
- Contacts with schools, for example through work placements. IPEC in Manchester, for example, support two administrative workers who act as mentors to children in the local school. The admin workers are from minority ethnic groups and often act as mentors /role models to Somali children.
- Reduced price or free services, such as Loxley Colour in Glasgow which sponsors over one hundred local community 'film clubs'.

- Sponsorship of community groups, such as football (cited by many inner city enterprises such as AWS, Cleone, Coatings NW, McGrattan Piling, Multi-Lab and Pama & Company) and cricket.
- Environmental initiatives, such as MCM Architecture Ltd, which recycles its computers and supports local energy efficiency schemes.
- Policies on social and environmental auditing, with staff champions, such as TRAIN 2000 and Furniture Resource Centre, whose social audit is a model for any organisation waiting to assess their social impact.
- Charitable giving, with London based training company Happy Computers excelling at 20% of pre-tax profits.
- Core purpose trading, such as Glasgow's Simon Community.

The motivation for community engagement such as these invariably comes down to the values of the entrepreneur and the organisational culture that they try to engender.

Mark Harris, Managing Director of Harris Associates, explains that "I believe in just giving back and so I've done a number of different things. I used my expertise and my network of contacts to get a youth centre going. It's now a family centre. I don't get anything from that. I don't get anything from the work we do with the NSPCC and everything else. It's purely that I'm a product of working class background and state education. I took full advantage of everything that was going and I believe in paying some of that back."

Similarly, Jim Curry, Managing Director of Apex Radio Systems takes a philosophical approach. "We don't really get anything out of offering work experience to be honest. It's a harassment in as much as it eats into your time… but that's not so bad, because your time's meant to be shared anyway."
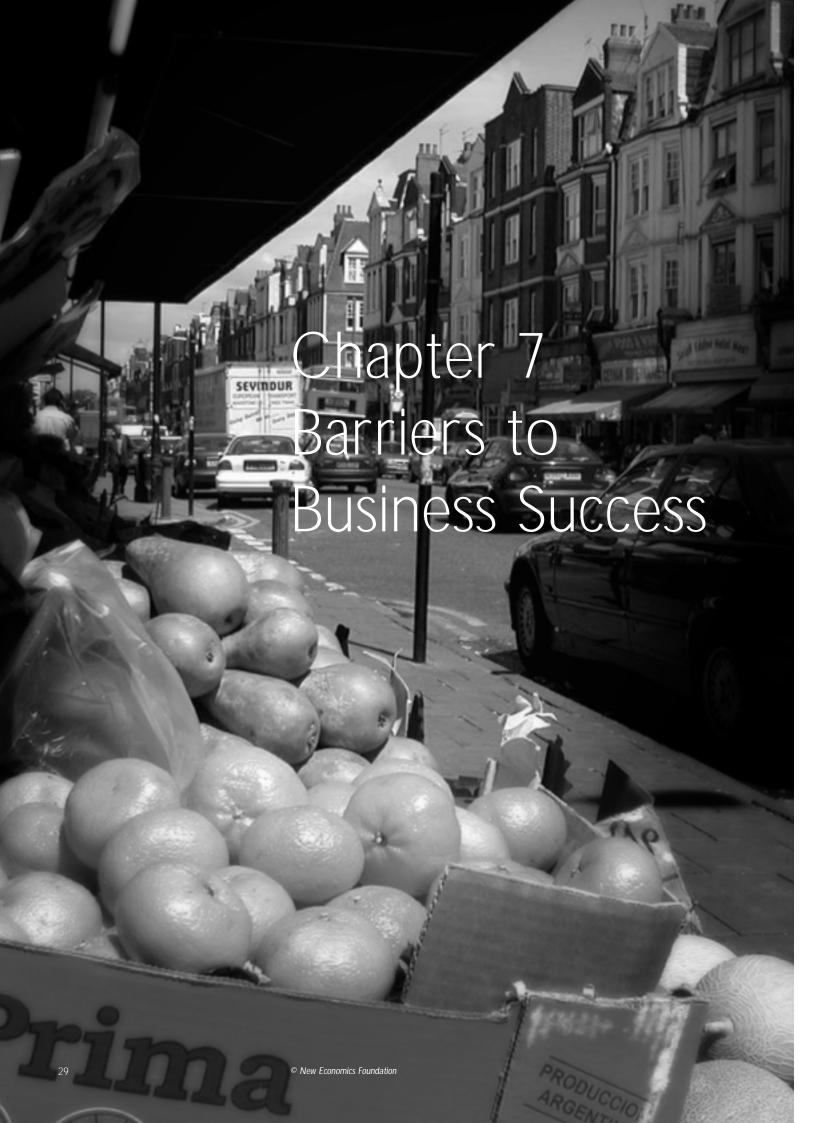
For social enterprises operating in inner city areas, such as London based Calverts and the Glasgow Simon Community, the social mission is their business goal. The latter stressed its community activity: "this is what we do, are and believe. It is not a competitiveness issue".

