

Inclusive Clusters

By Johnathan M. Holifield, Esq, Adam Kamins, and Teresa M. Lynch

EMBEDDING INCLUSIVENESS IN CLUSTER POLICY AND PRACTICE

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twin forces in the national discourse around economic development policy have the potential to shape the trajectory of the country in the coming decades. One force is a focus on community and economic development that lifts up under-served and low-income areas, many of which are home to a substantial minority population. This has grown in importance and will continue to do so as demographic patterns point to an increasingly non-white American population. The country is expected to become "majority minority" in roughly three decades,¹ yet these same groups have not always been afforded full opportunity to gain valuable work experience or start and run successful businesses, undermining their ability to advance as employees and entrepreneurs.

The second, newer trend is a push towards viewing economies in terms of regional "clusters," defined as interconnected companies and institutions in a particular field and location,² to organize economic development at the local, state, regional, and federal levels. After decades of lagging behind their European counterparts, regional, state, and federal agencies as well as economic development intermediary organizations are increasingly forming initiatives around clusters.³

In 2010, the U.S. Economic Development Administration sponsored a project to develop data and tools to map clusters across the U.S. When complete, the project likely will lead to further investment in cluster-based approaches to spur job creation and growth, thus magnifying the social and economic impacts of cluster organization and practice. Yet these approaches have generally

It is imperative to shift the conversation around industry cluster-based economic development strategies to one that is focused on equitable inclusion and competitiveness. More importantly, there is an urgent need for specific findings and recommendations on how the selection, organization, performance, and communication of cluster initiatives affect competitiveness, equity, and inclusion.

been accompanied by a broad regional focus that increases the likelihood that historically distressed areas and populations will be unable to reap the rewards associated with cluster initiatives.⁴

The merging of these forces, then, represents an opportunity to elevate inclusiveness and build it into the foundations of economic development practice. In our experience, however, economic development leaders within city and county governments have largely ceded cluster initiatives to third parties that often fail to tie cluster development to overall community prosperity and, in the process, leave many low-income communities disconnected from cluster initiatives, especially those that build on technological assets and innovation. This is clear when examining the shortage of city strategies around areas like cluster initiatives, innovation, biosciences, and information technology (IT). The paucity of city leadership in such areas cuts off an important avenue for increased participation of low-income urban residents in regional cluster initiatives.

The threat of non-inclusive regional cluster development is perhaps greatest to low-income neighborhoods in America's cities, their inner cities, which have struggled with net job loss for more than a decade. Over the course of the previous

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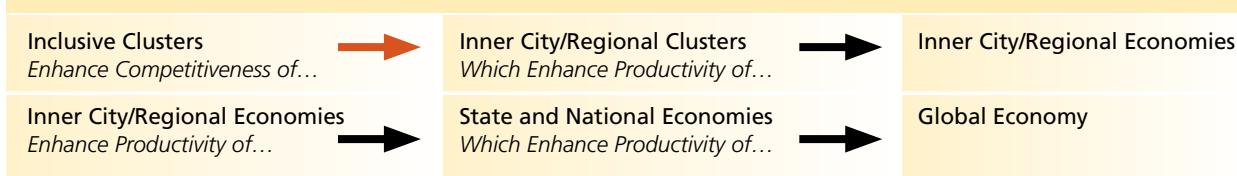
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EMBEDDING INCLUSIVENESS IN CLUSTER POLICY AND PRACTICE

Proponents of cluster-based economic development and regional equity have historically operated without accounting for their considerable joint interests. Not only can the improved outcomes derived from cluster initiatives help to "lift all boats," but an emphasis on inclusiveness results in enhanced productivity and competitiveness. In this article, the authors examine the ways in which low-income and minority populations can more effectively be connected to regional clusters. The proposed framework includes a focus on cluster selection, cluster process and organization, cluster performance, and cluster communication. Such a framework has the potential to transform the current conversation and lead to more efficient pathways to new economic opportunity.

FIGURE 1: AMERICA21⁸ MODEL FOR DIFFUSING INCLUSIVE COMPETITIVENESS



decade, employment in the 100 largest U.S. inner cities declined 6 percent while the rest of the country experienced a small gain. This reflects the continued hollowing out of many urban economies, the effects of which have been borne largely by low income and minority households: the U.S. inner city population is 81 percent minority, 24 percent foreign born, and has a median household income of \$29,800 (compared to 34 percent, 12 percent, and \$51,400, respectively, in the total U.S. population).⁵ Left unaddressed, these trends will likely exacerbate income inequality and severely undermine U.S. economic competitiveness in years to come.

