FOIA Number: 2006-0467-F

FOIA
MARKER

This is not a textual record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

Collection/Record Group: Clinton Presidential Records

Subgroup/Office of Origin: Speechwriting

Series/Staff Member: Jeff Shesol

Subseries:

OA/ID Number: 19945

FolderID:

Folder Title:
New Markets I Anaheim - NAF [National Academy Foundation] 7/8/99 - New Markets: What's in it for Business?

Stack:	Row:	Section:	Shelf:	Position:
S	91	6	8	3

LEVEL 1 - 1 OF 1 STORY

Insight on the News

May 24, 1999, Monday

SECTION: NATION: ENTREPRENEURS; Pg. 16

LENGTH: 1646 words

HEADLINE: Finding Markets Near Downtown

BYLINE: Eli Lehrer; INSIGHT

BODY:

SUMMARY: Harvard business professor Michael Porter is leadingthe charge to revitalize America's deteriorating urban centers through investment in private business ventures.

TEXT: Michael Porter sees the future of American commerce amidst the decaying movie palaces, pedestrian-filled streets, leaky housing projects and dirt-stained three-decker flats of the nation's inner cities. "Why expand into Mexico if you have an underserved market that's just about the same size and operates in dollars right at home?" this Harvard Business School professor asks. It's a good question, and one that Porter has been pressing with a vengeance. His crusade to bring the inner-city economy into the national economy has brought together academics, public servants and entrepreneurs who have found that inner cities - poor, high-density neighborhoods near city centers - can be good places to do business.

Thanks to an unprecedented economic expansion and a search for new markets, inner cities already have seen the beginnings of a modest renaissance as elaborate retail and theater complexes have begun to mushroom in once-desolate areas of New York, Chicago and Boston. Now, Porter's ideas have reached a broad audience and inner cities may, at last, be on an upswing. "It isn't charity we want," says Anne Habiby, the research director for Porter's nonprofit Initiative for a Competitive Inner City, or ICIC. "We want businesses to make profits in the inner city so that the world can know that it's a viable place to invest."

Meeting in Boston in late April, a group of academics and entrepreneurs convened by Porter's group came to the same conclusion: Vigorous capitalism can uplift poor areas. "We can't try to distort the market system in order to allow people to be successful. We have to give people the capacity to be genuinely successful," Porter says.

Indianapolis-based Pac-Van safely can count itself among the businesses making money in weather-beaten concrete and brick canyons of inner-city America. In retrospect, Brent Claymon says, the decision to base his family-owned mobile-office business in the inner city seems obvious. "The transportation was there, the location was there and a workforce was there," says Claymon, who runs Pac-Van along with his brothers Scott and Matthew. "There's no other place we could have done this." When ICIC teamed up with Inc. magazine to find the 100 fastest-growing inner-city companies, Pac-Van came out on top with a five-year compound growth rate of more than 19,000 percent. "The social agenda and the economic agenda are one agenda," Porter says. "Companies like Pac-Van help make the inner city part of the normal economy."

Porter's analysis of this normal economy would place him among the world's most influential scholars even if he never had said a word about inner cities. Although his six major books delve into dozens of areas of economic strategy, two of his theories prove relevant to inner cities. First, Porter argues that managers can define their own company's strategic advantages in cost, focus or product differentiation relative to the costs and prices of its competitors. Second, Porter believes that companies form interdependent clusters tied to the strategic advantages of a particular location.

In applying his theories to the inner city, Porter believes that poor urban areas have tremendous advantages when it comes to availability of workers, access to highways and proximity to downtown business clusters. For the moment, indeed, it seems that the ability to participate in the information-driven economies of downtowns and suburban office parks without actually having to locate there has emerged as the single greatest advantage of inner-city locations. "We have all the freeways in the state coming right at us; we're close to every downtown in Connecticut but don't have to pay the rents in any of them," says A.J. Wasserstein, the chief executive officer of Archives Management, a Waterbury, Conn., firm that ranked 33rd on the Inc. list.

Advantages of urban markets.

Indeed, nearly half of the fast-growing businesses that ICIC and Inc. found in inner cities provide services to those inner cities. The large inner cities also bulge with willing, ready and able workers. While some conservative critics of welfare accused the system of creating a population with feelings of entitlement, the end of guaranteed federal cash grants has trimmed welfare roles around the country as a good economy has provided plentiful jobs for former welfare recipients. "One of the great things about my location is that, if I need a worker, I can have 20 or 30 ready people lined up the next day," says Eric Sideri, the president of Adtec Electroplating, a company that operates in the inner city of Lawrence, Mass. Porter, indeed, believes that the United States has entered a long period of labor shortage and that inner cities may be the only places where business can find a sizable labor pool.

By ICIC's own estimate, inner-city residents need to leave their neighborhoods to satisfy nearly a quarter of their material needs. This should represent a golden opportunity for investors. But despite high-profile projects such as Harlem USA in New York City, inner-city areas remain underserved when it comes to everything from supermarkets to dry cleaners. Put together, it's unlikely that all of the new retail and theater complexes built or under construction in the inner cities within the last year cost more than two regional malls. Pursuit of profit, however, may change this. As suburban populations stabilize or even decline, suburban malls may become less profitable. As a result, inner-city advocates hope, investors will discover the potential profit centers in the inner city. It's easy to see why: According to ICIC's research, the average inner-city neighborhood has almost twice as much income per square mile as a typical suburban one but far fewer retail services.