In contrast, Pacific Business Products see little opportunity for community engagement. "We're very, very focused on what we do and be it naive or not, anything that isn't focused into that… I don't know whether it's a bit hard nosed, but we're not into building profile. We don't want to build profile round here and that's because the target market around here isn't our customers at the moment."

Nonetheless, a sizeable number of enterprises acknowledge that part of the reason for taking action is company self-interest. The commonest reason is to help the recruitment of workers (Arthur Colqhoun Ltd, Dunn-Line, Fracino, GB Posters, IPEC, McGrattan Piling). A second theme was that such activity could develop staff presentational skills and confidence and managerial empathy with local life (Americana International, HR Patterson, Mastclimbers). These two aims are not mutually exclusive as the Managing Director of Sunderland based Hays Travel, John Hays, notes: "our clients are coming from the community, our staff are coming from the community and we're part of the community or want to be part of the community. The community work is good business and it's good for the staff".

Americana Group argues that community involvement may be an indirect insurance against crime although this is not their primary motive. It has given last season's clothes to charity shops, computers to local community groups and has also kitted out Big Issue vendors.

The leading Inner City 100 enterprise in relation to charitable giving is Happy Computers. Henry Stewart of Happy Computers explains: "we have a policy of giving back 20% of pre-tax profits to the community. It's easy to build links with local community groups because they're there all around us. In future this may help with our recruitment. But we haven't got to this yet. That's what we are trying to build up. The whole support for the community thing, it isn't entirely philosophy that the more you give back, the more you get. Last year we delivered a programme of twenty-five days of free training to organisations in the homeless, unemployed sector, which is quite substantial. Although it wasn't intended to, it will help bring in income for us this year, so there has been a very tangible business benefit. In addition, we won two awards and have gained from the recognition this offers".

Chapter 7
Barriers to
Business Success

What are the barriers for inner city enterprise success? We asked Inner City 100 enterprises to identify the single major factor currently limiting their further growth. These factors were capital, product development, location, adequate partners, sufficient workers, the right skills and customers. Elsewhere in the questionnaire we also asked about barriers to accessing capital in the past and at critical advantages and disadvantages.

Taking these responses together we found that the key barriers identified were access to capital (for 45 enterprises), followed by the right skills (31) and crime (20).

Access to Capital

Access to capital was a problem for 45 companies – 17 currently, 20 in the past and 8 more both now and previously. Liverpool construction entrepreneur Christopher Shokoya-Eleshin reports that a disadvantage of being based in the inner city has been the perceptions of his company by the banks. At another ethnic-minority owned business, Universal Service Solutions in Birmingham, the company felt there has also been a concern amongst banks about whether or not to "take a gamble on this black inner city business and I think historically that has been an inhibiting factor". However, this same Managing Director Lee Williams, suggests that "the banks are changing now, their perceptions are changing. They've been supporting inner city black African-Caribbean businesses. My bank actually asked me how could they support African-Caribbean businesses even more".

Hoxton Bibliotech also felt that, despite their proximity to the City of London, being in 'East London' does not help when it comes to meetings with financial institutions. A slightly different geographical issue raised by Pacific concerned the fact that because they get paid through lots of cheques every day their site relocation (which they are considering) requires an area where a bank is within easy reach. Moreover they want this to be a branch of their current bank in order to avoid rupturing current customers' payment routes. Thus areas of the inner city where branches have closed are likely to be at a disadvantage.

At the same time, inner city areas may have been eligible for various forms of other support through regeneration programmes. Senator Pageboy Group in Liverpool and Questions Publishing in Birmingham are among the growing number of enterprises supported with loan finance by Community Development Financial Institutions, non-profit partnerships providing enterprise finance. Several firms cite access to finance through regeneration funding at times when bank finance was more constrained.

Not surprisingly, for small enterprises, cash flow and the need for sufficient working capital is also cited by seven Inner City 100 enterprises. When Universal Service Solutions thought they would go out of business they had great support from the bank which suggested ways to improve their cash flow by factoring, allowing them to access funds for which they had issued invoices. The company "took his advice and we haven't looked back since".