These issues underscore the importance of finding new and creative ways to ensure that residents of distressed communities and economically disadvantaged social groups are empowered to overcome the many challenges that they face. This article focuses on the potential of inclusive cluster development to create opportunities for demographic groups who are struggling economically, as well as in neighborhoods that are suffering from high levels of economic distress. In doing so, it presents a high-level framework to increase inclusiveness in cluster outcomes and discusses how policy at all levels can encourage the adoption of inclusive practices.

INCLUSIVE CLUSTER FRAMEWORK

Cluster-based approaches are flexible, adaptable, and broadly applicable. They have the potential to help create more globally competitive cities and regions, as they are the most effective and efficient tool by which to organize collaborative and actionable economic competitiveness leadership.⁶ By aligning assets and creating shared strategies for competitiveness and growth, states and regions are able to optimize the utilization of existing assets and strategically invest in programs and infrastructure that will benefit all cluster actors, including workers, firms, and intermediaries. Infusing equity and inclusion into these same clusters will also improve overall performance. In short, inclusive cluster development has the potential to help inner cities become the proverbial hub-of-the-wheel of regional economic development, instead of the hole-in-the-doughnut.

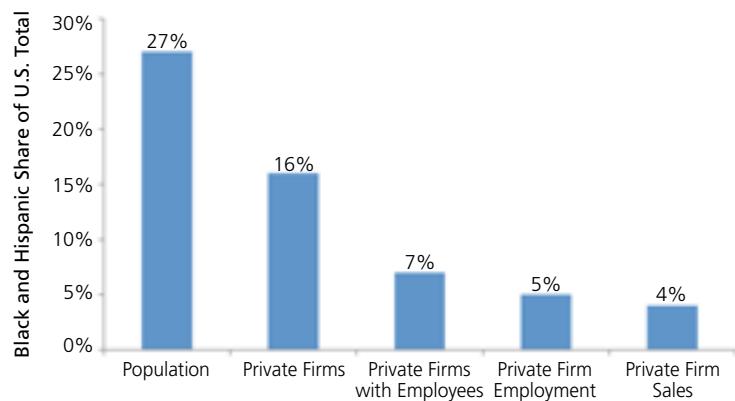
More generally, connecting minorities and low-income citizens to new opportunities will benefit urban, regional, and national economies by tapping new sources of human capital, increasing employment and income, improving educational outcomes, reducing social welfare expenditures, and legitimizing market processes by ensuring that outcomes are more broad-based and fair.⁷ In

these ways, inclusiveness can be part of broader strategies to link economic equity and economic growth, to the enhancement of both. Figure 1 shows how inclusive cluster policy and practice ultimately make for a healthier national economy by demonstrating how inclusive clusters enhance productivity of local and regional economies.

More inclusive approaches to cluster development represent the foundation upon which improved national competitiveness can be achieved, yet discussions around cluster policy and practice typically overlook this vital consideration. As a result, cities, regions, and states are unable to fulfill their economic potential along two key dimensions. First, equity considerations tend to be overlooked and, as a result, the benefits associated with cluster-based economic development bypass those with the greatest need. And just as significantly, the ability of cluster policy and practices to efficiently unleash growth is hindered, as the unique and untapped advantages associated with distressed urban communities – including transportation nodes, education and cultural assets, and proximity to market-leading economic assets and large numbers of potential customers – are not capitalized upon.

The low levels of participation and lack of diversity among cluster leaders and participants exacerbate the existing imbalance in the national economy, which is reflected in the ownership characteristics of U.S. firms. As shown in Figure 2, the modest share of Black and Hispanic firm activity highlights the urgent need for more inclusive cluster policies to grow the country's minority business enterprises (MBEs).

FIGURE 2: BLACK AND HISPANIC SHARE OF U.S. POPULATION AND FIRM OWNERSHIP CHARACTERISTICS, 2007



Sources: 2007 American Community Survey (population data); 2007 Census Survey of Small Business Owners (private firm data)

Cluster policy and practice create leverage points that can be used to ensure inclusiveness in economic development. Broadly speaking, the ways in which cluster policy should be considered are outlined below. The inclusive cluster framework, which was developed by the authors, contains key mechanisms with which to maximize effectiveness: cluster selection, cluster process and organization, cluster operation, and cluster communication.