It wasn't always this way. Although inner-city neighborhoods are poor by definition, they once boasted thriving commercial streetscapes. In the prosperity that followed World War II, the government took a wrecking ball to the inner cities, replacing poor but lively neighborhoods with the sterile decay of high-rise, modernist housing projects. Widespread prosperity, meanwhile, vaulted many inner-city residents into the middle class. Upwardly mobile families set out for the backyards, the cul-de-sacs and car-reliant shopping malls of the American suburbs. High taxes and regulation in many cities, meanwhile, drove out business. In time, government and charity became the only sizable employers in the inner city.

Today, even as a modest rediscovery of the inner city's value has begun, its problems still scare away some businesses. Crime remains high, although CEOs in Inc.'s survey cite perceptions of crime rather than crime itself as a major problem. Likewise, overall perceptions of the inner city also hurt image-conscious entrepreneurs. In addition, the low rents that often draw business to the inner city in the first place sometimes prove illusory as land deep in suburbia proves even cheaper while polluted "brown fields" abound in the inner city.

Developers, meanwhile, continue to display the entitlement mentality that seems to be on the downswing among inner-city residents themselves. Speaking before the Boston conference, Deborah Wright, the president and CEO of an empowerment zone in upper Manhattan - which includes Harlem - says that developers often don't appreciate what the area offers. "Counted alone, upper Manhattan is the 21st largest city in the United States and the densest," she says. "When people cross into Harlem , their eyes start blinking and their knees start shifting. They view any help they get from the government as a sort of handout that they don't really have to take seriously."

Federal policy strategy has compounded the inner city's problems. Destructive urban-renewal projects began in the 1930s and accelerated through the 1970s, ending in the 1980s. Under Housing and Urban Development Secretary Jack Kemp, new innovations and fresh ideas such as enterprise zones were tested during the Bush administration. But the residents of the inner city are part of Bill Clinton's core constituency, and Clinton pays attention to his constituencies. "There's a keen interest in this administration in inner-city capitalism. We've probably had more attention than has occurred in recent memory," says Porter.

On the governmental side, Porter calls for an integrated federal policy based on improving transportation and infrastructure while providing certain investment incentives. "Zero capital-gains taxes in the inner city is a good place to start. It's simply an incentive, since it's worthless unless there is a capital gain." Porter also believes that the business schools can play a major role in revitalizing the inner city. "Business schools have a particular responsibility to explain this point of view in a constructive and caring way to people who see business and wealth creation as suspicious," he says.

The real secret of investing in the inner cities, however, seems to be normalizing them. "Socially conscious businesses are great," says Michael Verchot, who directs a program that deals with inner-city capitalism at the University of Washington's Business School in Seattle. "But it isn't really necessary to go into the inner city with a social mission. What you need is a strong set of business practices." Porter says that business should be allowed to take care of economic development. "There's a place for government in providing infrastructure and basic social supports," he says. "There's a place for community organizations, too. But the private side is going to have to do the heavy lifting."

GRAPHIC: Photos (B, color), A) New business: High-density neighborhoods near city centers are proving they are good places for industry.; B) Porter: This Harvard professor has established the Institute for a Competitive Inner City to find solutions., A) By Bill Gallery; B) By ICIC

19TH STORY of Level 1 printed in FULL format.

March 1, 1999

SECTION: No. 3, Vol. 36; Pg. 33; ISSN: 0147-1554

IAC-ACC-NO: 54259036

LENGTH: 7592 words

HEADLINE: Investing in enduring change; corporate investment in inner cities

BYLINE: Rappleye, Willard C., Jr.

BODY:

Leading corporations are looking to the inner cities as engines for business growth and as markets and sources of energy and skill, all of which have long languished untapped. Harvard's Michael Porter calls American inner cities one of the world's great underserved markets, with about $ 85 billion in buying power and tools that can be nourished to strength. Susan V. Berresford, president of the Ford Foundation, finds that corporations are discovering the exercise of social responsibility as a powerful marketing tool, leading to what she envisions as a "dual bottom line" of profits and social advances. This sea change is encouraging Ford to develop business as a new ally in its mission of good works, which she calls Corporate Involvement.

Porter, who is the C. Roland Christensen Professor of Business Administration at Harvard Business School, and author of 14 books, founded the Initiative for a Competitive Inner City (ICIC) five years ago. He calls for a transition from thinking of the challenge of the inner cities in terms of reducing poverty; instead, he says, "we must redefine the challenge as one of creating income and wealth." The response to that statement, he acknowledged in the first annual James W. Rouse Forum lecture, "is often one of shock and disbelief . . . unthinkable to many." Yet it's dangerously wrong, he warns, to try to "defy the laws of the marketplace and create artificial economic activity," based on the presumptions of competitive disadvantages and thus of the need for subsidy.

Utilicorp: Working in The Core

Robert K. Green, President and Chief Operating Officer of Utilicorp, a $ 3 billion distributor and merchant of electricity and natural gas, and President of Kansas City Advisors (KCA), has known and worked with Porter as a strategic consultant for 10 years. He joined the Board of ICIC after hearing a "compelling" speech Porter made in Kansas City three years ago. Instead of merely addressing the symptoms, Porter wanted to deal with the root cause and create sustainable change, Green says. "That idea was new to me. We must identify the advantages in the inner city and leverage them to create jobs that will stay here because they should be here."

One of these advantages is the workforce. "Outside the city, in the fancy new suburbs, the unemployment rate is about zero," Green points out. "And suburban sprawl is terribly costly - a waste of time and resources. When Sprint wanted to set up a call center, they couldn't get the people. Well, once we showed them our research that highlighted the availability of the workforce in town, they jumped at it. Opened up a call center in one of the historic districts, started a training program - tremendous success. Doubled their employment already, and employ 100 people today. Now H&R Block is doing the same thing - just announced they are going to open an administrative operation in the urban core. And we have many more client companies that will soon become examples of leveraging the urban competitive advantages."