Lateral is another company that "has always existed off cash flow but, although never 'in the red,' it has come obscenely close". The problems are typically "hideous" at Christmas time when payments to the company are often deferred until the end of January. The bank offered a £10k overdraft but wanted the Directors' houses as collateral. The Directors refused this and instead have not paid themselves when times were hard.

Similarly Train 2000's worst moments also concerned cash flow – due to a failure to be paid on time linked to a lack of understanding amongst her creditors (mainly public bodies) and her bank about the financial pressures affecting a small social enterprise.

Several firms also cited the issue of their lack of credit history and audited accounts. Light Computer Systems outlined how they found it difficult to get credit from suppliers in their early years before they had built up a reputation. This made it difficult in turn to offer credit to customers.

Skills as a condition for growth

In the survey, 31 Inner City 100 enterprises believed that insufficient skills are a barrier to growth. However, deeper analysis of the interviews suggests that the skills gap is less of a barrier and not always 'inner-city' in nature.

The value of Investors in People was mentioned by several of these companies – as a valuable process for thinking about human resource management and workplace democracy. Only a handful of companies do have problems. Leicester based Thorpete says its workforce is excellent but ageing. Dunn-Line's staff drivers receive customer-facing skills that they can then take to jobs that pay better or require less weekend work. Scheff foods have recently had difficulties getting a middle management structure in place and lack suitable internal candidates.

In Sunderland Hays Travel, although very positive about its workforce, has conducted the same basic tests over a 10 – 15 year period with its school-leaver staff and found that literacy and numeracy have been slipping (more a reflection on the average school standards in the area than their specific location). Also the company feels that more senior management levels suffer from an image problem with the North East and its inner cities, especially Sunderland. Birmingham based Pacific Business Products also feels it is difficult to recruit IT staff in an area not known for IT.

To address issues of skills, the companies have pursued various strategies. These include training workers up and requiring repayment of training costs if they leave within the first few years. But of relevance to inner city locations is the use of Welfare-to-Work schemes – only three of the 31 companies using Welfare-to-Work were dissatisfied with it. Dunn-Line noted the cost and high failure rate of the 6-12 workers it takes in this manner every fortnight – the Managing Director feels a more scientific assessment method is needed.

At Houghton International in Newcastle's Walker area they have now opted to take slightly older intakes for training as these are less likely to eschew paid work in favour of welfare benefits. The firm also suggested that paperwork involved with the formal Welfare to Work programme exceeded the value to the company of participating.

Venture Capital

Fourteen companies have secured venture capital but several others have been unsuccessful. Insurerepair in Glasgow was one such firm that found venture capitalists were not interested in what they considered to be a building firm. TAGZ used a broker to mediate between them and venture capital companies but also found it a very time-consuming process and was frustrated with the time taken to re-draft their business plan each time it was presented. In 2000, IPEC's Managing Director, Dr Lee Renforth, reported that he had spent up to half of his time meeting venture capitalists - many being reluctant to invest in a high tech company after the dot com crash. The company were eventually offered £200k for 20% of equity from a small investment company.

Some Inner City 100 entrepreneurs are reluctant to cede ownership. Protel Systems and Shokoya-Eleshin, for example, are therefore unlikely to pursue venture funding. Blendon Communications have spoken to some venture capitalists in regard to a web venture but the Chief Executive, Derek Smith, has had bad experiences of these on company boards – "their presence means you're responsible to people essentially outside the company, it can take the life out of a company". Other companies, including RMB, Early Action Group and Dunn-Line all consider venture capital as something that could support their future business success.

Crime Against Business

The research around the Inner City 100 clearly identified actual and perceived crime and vandalism as a significant problem. As the exasperated Managing Director of one firm in Newcastle explained: "there's an estate out the back, I will say now, people are going around placing orders for Christmas! They'd steal water, you know. They're just kids - the biggest problems occur during the school holidays".

But the problem is not widespread and does not affect all inner city businesses. Only 20 inner City enterprises had suffered from crime in some form of which five could be described as serious offences. Two were located in the Basford area of Nottingham in premises that are twenty yards apart, where crime is linked to the social deprivation on their doorstep although typically of the 'persistent nuisance' rather than 'organised' varieties. These two companies were also slightly unusual in being located in largely residential areas, so that there were few other business targets and a lot of kids.