Cluster Selection

Without an appropriate emphasis on inclusion in the cluster selection phase, the equity challenges associated with cluster-based strategies can become nearly insurmountable. Therefore, an important first step in any inclusive cluster approach involves choosing clusters that promote widespread growth in different and diverse parts of a region, including its distressed communities. While targeting high-growth clusters is acceptable and necessary, the full set of target clusters cannot be limited to only those that create job opportunities for the most highly educated workers in a city or region. Some ways to avoid such an outcome are to consider one or more of the following criteria (although it is important to avoid a “one size fits all” approach):

- Education and training requirements, in order to ensure that barriers to entry are not prohibitive;
- The distribution of jobs and wages, as the ideal targets would promote opportunities for middle-wage jobs and advancement for populations without college degrees;
- The geography of cluster activities, to ensure that not only regional but inner city and other distressed area strengths are being targeted; and
- The capital requirements and availability of investment mechanisms for new enterprises, with an emphasis on clusters that create opportunities for entrepreneurs without access to high levels of personal or “friends and family” wealth.

With these yardsticks in mind, potential focus areas will include a range of industrial and locally traded clusters, both of which are often not leveraged to the extent that they could be. Industrial activity is typically associated with middle-wage jobs and relatively low barriers to entry; local business-to-business activities create opportunities for workers with relatively low education credentials and would-be entrepreneurs without high levels of personal wealth. Conversely, strategies that focus primarily on high-wage, high-skill clusters like IT, in which only two percent of workers have not earned a high school degree, will attract investment and exporting

capabilities to a region but often are inaccessible to most incumbent workers and entrepreneurs.⁹ These clusters should be valued for the significant contributions they make to regional and national exports, and represent an important part of any regional cluster strategy. However, such clusters cannot comprise the entire portfolio of targets – they must be complemented with others that provide a range of opportunities to a broader swath of the population.

One way in which to achieve this is to focus on clusters that can have an impact on many communities within a region. For example, an initiative that focused on entertainment, arts, and retail in Northern New Jersey was designed around broad sources of competitive advantage – all eight counties in the region had the assets to leverage overall growth in the regional cluster. This encouraged a high degree of cooperation, leading to widespread benefits, while allowing for an easier sell to a diverse set of stakeholders.¹⁰

Incorporating these approaches reflects an understanding of the demography and geography of opportunity associated with firms that could be part of the target clusters. Put another way, firms with strong existing networks that could advance the target clusters and support business activity in distressed urban communities provide another key asset when it comes to creating jobs and combating poverty. As such, demographic and geographic expansion through cluster selection and innovative collaborative efforts are key considerations when it comes to positively affecting equity and inclusion.

Cluster Process and Organization

Once a set of target clusters has been identified, the next step revolves around cluster process and organization. This is especially relevant in light of the low shares of employment and sales associated with Black- and Hispanic-owned businesses shown in Figure 2. This makes it imperative to focus on outreach and, where cluster leadership is less representative than optimal, to provide guidance for leaders around the issues of equity and inclusion.

One promising attempt to organize clusters to promote inclusiveness is a multi-partner collaboration called the Northeast Ohio Speed-to-Market Accelerator (STMA). The Northeast Ohio STMA is a regional partnership of organizations – including JumpStart, Inc., MAGNET, Lorain Community College, and NorTech – focused on achieving positive economic impact in the region through the implementation of collaborative, cluster-based regional development. The Northeast Ohio STMA shares a series of goals including:

- Accelerating the formation of new high-growth businesses and growth of existing businesses;
- Promoting the creation of high-wage jobs;
- Enhancing the capacity of small businesses in the cluster, including small and disadvantaged businesses; and
- Ensuring diverse workforce participation in clusters through outreach, training, and the creation of career pathways.

To date, Northeast Ohio STMA has successfully nurtured a pipeline of new opportunities for diverse entrepreneurs, nearly 20 percent of whom operate disadvantaged businesses.¹¹

More broadly, cluster leaders and participants involved in cluster efforts – categories that typically include economic development officials and executives from the private sector – must represent the needs of and broadly resemble key stakeholders. Ideally, this would entail leadership that covers a variety of interests, constituencies, organizations, and neighborhoods, with an emphasis on those that have been historically disconnected from cluster initiatives and other innovative economic development approaches. This not only would result in the sharpest possible understanding of the challenges and opportunities associated with distressed neighborhoods and populations, it would increase the initiative's credibility among stakeholders, helping to fulfill each cluster's potential.

