

Business Led Regeneration  
Addressing Market Failure in Areas of Urban Deprivation

Context

A significant number of urban areas suffer from long term decline and have registered very high levels of deprivation. Power (2001), for example, demonstrates that in 1999 the 100 most deprived areas in England and Wales are all urban and almost all of the poorest 5% of wards are in urban areas. Other statistics also show the state of deprivation in terms of unemployment, crime, housing, and education. In 1997, the unemployment rate in inner city areas was 9.5%, while it was on average 3.9% for all other areas and many of the unemployed were lone parents (DETR, 2000; Power, 2001). At the same time inner city areas experienced violence of nearly twice the rate than in rural areas and 6.3% of inner city households were burgled compared with 2.6% of rural households (ibid.). Education results have also been lower than the national average (6.4%) with almost 11% of pupils achieving no or only low grade GCSEs (Gripaios, 2002). Meantime, the housing market has effectively collapsed in part of Northern and Midland cities leaving all areas without demand for housing (ibid).

These statistics show that the problem of regeneration of inner city areas is far from being solved. One way of looking at issues in inner city areas is to think them as the result of a 'market failure'. A market failure is often described as "*Anything that prevents the markets from operating freely on the demand or supply side such as institutional restraints and restricted competition*" (Moore and Spires, 2000; p.226). Typical examples of market failure include the reduction of the competitiveness of a firm, of an individual in the labour market or of an area in attracting inward investment of physical, financial, and human capital (ibid).

Over the years, a number of policies have been put in place to attempt to alleviate or solve market failures. These fall into two broad categories: the *redistribution of wealth*, characterised by the local provision of welfare and services by government agencies, and the *creation of wealth* focussing on the ability of cities to attract jobs and investment from the private sector (Hubbard, 1996).

The latter of these categories have been translated into practise by implementing different policy strategies aiming at reverting market failures by increasing employment, improving competitiveness through business support, physical redevelopment of land and buildings in order to both improve the competitiveness of businesses in distressed areas and attract outside businesses to locate within the area. In the UK, there have been several examples of these policy initiatives including the Regional Selective Assistance, Urban Development Corporations, Enterprise Zones, Urban Programme, City Challenge, and the Single Regeneration Budget.

These policies have had mixed results, but the fact is that, at best, they merely prevented the situation from getting worse (Gripaios, 2002). More recently, UK policy makers have sought to learn from US experiences and in particular from ICIC (Initiative for Competitive Inner Cities). ICIC is the translation into policy practise of the work of Michael Porter whose main focus of research has been on the determinants of national competitive advantage in the

early 1990s (Porter, 1990). More recently, in 1995, Porter has tried to apply the concept of competitive advantage to inner city areas. The ICIC mission statement describes Porter's vision as "... a sustainable inner city economic base will depend on private, for-profit business development and investments based on economic self-interest and genuine competitive advantage"(ICIC, 2003).

The concepts of ICIC has been translated into the UK with the development of the City Growth Strategy Initiative (CGS) which has been described as "*a market-based approach to urban revitalisation in deprived areas that builds on the competitive advantages and integrates these areas into the wider urban and regional economies*" (ICIC, 2002; p.2).

Porter's approach has been criticised and there is considerable debate concerning the most appropriate models for successfully involving businesses within regeneration in the UK and their ability to promote social cohesion to the benefit of disadvantaged communities. Debates include, for instance, the tension between indigenous growth and inward investment policies in relation to private sector policy, and whether the solution of the problem is creating employment opportunities within inner city areas or linking these areas with the wider labour market (Sawicki and Moody, 1996).

Other issues include whether policy boundaries are based on geographical limits or other measures (e.g. the labour market). In the past, policies drawing clear geographical boundaries have created problems like 'boundary hopping' for firms just outside the area to inside the area to take advantage of government incentives (Potter and Moore, 2000). In other words, should policies target a particular area using a scattered approach or target particular types of businesses?

An additional problem is the extent to which cluster policies are different from previous policies aimed at supporting particular sectors of the economy (O'Sullivan, 2002). Within the definition of a cluster, it is implicit that policies will target a number of companies in a particular sector. It has been argued that this is not a new approach but the re-branding of an old approach (ibid).

The project takes as its starting point theoretical notions that the problems of deprived urban areas are related to a variety of market failures which constrain business activity, and that policy responses should seek to address these failures and build upon the competitive strength of a locality. In this respect, Porter's approach to inner city areas will be examined together with his translation into policy practice (i.e. ICIC).

The next step will include an investigation into the degree of transferability of the ICIC from the US to the CGS in the UK with particular focus on London. The reason for London as a case study location originates from the collaboration with the London Development Agency (LDA) who are interested in policy issues arising from the London area. One of the common differences in terms of regeneration policies between the two countries is the dominant role of corporatism in the US as opposed to the UK that has traditionally been led by a stronger intervention of the government in regeneration.

As well as the UK and the US, some business led regeneration from mainland Europe will be examined to look at 'good practise' where the experience of public intervention in regeneration policies has been similar to the UK, but very different from the US model.