Other cases of crime against business include:

• One company has faced burglaries and attempted burglaries.
• Four companies report that there have been thefts of welding machines, metal, vans, mobile phones and other equipment.
• Another company has faced minor fires and/or vandalism and one experienced two arson attacks.

A number of companies were of the view that it was a national problem rather than something specific to their area or the inner city. Others did not know whether the offenders were local.

Internal and External Perceptions of Crime

Only five companies commented upon the perception of crime as any kind of disadvantage in terms of location. One company noted that the only real disadvantage to their location is crime - particularly perceived levels of crime because 'people' had been mugged leaving the building several years earlier. Concerns for female workers going home at night also preoccupied one company in Birmingham. For another in Liverpool crime is more about peace of mind. Its Managing Director regrets that "we can't go away and come back on Monday and be sure everything will be the same".

These three companies have all taken measures to lessen these fears and four others spoke of how perceptions of crime have dwindled. Staff at Peakhouse Foods, based in Birmingham Nechells, found that local estate improvements which replaced tower blocks with two storey houses has helped them to feel more confident in leaving the building at night. Shoreditch based Lateral have seen their initial perceptions of the 'crime threat' vanish. Their fears had started because the previous tenants had been robbed. These fears had lessened after metal shutters had been installed on the entry to the premises.

Two companies in the once notorious Gorbals area of Glasgow were also eager to stress that this reputation was no longer entirely appropriate. For Arthur Colquhoun Ltd's Managing Director, Michael Gregan, the reputation of the area has recently been improving – due, he believes, to a growing enterprise culture which is replacing dereliction and gangland activity. Similarly, William Gallagher, Managing Director of Wylies, suggested the only "critical disadvantages" affecting their business were other people's negative perceptions of the Gorbals. With this in mind he encourages clients to come to his premises to see that the company is modern and efficient.

Costs of crime

Few companies were able to put a price on the damage done although several of those affected on a regular basis attempted to give some indication. One company suggested that in its early days it hit them quite hard because they had spent a lot of money on improving the premises and the cash flow was put under strain of having to replace broken windows every day. Another company estimate they lose £250,000 a year on abuse or theft.

Increased security is an additional cost for the firms involved. Hoxton Bibliotech now has 24-hours security and Cleone Foods and Coatings (NW) now feel CCTV to be an unavoidable expense. RH Patterson has a secure compound on-site where some vehicles are kept. At Cleone female staff who work shifts have personal alarms.

Hydrapower sees its strong community links as helping secure the active support of local residents in tackling crime. One reason LE-AL prefers local employees is because they suspect it makes the company less of a target for crime.

Such ties are not always possible - two companies are both dismayed by the fact that locals don't always see them as hard-working people providing work for the area. At Dunn-Line several years ago they became so irritated by graffiti on their coaches that they put a vehicle at one of the Nottingham fairs and just encouraged kids to paint it. The result was that "all these kids turned up with safety pins through their nose and they painted this bus completely with graffiti. We actually ran that bus like that for about two years on the road, the artistic work on it was tremendous".

Several companies feel that many of the offenders go un-prosecuted – often because they are under-age. One of these detailed how when they phone up the Council or the police to report a damaged or stolen vehicle nothing is done. Later kids set the car on fire and, at great expense, the fire brigade are called out to extinguish it. They think the police are under resourced and that this adds to the problem.

Chapter 8
The Next
Inner City

The inner city is a vibrant market, with 5.5 million people, around 9% of the UK population. It boasts distinct competitive advantages and excellent examples of entrepreneurship and business success. As the business world moves towards a new model of 'extended enterprise', where small enterprises play a significant role within wider webs of value creation, inner city entrepreneurs are likely to play a key role as leaders of the new economy. The test of the competitive inner city is whether private sector perceptions can change, to recognise and reward the innovation and potential of the inner city market and business base.

Public policy can help achieve this, but only by jettisoning the mindsets of the past 30 years. We conclude that public money is failing the inner city in two ways. Firstly, it has failed to foster and support entrepreneurial activity. Around 80 per cent of money flowing in to the most disadvantaged inner city areas is public expenditure, spent in the form of benefits, regeneration and public services. This money, as New Economics Foundation's work on assessing money flows has demonstrated, leaks straight out rather than circulating in the form of demand for local enterprises. The result is an artificial micro-economy, disengaged from wider patterns of economic change and opportunity at the city or regional level.

Secondly, public money has failed to create the right incentives for the most powerful force for inner city improvement: self-help and mutual aid. For example, the bidding culture favoured by civil servants distorts local priorities and reduces entrepreneurship. This orients outcomes towards bureaucratic priorities and projects rather than local needs, institutions and opportunities.