In cases where cluster stakeholders are simply not very diverse for historical or other reasons, it is imperative that initiatives be led by individuals who appreciate the importance of equitable and inclusive growth. These individuals should be committed to creating a pipeline of diverse prospects by reaching out to the schools, training institutions, and business development organizations that are creating the next generation of workers, entrepreneurs, and leaders. Only through the implementation of processes that generate inclusion will clusters' full potential for catalyzing a widespread increase in economic competitiveness and prosperity be realized.

Success in growing a broad and inclusive talent pipeline is critical as well to the success of individual businesses and clusters. For example, in IT clusters in many parts of the United States, finding and retaining workers is the key competitive challenge, which creates both an opportunity and an imperative to expand and diversify the workforce. In Michigan, the public and private sectors are supporting "Michigan Shifting Code," a program to train workers in computer programming and related occupations.

In Detroit, where rapid growth in the city's downtown digital cluster has created thousands of jobs in just a few years, the local training partner is Wayne County Community College District, which has one of the most diverse student populations of any higher education institution in the country. As a result, this partnership has the potential to meet the workforce needs of one of the city's and state's key economic clusters while creating a more diverse workforce, an issue that plagues technology clusters across the country.¹²

Cluster Performance

Building off the first two areas, cluster performance – based on both inclusiveness and more traditional metrics like output and job creation – is the next step in the progression. At this point in the cluster initiative process, the first two stages (selection and process/organization) will have ideally laid the groundwork in terms of creating opportunities and expanding participation. However, it is important to remember that these steps represent *means*, and not *ends*.

Once a cluster initiative is in the performance stage, the focus must shift to ensuring that traditionally disconnected organizations are engaged while underrepresented groups and neighborhoods are competitive. In other words, the first two steps are about creating the background conditions required to encourage inclusive clusters; the third step involves a focus on the results needed for successful cluster implementation.

After an initiative reaches the performance stage, one can begin to quantify its impact in terms of equity and job creation and compare it to other cluster-led approaches that feature different targets or structures. Because measuring cluster performance in terms of equity and inclusiveness is so unusual, at present there are few case studies from which to draw.

One instructive example, however, is provided by NorTech, the award-winning¹³ technology-based economic development intermediary organization serving 21 counties in Northeast Ohio. The organization recognized that the economic competitiveness of Northeast Ohio requires a strong, diverse talent base through the full spectrum of entrepreneurs and employees. To meet this objective, NorTech employs Inclusive Competitive-ness, which is the practice of measuring and improving the performance of diverse populations within innovation ecosystems, emerging industry clusters, and other areas critical to overall economic competitiveness.¹⁴ A new senior leadership position has been created to guide those efforts.¹⁵

Cluster Communication

Finally, if the first three steps are addressed, communication becomes the final step in optimizing inclusive cluster policy and practice. Although the essential ingredient for the success of any cluster initiative is a group of talented, connected people, initiatives have historically employed narrowly targeted communication and outreach to institutions and prospective member companies, both large corporations and emerging entrepreneurial enterprises.

The absence of complementary, community-level messaging and interconnected social networking strategies unduly hampers inclusive cluster development. Put simply, new media and communication tools are needed to cultivate new economic narratives in disconnected communities and foster inclusive cluster policy and practice. In today's highly networked world of interdependent economic ecosystems, communication that nurtures the deep connectivity of wide ranging constituencies is a necessary component of the three aforementioned steps of selection, process and organization, and performance.

ADVANCING INCLUSIVE CLUSTER STRATEGIES

The steps described here must be undertaken in concert with an environment that encourages the creation and operation of new intermediaries that are dedicated

to promoting the necessary conditions to successfully advance cluster-led strategies in distressed communities. Inner cities are served by a rich and diverse set of not-for-profits that typically provides direct services to residents, often with a focus on areas such as education, employment, and human and social services.

The business services that are provided in these communities are overwhelmingly focused on areas such as the construction sector and supplier diversity initiatives. These initiatives serve important needs by broadening participation in traditional economic sectors and opening up institutional and corporate procurement chains to a more diverse set of suppliers. Such efforts can be enhanced by recognizing the incredibly broad and growing set of opportunities within local business services. (See sidebar below on inclusive cluster opportunity.)