Green is mightily encouraged by "some pretty demonstrable results, particularly since '98 was a start-up year." According to KCA, there are 22 individual firms in the urban core, which now employ 648 people, up from 477, with total revenues of $ 24.3 million, up from $ 15.6 million in 1997. "When we reported, our funders were all kind of amazed. And I think '99 will show dramatic improvement."

The "Advisors" in KCA's name is meant literally. Three Dog Bakery, a manufacturer of gourmet dog food, wanted to expand; KCA put them in touch with greeting-card giant Hallmark, big in the franchising business, to show them how. Soon the most fastidious of chow hounds will be within barking distance of high-end dog treats at some 50 Three Dog outlets. "That's what we mean by corporate partnering - real strategic assistance, where it does the most good," Green says.

Beyond the need for advice from experts, "one of the most important things we learned from the research is that the inner-city businesses don't have any kind of network," Green points out. "Minority members on our Advisors Board speak passionately and eloquently about it." In response, Green notes, the Advisors are "motivating the Chamber of Commerce" to hold some of its after-hours networking sessions - downtown. "We want to make it convenient for the urban core to participate - to link out, meet bankers, accountants, possible vendors, and suppliers."

Representatives from other cities have come to call on KCA, Green says, and he believes that ICIC is looking to provide services to other cities. But both ICIC and KCA to make sure that we're successful in the cities where we are today," Green insists. For him, that means focusing on clients and creating new success stories; bringing in corporate partners; finding some venture funding; using student teams to do research; lending a hand on market strategy - " whatever it takes to create jobs and wealth in the inner city."

State Street: Tough Programs

A long tradition of community engagement at Boston's State Street Corp. has remained constant and vibrant even as the institution itself has changed from a typical city-focused bank, now 206 years old, into a leading specialist in serving institutional investors worldwide, with 1998 revenues of $ 2.8 billion. That tradition, independent of ICIC guidance, has evolved into actions completely compatible with the Initiative's precepts and purpose. William Edgerly, now Chairman Emeritus, established the State Street Foundation in 1977, permanently allocating 1.5 percent of annual earnings to help the urban poor build a better future in the Greater Boston area. In 1998, that figure amounted to more than $ 6 million.

In the past 20 years, the Foundation has made more than 2,000 grants, for more than $ 33 million, to organizations committed to that purpose. Along the way, State Street created and then led the Boston Housing Partnership, professionally guiding the allocation of federal block grants, through the maze of claimants and conflicts into the communities. State Street President David Spina credits Edgerly with the visionary leadership that brought about the creation of 8,000 housing units in the Boston area - this despite the fact that State Street, as a wholesale bank, provides no mortgages itself.

When Marshall N. Carter became Chairman in 1992, a shortage of skilled workers had elevated education to a new level of concern. Since then, the Foundation has been funding more and more individual school programs in Boston and, reflecting its global presence, around the world. Most recently, starting this winter, State Street has provided the industry leadership in establishing the Financial Services Academy, a service of the New England College of Finance. The Academy is a collaboration of banking, insurance, investment and mutual-fund partners, and community-based organizations, which will train diverse inner-city populations for entry-level jobs in the industry.

Minority procurement had always been a steady component of State Street's social policy, but it was stuck at about $ 3 million a year when Carter took over. "People always have a thousand reasons why it is so difficult," he says. "What I really had to do was say, 'I've heard all the excuses - just do it.' And it took off. Now we're doing $ 26 million a year."

Successful small business is now being recognized as "the key to economic growth and social health," Carter observes. Last year, the Federal Reserve Bank of Boston sponsored a seminar called "Making It in the Mainstream," which demonstrated that the wealth gap was growing even wider, and that one way to deal with that is to help minority businesses get started, and keep them running. So, along with Ed Dugger, an African-American venture capitalist, Carter started the Business Collaborative. The Metropolitan District Planning Commission put up $ 75,000; State Street matched it.

"We've got companies in town here that buy lots of different things," Carter explains. "But somehow they don't quite know how to get going with a minority procurement program because there isn't a good matrix, say, of all the minority-women-owned firms and what their services are. So this initial funding will be devoted to getting six or seven big companies to sign on - we've already got at least three or four - and the Business Collaborative will help them to work in partnership with minority suppliers.

"These are tough programs," he continues. "We have had some minority vendors who haven't been able to make it. So this is not a handout. People have to meet the exact same specifications as non-minority businesses. In most cases they do, but you have to have some patience sometimes, while the company is learning how to do it."

Not unlike the guidance that the Business Collaborative will bring to the business community, or that State Street gives in the housing area, State Street has set up "Getting Down to Business" for boards of directors and the leadership of nonprofit organizations that work in the inner cities. The program's working premise is that the more efficiently they run their programs, and the more they coordinate their objectives with other nonprofits, the more effective their services will be.

But State Street does not limit itself to the cerebrations of city-building. In downtown Boston's notorious Combat Zone of sleaze and porn, it has become the anchor tenant of an old shopping-center building, abandoned for nine years. There it plans to lease three or four stories, refurbish the place, and put nearly 3,000 people to work, in a much-needed processing center. "Sure, we got it cheap," Carter chuckles. "But it gets better. The building sits right on top of the subway station. It's got plenty of underground parking space. It's also right in the middle of downtown Boston, where our young workers - the average age is 33 - want to be." And, because it is located right on the edge of Boston's Chinatown, it will help immensely in that community's long struggle to rid itself of the spillover blight of the Combat Zone.