The answer is not a withdrawal of public funding and expenditure. Indeed the current priorities in the government's National Strategy for Neighbourhood Renewal are leading to increased spending and attention to public services in inner city areas. This is dominated by traditional local government concerns such as health and education but it aims to bring together public, private and voluntary groups to tackle the worst deprivation. Innovations will include 'neighbourhood managers' who will coordinate police, health and education for council estates, and £50m of 'community chests' to support small-scale, informal projects. A £35m Community Empowerment Fund will be available to train residents so they can work more effectively with councils and other agencies locally. The new Neighbourhood Renewal Unit in Whitehall will oversee the strategy.

Local Strategic Partnerships (LSPs) are a key element of the National Strategy for Neighbourhood Renewal and are central to the delivery of the strategy. By drawing the key service providers into a single partnership with which the community is actively engaged, Local Strategic Partnerships aim to give communities a greater say in the running and delivery of public services. They will develop and deliver local strategies covering jobs, education, health, crime, and housing. They should bring together under one umbrella the different parts of the public sector and the business, community and voluntary sectors. Local Strategic Partnerships activities should dovetail with Regional Development Agencies' regional strategies.

New investment of this form can benefit the inner city. However, the deeper need is for a strategic reorientation of public expenditure to form a springboard for economic opportunity.

Smart Public Investment

The key ingredient for economic renewal is entrepreneurship. The Inner City 100 is recognition of this. As the business writer Charles Handy said: "turning the spotlight on success, as the Inner City 100 does, is the best way of encouraging others". The example of Christopher Shokoya-Eleshin, who has helped to mentor and inspire fifteen micro-enterprises from the minority ethnic community in Merseyside, shows that this works best hands-on at the local level.

As Anita Roddick comments: "What I take as the main message of the Inner City 100 is that the basis for enterprise is creativity and passion. And there's as much creativity and passion in our neglected inner cities as there is anywhere else – if not more of it".

Of course, enterprise is not for everyone. An enterprise strategy should only form part of a wider regeneration strategy that addresses issues of participation, skills, employment, culture and infrastructure. However, the advantage of a public sector strategy to support 'micro-enterprise' is that it sustains the experiences and the models of a wider band of society in relation to enterprise.

For years, the public sector approach to business support has been to 'pick winners', backing high-growth and high-tech firms thought to offer the greatest potential for employment creation. But the public sector has not proved any more effective at picking winners in business support than it had in the form of regional industrial policy and selective assistance. It was only in 1999, as a result of

work by the New Economics Foundation among others, that business support was democratised and opened up to micro-enterprises that had previously been excluded. The lesson is not that micro-enterprises are the new target business sector to support, but that supporting enterprise more widely across society is the best way of building an entrepreneurial culture.

The second new role for the public sector is to enable local market activity rather than act as a direct agent of economic recovery. The field of social housing in Birmingham and Liverpool offers examples of where Inner City 100 entrepreneurs have taken the opportunities presented by the intelligent development of local supply chains. Smart procurement is an effective way to use public expenditure. For all the millions spent on health services in inner cities, why should the contracting and services that are entailed not represent an opportunity to attack the social and economic conditions that perpetuate health inequalities?

The fashionable notion of business "clusters" has generated cluster creation as a policy objective. While there are successful examples of clustering by design, such as in Sheffield, the experience of Inner City 100 enterprises suggests that clustering owes more to patient evolution, local circumstance and chance than the planning conceit that convinces local and regional public sector bodies that high growth clusters are around the corner, waiting on their decisions. The public sector can provide much needed support to existing clusters to help them grow.

The field of financial services is a good model of the new 'mixed economy' of inner city public services. The Social Investment Taskforce reported [8] in October 2000 on financial measures that would boost inner city enterprise, and especially on ways to bring more private sector capital into deprived areas. The Taskforce supported calls for greater disclosure by banks, and called for a relaxation of charity investment rules. It also called for a Community Development Venture Fund to bring private sector venture capital to bear on regeneration. But the main proposal was for a tax credit to incentivise private investment in socially beneficial enterprises, which could otherwise yield returns just below the level required by investors. A proposed £50m investment by the Exchequer was estimated to leverage £1bn of private sector funds, with the potential to create 100,000 jobs.