## Research questions

- What are the strength and weaknesses of theoretical formulations of a business led approach to regeneration that emphasise analysis of market failures and the building of competitive advantage?
- How can business led strategies contribute to social cohesion in deprived urban areas and to what extent are geographical concentrations of poverty inevitable in an urban context?
- What are the various factors that limit private sector business activity within deprived urban areas? How have previous interventions sought to address them and with what success?
- What have been the relative returns to business of different styles of policy intervention and how has this benefited disadvantaged communities? What can be learnt from systematic analysis of past policy evaluations in the UK and US, as well as primary analysis of a specific London locality?
- Is it possible to develop a descriptive model that can inform policy development at the LDA?

## Methodology

### 1 Literature Review

The literature review will examine strengths and weaknesses of the theoretical formulations of a business led approach to regeneration.

In the first instance, the project will examine market failures in general and then more specifically focus on theories of market failures in urban areas. In inner city areas a typical example of market failures is the urban land market, but there are many others such as the labour market, financial and capital markets, and the upgrading and provision of infrastructure.

In certain circumstances, markets are not working freely. Policies offer the potential to correct market failures (Moore and Spires, 2000). The literature review will look at the theoretical underpinning of business led regeneration policies with particular attention to the work of Porter examining closely the key concepts of competitive advantage and clusters that come from theories of agglomeration of firms in a particular geographical area (e.g. Krugman, 1991). Alternative approaches will also be examined (e.g. Curran and Blackburn, 1994; Keeble and Tyler, 1994).

### 2 Review of existing policy evaluations in the US, UK and Europe.

The aim of this section is to examine past business led regeneration policies with the final objective of identifying what policies have been successful and in what respect (e.g. economic, social). This section will aim to shed some light on issues related to concentrations of poverty in urban areas and to what extent it is possible to create job opportunities for local residents. However, in order to do this successfully, this section will first look at what a policy is and will provide a background on what a correct policy evaluation is, selecting appropriate tools for effective evaluations.

Rossi and Freeman (1999) and Chalimsky and Shadish (1997) provide a starting point in the literature in this field along with some journals such as *Evaluation Review* and *Evaluation Studies Review Annual*. Tools may include the extent to which evaluations have taken into account additionality, displacement, counterfactual, deadweight and other impacts that may distort the analysis of the effect of the policy on the particular area.

The policy review will concentrate on US business led regeneration policy reviews with particular attention paid on the ICIC initiative. This is expected to help identify common themes in policy making that will be helpful in assessing to what extent the ICIC initiative is transferable to the UK.

At the same time, some business led regeneration initiatives in other European countries will be examined and seen in light of differences with the US. The former follow a policy model based on a more direct intervention of public agencies in policy making than the US model, based on corporatism.

The next part will concentrate on an in-depth analysis of UK business led regeneration policy reviews paying particular attention to the CGS initiative in London and in other parts of the UK.

### 3 In-depth case study of one of City Growth Strategy areas within London

This stage of the project will empirically analyse one the four CGS case study areas within London<sup>1</sup> and combine the use of quantitative analysis with qualitative analysis.

Quantitative analysis will be used as the LDA holds a large number of data on the pilot areas. However, at this stage the extent of the availability of secondary data is not known and an alternative method is therefore explored below.

This includes a combination of quantitative analysis (semi-structured telephone interviews) followed by a number of in depth qualitative interviews. The rationale behind the use of this particular method lies in an attempt to use the strengths of both quantitative and qualitative approaches. On one hand, quantitative analysis provides the opportunity of statistically generalising some of the findings (e.g. SPSS analysis), while that it is an accepted shortcoming of qualitative research. On the other hand, qualitative methods have the potential to strengthen the interpretation of quantitative results by investigating issues in more detail. A similar methodology has been used by Cragg and Dawson (1984; cited in Hakim, 2002) and NEF (2001).

In order to evaluate the impact of businesses on local residents, a number of interviews with a small selected sample of employees in each business interviewed and living in close proximity to the companies will be conducted. The businesses will be selected on the basis of their location, sector, age and size. In addition to size, the companies will be selected on the basis of their belonging to a 'cluster'.

The analysis will also benefit from a number of informal interviews with local 'key informants' including a number of public agencies involved in regeneration including the LDA and other public and non-profit agencies involved in regeneration in the chosen case study area in London. Key informant interviews are important in order to gather a practical knowledge of policies as well as economic and social contexts of the chosen case study area.

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<sup>1</sup> Four areas of the CGS in London include: London South Central (an area at the South of the Thames including Vauxhall, Elephant and Castle, London Bridge and Waterloo), Haringey, Heathrow and the London City Fringe (an area bordering the Northern and Eastern part of the city of London and covering four boroughs namely Camden, Islington, Hackney and Tower Hamlets).

## Expected Outcomes

A number of potential outcomes from the study have been identified:

1. A final thesis for the award of the PhD followed at a later stage, by the publication of the research findings in the form of journal articles
2. The devise of a descriptive model that can be used as a development tool by policy makers at the LDA as an aid to their development strategy. In addition, the model is intended to be a guide for people involved in regeneration to support their policy intervention strategies. It will be based on the analysis of secondary data, and the case study interviews, as well as the investigation of good practise initiatives in the US, UK and Europe. These elements will be combined to develop a model that can represent a possible response to different types of market failures and can be used by the LDA for the development of effective policy strategies.
3. A number of other documents including an final extract of the thesis in the form of a report will be presented to the LDA, and policy evaluation documents will be written during the course of the study.

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