So, too, in Kansas City. After operating there for 25 years, State Street decided three years ago that it had to expand, with a partner, into a twin tower of 400,000 square feet, with parking for 2,000 underneath. "We called up the mayor, Emanuel Cleaver," Carter recalls, "and told him we would put it anywhere he wanted. He told us if we would put it in the northwest part of the city, which he was trying to rebuild, 'I will get you all your approvals in five weeks.' Five weeks!" Carter exclaims. He went out to put a spade in the ground in April 1997, and went out again to cut the ribbon opening the first tower on Labor Day 1998. "Eighteen months," he says. "Now that's what I call a working partnership."

Pfizer: Reclaiming Its Home

"The crisis of America's cities is not only a problem for government," declares William C. Steere Jr., Chairman of Pfizer. "It is everybody's concern. We cannot simply wish it away." For the pharmaceutical giant, which had $ 12.7 billion in revenues in 1997, Steere believes, "reaching out to help those in need grows naturally out of our corporate mission."

Good citizenship is also good business. At Pfizer, "we understand the direct link between the health of our business and the health of the communities in which we operate," Henry A. McKinnell, President of Pfizer Pharmaceuticals Group, told a White House Conference on Community Empowerment last summer, in announcing Phase Two of its Brooklyn Redevelopment Initiative. Phase One, starting 15 years ago, was a dramatic response to a case of near-terminal urban blight surrounding Pfizer's original and still flagship manufacturing plant (opened in 1849) in the Williamsburg section of Brooklyn. The determination particularly affected the morale and stability of its skilled, veteran workforce, which had shrunk by almost half to 700 people, whose average age was 50 and whose length of company service was about 25 years.

Ed Pratt, then Chairman, led the decision to stay in Williamsburg, despite the blight and corporate flight all around. "Our technological base was here, even though some of our buildings were old," recalls Tom Kline, Vice President of Manufacturing Strategies, who has run the revitalization project from the beginning. In 1981, Pfizer marked out 42 acres of rubble and ruin around the plant, and set to work. It cooperated with the city to activate Woodhull Hospital, just up the block, which had been completed 10 years before but had never opened. Now it has a staff of 1,500. Pfizer invested $ 120,000 to clean up and make safe the subway station, which is currently being monitored by company security officers, in cooperation with a more consistent and attentive NYPD presence. In 1984, after three years of guiding it through the maze of 15 separate government agencies, Pfizer announced the Broadway Triangle Urban Development Project, in partnership with the city's Public Development Corporation.

In Phase One, besides cleaning up, carting off, detoxing, or paving over the detritus of decay, Pfizer has:

* built 140 two-family homes for low- to moderate-income families;

* invested $ 8.2 million in Low Income Housing Tax Credits to renovate 400 abandoned apartment units;

* opened an innovative public elementary school for 350 children, in Pfizer's former administration building, with a $ 500,000 grant for renovation; and

* recruited a specialty printing plant to make scientific labels, which has doubled in size, to 120 jobs, and now plans a 50 percent expansion.

In Phase Two, which McKinnell announced, Pfizer plans to:

* complete negotiations with a major chain to open a supermarket on vacant Pfizer land, sold at book value, in return for a commitment to build a 65,000-square-foot facility, to keep it open 24 hours a day, and to hire from the community;

* expand the elementary school;

* build more low- and moderate-income housing; and

* expand light industrial space for other businesses.

Pfizer has also invested $ 100 million in its own plant, which is now open 24 hours a day, in three shifts, seven days a week, and which has increased its production capacity by a factor of five. It has nearly doubled its workforce, to more than 1,200, of whom 80 percent live in the neighborhood. 73 percent are minorities, including first-generation immigrants from 54 countries.

Johnson & Johnson: Four Areas of Responsibility

Johnson & Johnson, with $ 22.6 billion in sales, the most comprehensive and broadly based manufacturer of healthcare products in the world, had "an important decision to make about 25 years ago," recalls Chairman Ralph S. Larsen: to save New Brunswick, its home city since the company was founded in 1886, or to leave it.

"There was great appeal and plenty of opportunity to relocate. But we made the decision to stay because of our long and treasured history here," he says, "and because of one of the most important tenets in our credo - responsibility to the communities in which we live and work."

The decision was positive, the process elegant, the results exemplary, and the prospects bright. During the '50s and '60s, suburban flight devastated what once had been a thriving, prosperous hub city. Tax receipts from commerce in New Brunswick shrank from $ 1.8 million in 1943 to $ 300,000 in 1973. Richard B. Sellars, then Chairman of J&J, led a committee of business and institutional leaders who financed a study by American City Corp. of Columbia, Md., which reported substantial potential for revitalization - if it was set up and carried out by a joint venture of willing partners. On July 1, 1975, New Brunswick Tomorrow (NBT) was officially established, to be a "catalyst, convenor, facilitator and source of seed money."

First task: Commission a conceptual blueprint, by I.M. Pei. Second: Conduct a citywide poll by Rutgers University's Eagleton Institute for assessment of needs. Third: Get the state transportation department and the Corps of Engineers to start work on a bridge to relieve strangulating traffic. Fourth: Arrange financing for a $ 6.5 million office building on a downtown site that had been vacant for a decade, and for a Hyatt Regency hotel, owned by Johnson & Johnson. Fifth: Avert closing of the Family Health Center at Middlesex General Hospital because of a financial crisis.