The argument for such a measure was set out in the Treasury's consultation paper [9] addressing the details of the scheme. "The central argument is that there is a gap in the market between the finance for regeneration and community development that is available on fully commercial terms, and the support that is available from government and philanthropic grants". It identified marginal projects that mainstream funders will not back - but which could support investment on near-commercial terms and could eventually graduate to mainstream financial backing. "The focus would be on enterprises such as micro-firms and start-ups, social and community enterprises, small and medium enterprises, where these could not otherwise get the finance they need."

The tax credit will be introduced in the 2002 Budget and will go into operation by the beginning of 2003. It will operate through community development finance institutions - a sector which emerged during the 1990s. This will have specific expertise investing in deprived areas, which the government hopes will grow to support inner city enterprise. Such growth will be aided by the creation of a new trade body for this sector, which will be established in early 2002 following a further recommendation of the Social Investment Taskforce.

Policy Recommendations

As a measure of new smart public services, we recommend that the Neighbourhood Renewal Unit adapt the creative methodologies we are developing to measure local money flows in disadvantaged areas. This would provide an assessment of the extent to which public expenditure targeted on the inner city achieved a double dividend, not just of the relevant policy outcomes but also of wider social impact, in the form of money recycled through inner city enterprises.

Other wider policy interventions required to support inner city enterprise are:

• Finance continues to be a problem for inner city business growth. Greater transparency is needed about levels of bank lending and equity investment in under invested areas, as well as continued innovation in product development (from micro-credit to community development venture capital).

• More coherent business support services are needed to connect with all sizes of inner city business. A closer relationship is needed between enterprise agencies or local development companies and the national business support agencies (Business Link in England and Scottish Enterprise). In England the Regional Development Agencies can play a key strategic role in enabling this relationship and ensuring that other conditions for enterprise development are supplied. In Scotland, Scottish Enterprise would perform this role.

• Entrepreneurship is the key to inner city business. Many successful entrepreneurs started thinking about business at secondary school and better programmes are needed to link inner city entrepreneurs with schools and colleges to provide real experiences, role models and mentors in order to stimulate a culture of enterprise.

• The enterprise base of inner cities needs an enabling planning framework that has as its priority the retention and growth of sustainable inner city enterprise. Businesses wishing to expand need help to find appropriate premises. Competing high value land uses, for example residential uses in former industrial/commercial space, need to be carefully controlled to prevent the erosion of inner city workspaces. More integration of living and working areas in cities is needed, especially to support cultural and creative industries. Local authorities have a key role to play in making their cities 'business friendly', and in ensuring the provision of a range of workspace. Crime reduction partnerships need to engage with inner city enterprise.

• Market development: Inner city enterprises need to link into regional level clusters and growth corridors. Larger companies can help by opening up their procurement to inner city firms.

• Inner city workforces need to be helped to access jobs both locally and in the region through skill development and physically by improved affordable public transport.

• Cities are good places to do business but improvements in urban public transport, and traffic management are required to reduce congestion and improve access times.

• There is a huge opportunity for women-led as well as black and ethnic minority enterprise but more specific support is required to capitalise on their potential and to overcome barriers.

• The Inner City 100 Index showcases the role of social enterprises in helping to restart and pump-prime local economic activity. In some cases, there is potential for social enterprises to be licensed to run public services, helping to innovate and involve a wider section of inner city residents than the public sector may be able to.

• However, non-profit community regeneration organisations also have a critical role in inner cities, as enterprise alone is unlikely to be enough to share gains from economic renewal.

In policy terms, macroeconomics has held sway for two decades, to the neglect of microeconomics. But there are diminishing returns to this focus, given a greater understanding and consensus on what constitutes stable macroeconomic policy. As recession looms, the need is for a new micro-industrial strategy to equip neighbourhoods to deal with the dynamics, opportunities and threats of wider economic change.

Conclusion

Poverty and competitiveness are not words that for many fit together comfortably. The post-war European consensus was that poverty marked the boundary between market and state. Tackling poverty was where the market had failed and it was the role of the welfare state to take the lead. Competitiveness in poor areas was a non-issue. In contrast, a very different social contract was advanced in the USA. There, in part in the face of marked inequalities on grounds of race, poverty was seen as an issue of discrimination, limiting the access of citizens to market opportunities and livelihoods. Competitiveness was central.

But while the paradigms of renewal were fundamentally at odds, the practice was not so far apart. The US language of lean government hides the extensive way in which, for example, successive administrations have intervened in the financial services sector. This has ensured fair lending and support for small business finance, through a creative array of loan guarantees and tax credits. The European experience of inner city regeneration hid a reality of entrepreneurship. So much so that efforts to improve conditions for residents in cities like Glasgow by exporting them to new housing developments suffered and failed because they ignored the bedrock and vernacular of enterprise and livelihoods that had contributed to their quality of life.