April 1978: J&J announces that it will stay in New Brunswick and will build its new corporate world headquarters in the heart of downtown. Governor Brendan Byrne hails the decision as historic.

J&J put up guaranty money for housing and backed redevelopment of the downtown theater area, including Crossroads, perhaps the country's best-known African-American theater, the State Theater, one of the main stops on the old vaudeville tours, and the George Street Playhouse, as the base for the revived New Brunswick Cultural Center. Five-star restaurants have followed, along with luxury apartments. Middle-income housing has been built; Rutgers has opened a new campus; and the New Jersey College of Medicine and Dentistry has expanded facilities and concentrated some of its scattered operations into a downtown office complex. "All very well thought out, all part of the master plan," observes Christian C. Kjeldsen, Vice President of Community and Workplace Programs.

Vital to the success of the program, and probably unique in American corporation-community development efforts, is its system of measurement. Every other year since 1975, NBT has commissioned the Eagleton Institute to survey about 1,000 people of the city's 41,000 population. "You can see over the years where people feel better about the city and its future almost every time they are asked," Kjeldsen notes. "They feel better about the lower crime rate, but they also tell us they still have issues with the education system.

"The demographics of this town have changed substantially the past 10 years," he explains. "An influx of Hispanics, from Mexico and Central America, not from the traditional Cuba or Puerto Rico, has to be looked upon as an opportunity. English as a second language has become a top priority by necessity. Eagleton two years ago also showed us there was a real disconnect in parental involvement in the schools - so the education task force of NBT set up programs for parents to have access to teachers, so they could learn more about how to play a role in the schools."

NBT is now embarked on a plan to increase the quality of education throughout the city's nine public schools, Kjeldsen adds. It will start with a survey of everything that is now going on in the entire system, "because there are so many players in this town all trying to do nice things for the schools, but it's all fragmented. We're going to bring this all together on one plate, so we can take a good look at it."

Housing work is still not complete: NBT and the city and the tenants association for public housing, now that they have gotten the final piece of HUD funding last July, are planning to relocate people from four "ungodly high-rise tower projects, with chain-link fences, lit up like prisons," into decent low-cost housing. The mayor asked NBT to design the support programs that the people are going to need when they move. Ninety percent of the 243 families are run by females, with 100 children under the age of 5. "Most of them are on welfare; how do we start training?" Kjeldsen wonders. "Childcare issues. Addiction problems. Some are seniors who have lived in the complex since the darned thing was opened in the mid-'50s. So now NBT is going to start the process of helping them out. This is what it does."

J&J's involvement with NBT, and its engagement with the city, stem directly from its corporate credo, Kjeldsen emphasizes. The credo, written by founder Robert Wood Johnson in the '40s, states four responsibilities: to customers, to employees, to the communities where the company works, and to its stockholders. "This document drives all that we do," Kjeldsen declares.

Prudential: Taking a Public Stand

Prudential Hall, the new 2,700-seat performing arts center built in what had been one of the worst slums in downtown Newark, N.J., stands as one of the most creative corporate initiatives in city rebuilding, and potentially among the most radiant, as a powerfully attractive nucleus for arts- and audience-related neighborhood enterprise.

"Newark is our home, where we were founded nearly 125 years ago," declares Chairman Arthur F. Ryan. "We want to help it to thrive, to make it a better place to live and to work. The New Jersey Performing Arts Center is just one piece of our commitment to this renaissance city."

The Prudential Foundation sees its $ 6.5 million investment as "not really about the arts," President Gabriella Morris affirms. Although the first season was an artistic and financial success - "musicals, symphony, Broadway shows - a knockout-we thought the Arts Center should be a linchpin for development," she contends. "The city needs economic life if it is really going to grow."

To accelerate the radiation, "to take the area surrounding it, clean up everything and make it not just pretty but to make it work for people," the Prudential Foundation has put $ 4 million into the $ 8 million New Newark Foundation, as equal partner with several foundations sponsored by Ray Chambers, a successful venture capitalist who has become the city's largest individual benefactor. New Newark has already bought or controls four city blocks of prime real estate near the Center, which include several major, long-abandoned buildings that it will renovate, and scattered vacant lots, where it will build and finance stores, restaurants, and nightclubs on the ground floors, with residential units above.

This aggressive reclamation of the physical city grows logically out of Prudential's commitment to philanthropy that goes back to the beginning of its Foundation in 1977, but which in the past concentrated much more heavily on education, housing, and the arts, spread widely across the country. It now has nearly $ 33 million outstanding authorizations in Newark, including $ 19 million in various housing developments, with the emphasis on middle-class housing, "based on the important recognition that everyone knows you can't run a city on a tax base of the poor," and $ 7.2 million in a Pathmark supermarket, which was the first major business investment in the inner city since the riots of the '60s. It has just made a $ 1 million commitment to a new project called Science Park, to help build new facilities to attract high-tech companies.

But education remains fundamental to the process of rebuilding, Morris insists. "One of the things we'd like to do is make sure when jobs are created here that people from Newark are ready to take them. We are beginning to support a training program for young people who want to start their own businesses, to create a feeder system of 18-to-29-year-olds into the small businesses, to train them until they can go out on their own."