It may be that the intelligent blending of European models, with their focus on well being, and the US model, with the emphasis on enterprise, could shape a saner social and economic policy agenda for the UK and other industrialised countries.

Appendix

Socio-Economic Data on Eligible Areas for the Inner City 100

Region	City	Rank of employment scale (where 1 has the highest unemployment and 353 the least unemployment)	Rank of income scale (where 1 is the least well off financially and 353 most well off)	Overall rank on the Index of Multiple Deprivation (IMD) where 1 is the most deprived and 353 least deprived	Population in wards in the lowest quartile of IMD	Population of City
North East	Newcastle	10	18	26	176,600	276,000
	Sunderland	8	15	18	252,300	292,600
Yorkshire and Humber	Leeds	4	4	28	306,800	727,700
	Sheffield	5	6	*60	268,800	531,200
	Bradford	6	5	*33	314,700	483,300
East Midlands	Nottingham	14	10	12	228,400	286,700
	Leicester	23	12	28	211,400	294,200
North West	Liverpool	2	2	*3	397,200	461,500
	Manchester	3	3	6	385,300	429,800
	Salford	31	29	21	184,200	226,000
West Midlands	Birmingham	1	1	23	754,800	1,013,500
	Coventry	27	20	14	172,400	304,200
South West	Bristol	13	13	94	193,200	402,200
London	Newham	20	7	5	231,300	231,300
	Hackney	18	17	4	194,800	194,800
	Tower Hamlets	34	16	1	181,400	181,400
	Haringey	25	26	20	159,700	221,600
	Southwark	22	23	14	207,700	232,200
	Islington	33	43	11	179,000	179,000
Scotland	Glasgow	Na	Na	Na	500,000*	609,000
Total					**5,500,000**	**7,578,200**

*estimates

Rank	Company Name	1996 Turnover	2000 Turnover	Turnover Growth	Employees
1	TechnoPhobia	40,460	931,466	2,202	23
2	Urban Splash	745,661	12,592,301	1,589	102
3	Fascia Mania Ltd	61,386	821,694	1,239	25
4	AWS Electrical Services Ltd	56,738	613,461	981	25
5	Shokoya-Eleshin Construction Ltd	168,617	1,731,660	927	150
6	Strategic Systems Solutions Ltd	1,360,300	13,761,124	912	321
7	B.R. Industrial Personnel	178,235	1,771,953	894	46
8	Remarc Technologies Limited	425,551	3,895,658	815	61
9	Netsource Ltd	1,145,988	9,266,157	709	19
10	Early Action Group Ltd	1,115,071	7,670,315	588	135
11	Harris Associates	314,873	2,113,816	571	27
12	Furniture Resource Centre Group	884,134	5,417,449	513	150
13	Pacific Business Products Ltd	822,048	4,808,608	485	13
14	Universal Service Solutions	55,013	311,424	466	44
15	Armstrong Craven Ltd	280,666	1,582,195	464	43
16	Concept Telecom	1,200,000	6,537,195	445	50
17	Blendon Communications Ltd	684,231	3,524,283	415	24
18	Kalsi Plastics (UK) Ltd	802,512	4,026,001	402	125
19	The Circus Space	327,614	1,574,238	381	42
20	Thorpete Associates ltd	213,750	998,215	367	36
21	Mastclimbers Ltd	336,900	1,571,237	366	36
22	McGrattan Piling Ltd	484,229	2,199,695	354	19
23	MAP Engineers (Salford) Ltd	138,246	624,432	352	20
24	B Print & Display Ltd	293,481	1,280,852	336	30
25	Evans Electrical Contractors Ltd	82,727	353,053	327	8
26	Protel Systems Ltd.	109,566	461,647	321	8
27	Lateral	325,567	1,314,366	304	27
28	Blue River Design	84,558	323,271	282	7
29	Diverse	230,991	873,844	278	2
30	GB Posters Ltd	2,727,314	9,820,751	260	88
31	Contract Fire Systems Limited	1,421,250	5,071,102	257	70
32	Dove Designs	119,984	420,808	251	63
33	Cleone Foods	382,111	1,333,208	249	37
34	R H Patterson & Co Ltd	35,289,215	110,254,194	212	300
35	Industrial Heritage Company Ltd.	334,930	1,018,025	204	32
36	Dunn-Line (Holdings) Limited	3,728,431	11,070,640	197	277
37	RMB Maintenance Services	780,198	2,265,810	190	100
38	Americana Group	2,254,831	6,508,022	189	103
39	Loxley Colour	390,488	1,126,287	188	31
40	Hackney Community Transport	376,544	1,084,278	188	112
41	Reclaim	267,610	769,894	188	44
42	Crystal Clear International Limited	174,408	500,473	187	8
43	Powder Systems Ltd.	1,943,870	5,543,224	185	65
44	Hays Travel	30,114,327	85,578,144	184	276
45	ETEC (Sunderland) Ltd	578,949	1,622,133	180	50
46	Glasgow Simon Community	555,266	1,523,444	174	26
47	PDC Copyprint Birmingham	139,511	381,038	173	8
48	Williams and Williams (IFA) Limited	348,534	942,728	170	12
49	B-Plan Information Systems Ltd	713,696	1,907,560	167	90
50	Hoxton Bibliotech	299,847	794,459	165	43
51	IPEC Ltd	130,027	343,678	164	19
52	Bristol Blue Glass Ltd	203,620	525,777	158	21
53	Local Solutions	3,403,924	8,592,767	152	270
54	Cafedirect Ltd	2,905,956	7,206,973	148	13
55	LE-AL (Associates) Ltd	974,046	2,411,317	148	22
56	TAGZ Ltd	709,208	1,752,699	147	33