Prudential has also made a powerful commitment to improving the old, bad Newark Public School System, "which has failed miserably for decades." To help implement a new state law, and to support a determined new District Superintendent, Beverly Hall, who came in with a "very reasonable strategic plan to return teaching and learning to the classroom," Prudential has organized a Committee of Advocates for Newark's Children, made up of leaders from the area's biggest and most influential businesses, banks, law firms, churches, philanthropies, and educational institutions. "We have spent money on education in Newark for many years, anyway," Morris notes. "Here is an opportunity to be extremely strategic, to take a public stand, to make sure our funding supports a good leader who has a great plan." The Advocates do hard work on complex and contentious legal issues, inspection and demand for repair of dreadful facilities, and the tough, thankless job of making sure money allocated is spent where it is supposed to be; they have already helped the new superintendent take $ 26 million out of the school bureaucracy and redirect it to the classroom.

Allstate: Building Trust

Housing has long been a primary business for insurance giant Allstate, with net income of $ 3.1 billion, 28 million policies in force, and more than 15,000 full-time agents at work across North America. It also ranks No. 1 or No. 2 in property-casualty insurance in all the major cities.

"Our commitment to cities is a natural extension of a long and strong interest in urban issues, dating back to the days when Allstate was a division of Sears, working in the downtown areas," observes Robert W. Gary, President of Personal Lines. "We grew up in the cities, and we continue to have a big stake in urban America." That stake has grown even larger since the spinoff from Sears was completed in 1995.

As its homeowners-insurance business deteriorated in the urban decline, Allstate had good reason to try to reverse the slide. First, it had to change its own perceptions and attitudes. When it made serious inquiry, it found that the company had to build trust and respect before it could do business. A whole layer of public adjusters had grown up, to mediate between the company and the claimant, because the agent had preconceived ideas about doing business with an inner-city resident, and the inner-city resident had equally preconceived ideas that he would not get a fair settlement; fees to the intermediator drove costs way up. Allstate worked closely with inner-city agencies, to change its own mindset and, in time, that of its potential clients. First, it learned that there was considerable housing value and great pride in many African-American districts. Then it learned realistic numbers and objectives for pilot projects, adjusted to meet inner-city requirements. It tested programs, and at the same time gained the confidence of its market. Allstate convinced potential clients that it wanted to insure their property and that if there were problems, it would rather help correct them than deny coverage. It took a few years, but the campaign for mutual trust worked.

A little over a year ago, Allstate announced a $ 45 million Neighborhood Partnership Program (NPP) to help make homeowner insurance more available, and thus to stabilize the communities, in six cities across the country: Chicago, Los Angeles, Washington, D.C., Dallas, Cleveland, and New York.

Through NPP, Allstate partners with community groups and homeowners associations to help residents understand their insurance needs and how to prevent losses. It offers free home-safety inspections and helps communities in addressing loss costs. It helps communities in crime, fire, and vandalism. prevention programs. It partners with local minority vendors and suppliers to do necessary repair work at minimum cost, and subsidizes local minority banks to make low-cost loans for home-buying, home improvement, and the conversion of abandoned houses into livable dwellings. In one NPP pilot program, participating consumers received a 13 percent refund on their annual homeowner premiums as a result of a positive 15-month loss experience.

"We are involved with America's cities because it makes good business sense," declares Robert Gary, looking at an estimated national market of $ 30 billion in untapped property-casualty premiums. "Stronger communities mean stronger markets, less crime, fewer losses, more investment, greater pride. And that will mean long-term viability of neighborhoods where we do business."

Fannie Mae: Expanding Home Ownership

Employer Assisted Housing (EAH), developed by Fannie Mae, "is a terrific tool for an employer to use to attract and retain people, and also to build up the community surrounding the employer," asserts Jamie Gorelick, vice chair of the giant mortgage broker, which, with $ 455 billion in assets and $ 798 billion in mortgage-backed securities outstanding, is the largest corporation in America.

EAH, now three years old, is an integral part of Fannie Mae's trillion-dollar commitment to help 10 million people become homeowners. That commitment focuses on communities most in need of resources by creating lending products that fit their needs and guaranteeing to buy the loans. Since it began in 1994, the program has settled 7.8 million people in their new homes. "Terrific," exclaims Gorelick, who describes one way the program works: "Say the employer is providing down-payment assistance that might not meet the criteria for an ordinary commercially purchasable mortgage loan. But we will buy it."

Most EAH plans are loans or grants to employees to clear the usual hurdles to home ownership: funds for the down payment, closing costs, and mortgage payments. They can be in the form of a matching grant to employee savings, a loan forgivable at 20 percent over five years, a deferred loan payable at resale, or an amortizing loan payable over five years at a favorable interest rate.

By being tailored to meet the employer's goals, a plan can:

* decrease the rate of turnover by providing loans that can be forgiven over time, thus creating an incentive for employees to stay;

* defer loan repayments, making it possible for employees at low wage levels, who can expect raises in the future, to own their homes now;

* provide a grant or loan for the down payment for employees who can manage only monthly payments; and

* make a grant up-front to reduce the interest rate on the mortgage loan, for employees who have saved enough for a down payment but who do not earn enough to cover monthly payments.

Employees love it, Gorelick maintains. "We at Fannie Mae use it ourselves to encourage our employees to buy homes, and a lot have taken advantage of it." Out of a total of 4,000 employees, 1,100 are in EAH. More than 40 companies around the country, including city governments, healthcare organizations, universities, and corporations like Principal Financial Services and Hennigsen Foods, have already signed on.

"Cities have realized," Gorelick says, "that when they recruit an employer to their city, to bring in jobs, and are going to give them a package of benefits, one of the things they should be saying to the employer is: 'We want you to have an Employer Assisted Housing Program.' Good for both parties."

EAH is the nucleus for partnerships with city governments and "major employers in cities who have committed to staying there," Gorelick explains. "We identify what the strengths of the partners are, what each can contribute. Then we look for the other pieces to be filled in - housing, safety, education, jobs - the major pillars of community redevelopment The housing piece, for sure." she notes. "But we can also work on some of the ancillary investments like grocery stores and facilities that will help the development of housing."

Infrastructure is up to the cities, she acknowledges. "But what we have found is that if a private investor is willing to put $ 10 or $ 20 million into a city, most mayors want to say: 'I will move the schedule around so that we do what we would ordinarily do anyway, sooner, to meet your commitment.' Quite a difference," Gorelick points out, "from the typical developer's proposal: 'If you give us X investment in infrastructure, then we will come.' But if we say we are investing $ 20 million in your neighborhood, and we would like you to change your schedule for repairing the streets, they will do it.

"We have found that if you can find one or two entities - corporations, hospitals, universities - who are committed to the community, and you focus your resources," Gorelick concludes, "together you can become much greater than the sum of the parts of your contributions."

Pitney Bowes: Creating a New Center of Power

Pitney Bowes, the $ 4.1 billion global provider of high-tech mail and messaging equipment and management, ranks stewardship of its home place - its world headquarters and manufacturing center, located on a small peninsula, called the South End, in Stamford, Conn. - among the highest of its corporate priorities. "Safety, security, quality of life, property value, building the brand name for external stakeholders, recruiting and retention, establishing a good reputation as a corporate citizen - all that makes a compelling case for us to be active in the South End," explains Michael Critelli, Chairman and CEO.

In the past couple of years, Pitney Bowes has refocused its efforts to meet specific needs of its community, as articulated and developed in town meetings, councils, and civic groups, Critelli notes, "trying to take some of our dollars and some of our human resources to create a strategic plan to help the people who live here in the South End with services from cradle to grave."

Planning emphatically includes anticipation and prevention of "people coming in and doing things that we and the neighborhood wouldn't like. There's a lot of vacant land here, and a lot of speculators who would like to tear down the neighborhood and put in uses that are going to be incompatible with us being able to operate our headquarters and factory operations," he points out. The community and Pitney Bowes both want sustainable, balanced development, he emphasizes: village retail activities, quality residences, low-density, low-traffic-generating commercial activity.

"There is a real window of opportunity for the right kind of development here in the South End," Critelli asserts. "The economy is good; money is available; we have strong legislative leadership. We have all the forces in place to do something dramatically good and different, if we can do it the right way, and this is the time to do it.

"This is not about a big corporation developing a plan for the community," he insists. "It is working in tandem with the community's own leaders and residents, getting them together, raising the right questions with them, providing some support and resources, and helping them build their own capabilities. This is not often done by government or other large corporations, because it creates a new center of power."

Participation in the process is integral to the corporation's policy of developing its own human resources through community service. "We have organized it to the point that it is part of our career planning, that we believe certain people would benefit in their development by being on the boards of certain agencies," Critelli explains. "We recognize them by putting them on outside boards. And it's not a random kind of thing where whoever wants to comes forth. We will approach people and ask them to serve."

Textron: Adopting A High School

The Textron Chamber of Commerce Academy represents "one of the best contributions this company has ever made," declares Textron Chairman and Chief Executive Officer Lewis B. Campbell.

This Providence, R.I., inner-city high school, the state's first charter school, combines an academic and school-to-work program designed specifically to salvage and inspire students who are at risk of dropping out. "It creates a new element of stability in a challenged city school system, and meets Textron's commitment to help develop tomorrow's workforce with the skills they need to handle the challenges of the future," Campbell adds.

Textron had been giving modest support to the Academy since its opening in 1991, in association with the Providence Chamber of Commerce. In 1996, Textron adopted the Academy by making a multiyear grant of $ 325,000 - the largest single corporate contribution ever made to a Providence public school.

"What made the school appealing to us was that it was a public school, one serving the inner city of Providence, and achieving good results," recalls Donald J. McGrath, director of community affairs. "We did due diligence, just as though Textron was making an investment in a new business, or acquiring one - on the commitment of the faculty, on the involvement of the parents, and perhaps, above all, on the attendance record of the students. The attendance rate continues to be the highest of any high school in the city of Providence. Everything we saw told us that the kids were making the most of this chance to work for a better life.

"I think we had very realistic expectations. And the school is meeting them," McGrath continues. "That's as it should be. Because when we are looking for a business to acquire, we spend an awful lot of time making sure that it is exactly the right one - that it will 'bolt on' to one of Textron's existing businesses. We don't look for businesses that are not doing well; we look for good businesses with great management teams to join us. And then we all grow together."

So far, the Textron Academy is doing very well. Of the 34 students who graduated in 1998, the first full year of the school in its present status as a charter school, 29 were accepted to college, and the other five went right into good jobs. All the students benefit from a well-organized school-to-work program, which has found paying after-school jobs for many of them in accounting, brokerage, and financial-services firms, in area hospitals, and at Textron - more than 40 area businesses in all.

Rick Landau, appointed as CEO of the Textron Academy last summer, brings the perspective of a successful investment banker (albeit one who is a visiting senior lecturer at Brown). He was deliberately recruited from outside the educational system, to manage the school.

"If you were the head of a business, and you had a choice of putting money into one school where you could be involved on a daily basis, as opposed to putting the same amount of money into a public school system where you would have no idea how your money was being used, I would argue that the appeal of a charter school from a corporation's point of view is great," Landau says. "It funds like a private situation. The corporation can focus its attention on the progress and purpose of one particular school, and help it achieve its special objectives.