Rank	Company Name	1996 Turnover	2000 Turnover	Turnover Growth	Employees
57	NonLinear Dynamics Limited	589,978	1,447,762	145	40
58	Corkills	8,099,138	19,490,002	141	82
59	Scheff Foods Ltd	563,934	1,356,602	141	51
60	Apex Radio Systems Ltd	227,969	542,688	138	8
61	Action Graphics Birmingham Ltd	714,109	1,690,938	137	34
62	Arthur Colquhoun Ltd	349,464	814,896	133	11
63	Light Computer Systems Ltd	1,703,181	3,968,291	133	10
64	Donns Solicitors	3,547,099	8,211,523	131	244
65	Insurepair	380,819	868,813	128	12
66	Happy Computers	693,957	1,543,470	122	37
67	Astra Signs Ltd	338,910	748,754	121	15
68	Improvision	1,376,548	2,976,287	116	30
69	Alex Smiles Ltd	1,055,678	2,273,619	115	38
70	Pama & Company	4,734,089	10,153,296	114	78
71	Teswaine Business Communications	1,722,482	3,660,869	113	50
72	Brushware (UK) Ltd	517,001	1,018,775	97	16
73	Landmark Industries Ltd	2,221,500	4,370,806	97	87
74	Sabre Jewellery Ltd	426,556	831,842	95	6
75	Manchester Print Graphics	342,934	661,388	93	21
76	A.Algeo Ltd	928,134	1,786,206	92	32
77	Coatings (NW) Ltd	914,971	1,755,873	92	58
78	Peakhouse Foods	1,105,471	2,116,462	91	32
79	Midland Linen Services Ltd	347,920	665,964	91	34
80	Fracino	939,971	1,763,123	88	14
81	Houghton International Electrical Services Ltd	1,061,118	1,940,324	83	59
82	Poptel Ltd	480,470	872,206	82	60
83	Train 2000	167,693	303,124	81	13
84	Peninsular Business Services Ltd	9,384,060	16,667,119	78	390
85	Wylies Europe Ltd	1,150,314	2,008,952	75	42
86	Hydrapower Dynamics Ltd	2,281,880	3,825,279	68	68
87	MCM	898,281	1,500,342	67	23
88	Senator Pageboy Group	1,587,088	2,640,331	66	195
89	L.A.P Electrical Ltd	4,885,502	8,057,996	65	133
90	Print Design and Graphics	7,777,040	12,524,999	61	142
91	Multi-Lab Ltd	799,022	1,281,978	60	32
92	Hunter Systems	218,852	349,356	60	16
93	MCM Architecture Ltd	1,493,560	2,383,802	60	38
94	East Bristol Enterprise Ltd	173,223	276,143	59	4
95	Indestructible Paint Ltd	776,254	1,229,530	58	26
96	Hall Fire Protection Ltd	3,172,039	4,884,729	54	62
97	JMC.lt	5,383,510	8,232,032	53	106
98	Calverts	728,420	1,113,166	53	16
99	Dundees Ltd	234,587	348,987	49	33
100	Questions Publishing Company Limited	1,403,503	1,908,289	36	62

End notes

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