"We are all looking for the perfect solution to problems of education in general. And we certainly don't have all the answers," Landau acknowledges. "But the answer Textron has found is that if they can change 200 young lives here in Providence and make students who are at risk effective members of society, and do that on a continuous basis, they have done something spectacular."

McGrath emphasizes that a key to the success of the Textron Chamber of Commerce Academy is the fact that, while it is a part of the Providence school system, it is not enmeshed in it. He notes that Landau's title is CEO - that "he is charged with the responsibility of applying resources and managing them to tailor a program that satisfies the needs of the student population, supported by the corporation and the business community."

With revenues of $ 10 billion and 64,000 employees worldwide, Textron has market-leading businesses in aircraft, automotive, industrial, and finance. "All of our segments and divisions try to satisfy the needs of their individual communities," McGrath points out. "Cultivation of the future workforce is a concern we all have, but trying to duplicate this school in another community may not be the right answer. We can address other workforce issues with programs like welfare-to-work," he adds.

"I do know we are very pleased with what we have going here, in Providence, and would like to see the Academy continue to grow and prosper. It is an excellent fit for us, and we are very proud to have our name on the front of this building. That is a measure of our commitment," McGrath says. "We can't predict the future, but we are with this school for the long term."

PSE&G: Ask, Listen, Challenge

"Enduring change must come from within the people who live in a community and understand its needs best," declares Al Koeppe, Senior Vice President of External Affairs and Corporate Services, Public Service Electric and Gas Co., who is the driving strategist of its powerful Urban Initiative in a square-mile section of about 7,000 residents in the beleaguered South Ward of Newark, N.J. "Ask them, listen to them, challenge them, and ultimately you can hear the rhythms they hear. You will understand what they fear, what they need, what they hope for. We listened and we learned that if we had any chance of making a lasting difference, we needed to approach the community model comprehensively, through economic and community development, education and training, and social services."

To reduce variety and to gain economies of scope and scale, giant PSE&G, with $ 5.59 billion in revenues in 1998, decided to concentrate its efforts in one small sector of the city, and to avoid the broad, scattered and fragmented approach that it had taken in the past. It was determined now "to build, rather than subsidize, and ultimately to replicate in other battered urban communities. This isn't like foreign aid anymore," he emphasizes. "This is long-term direct investment."

For PSE&G, the reasoning is practical: "We are a blue-collar company, servicing blue-collar customers, in the cities," Koeppe explains. "We have a natural affinity. So if we are going to grow, the neighborhoods we serve have got to grow. And how will we do that?

"You don't have to break any code," he contends. "We start out by asking." PSE&G called on all the local social-service agencies, and the Faith-Based Organizations - churches and mosques - to find out what they were doing, and what their people needed. "We conducted focus groups from every possible angle, from every possible group.

"Then we organized," Koeppe recalls. "There had been duplication and turf defense, leading to waste, to rivalries rather than alliances." But by observing, suggesting and prodding, Koeppe and the PSE&G team learned the terrain of the South Ward, what the people wanted, the resources in place and how best to deploy them, and the kinds of outside support and partnerships needed to make the revival work best. Then they drafted a detailed plan for progress, coordinating the work and shared objectives of 125 organizations - public, private, and nonprofit.

Above all, they learned, the people wanted jobs, followed in close order by training, education, housing, and higher levels of health and safety. For jobs, the Urban Initiative revived action on a $ 6.8 million, 100,000-square-foot light industrial park that had languished for years. It is now scheduled to open in September, with two companies already signed on, and about 300 jobs to be filled. It will provide plenty of parking, high ceilings for trucks, pleasant landscaping, controlled access, and 24-hour security. To get the local labor force ready, PSE&G is working with nonprofits to refer their clients to community-based job-training organizations; in response, the labor force is swarming to sign up, to get ready for the new jobs. The housing authority will build attractive housing nearby, with day care and recreational facilities.

Elsewhere, the Initiative works with its partners in the community to bring in new business, along the transportation backbones of the South Ward; they are taking computers that have been donated to the schools and teaching teachers how to use them; they are working with the Newark Housing Authority to build 200 rental townhouses; and with Metropolitan Ecumenical Ministries, Episcopal Community Development, and Muslim Inc. to develop more affordable housing. They have brought together 20 nonprofits in Community Partners for Youth, to address the health and human-service needs of young people at risk, from child care to GED classes, crisis intervention to leadership training. They have created a consortium of healthcare agencies and hospitals to develop a comprehensive plan that will probably include a mobile clinic to meet the normal needs of people whose only current access to treatment is a hospital emergency room, where the specialties are gunshot wounds and car-crash trauma. They are working with the Fire Department to teach the community about fire prevention, and with the Police Department and the Rutgers University School of Criminal Justice to set up community-policing programs.

PSE&G will measure performance, like growth of tax ratables; improvement in quality of life (qualitative through feedback from focus groups, quantitative in the increase in number and scope of services provided); new jobs created; existing businesses that are growing; and new businesses that have opened. PSE&G will also measure the increase in its utility business in the neighborhood. And thus encouraged, it will adjust the programs in progress, attract more support, and then move on to apply the lessons it has learned in its other inner-city locations around the state.

WILLARD C. RAPPLEYE Jr. was national economic correspondent for Time, editor of American Banker, founding editor of Financier and the Journal of Private Sector Policy, and vice chairman of Financial World. He specializes in reporting on CEO perspective, corporate strategy, and the ways they work in the real world.

GRAPHIC: Illustration; Photograph

LANGUAGE: ENGLISH

IAC-CREATE-DATE: March 31, 1999