At the same time, efforts to expand local business opportunities must be complemented by the creation of new intermediaries that focus on creating linkages between the citizens of economically distressed areas and the technology- and innovation-based clusters that will account for a large share of future national growth, income, and exports. (See sidebar on Northeast Ohio collective action.) These intermediaries can help to create new economic opportunities by cultivating a larger pipeline of talent and supporting the establishment of job-

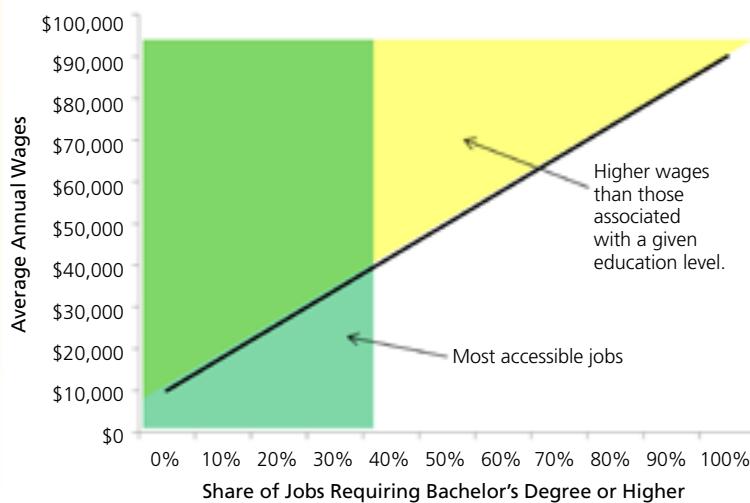
EXAMPLE OF AN INCLUSIVE CLUSTER OPPORTUNITY: LOCAL B2B

The cluster selection process represents a critical first step in creating job opportunities that are accessible to residents of disadvantaged communities. In order to do this, a number of metrics, which are either reported or can be calculated at the six-digit NAICS level,¹⁶ must be examined.

National data from the Bureau of Labor Statistics (BLS) can be used to obtain the occupational breakdown associated with each industry. With each occupation reporting average wages, the educational credentials of its workers, and primary training requirements, one can compute the typical wages and requirements by six-digit NAICS industry. Translating this into cluster-level averages requires calculating a weighted average, with each of the metrics described above weighted by industry-level employment. When these calculations are complete, it becomes possible to plot accessibility (shown right on the x-axis) against average wages (shown on the y-axis) on a chart like the one shown in Figure 3, which demonstrates a hypothetical trade-off between wages and educational attainment.

With this in mind, Local Business-to-Business Services (Local B2B) provides an important example of the type of cluster that economic development practitioners should focus on if the goal is to maximize inclusiveness. Based on data from the Bureau of Labor Statistics and the Economic Census, we found the average national wage to be roughly \$42,000, with more than 25 percent of all jobs requiring at least a Bachelor's Degree. Yet within the Local B2B segment,¹⁷ not only are typical wages slightly higher (just over \$42,000 annually), but only 22 percent of jobs require a college degree; this combination of middle-wage jobs and less

FIGURE 3: UNDERSTANDING THE ACCESSIBILITY VS. WAGE TRADE-OFF



stringent educational requirements makes Local B2B an ideal target for inclusive cluster development.

Local B2B represents a particularly compelling opportunity for a number of additional reasons. For example, firms in this cluster tend to boast high levels of minority ownership, are well-represented in urban neighborhoods, and are necessary in every region. Strengthening Local B2B by promoting linkages to large purchasing organizations represents a straightforward opportunity to not only create jobs, but to set the stage for residents of low-income communities to escape poverty.

NORTHEAST OHIO COLLECTIVE ACTION

Northeast Ohio is the first region in the country where partner organizations in the innovation ecosystem – BioEnterprise, JumpStart, MAGNET, NorTech, and Team NEO – and the Fund for Our Economic Future have united to measure the competitiveness of African and Latino Americans in regional innovation clusters and commit to a common framework for collective action.

The effort will be focused on four main areas:

- Employment
- Entrepreneurship
- Engagement
- Education

The goal is to facilitate the development of a regional cluster inclusion and competitiveness action plan in order to:

- Monitor and facilitate cross-system action, building on existing core programs and creating new strategic initiatives extending out from and linking into the Northeast Ohio innovation ecosystem.
- Partner with organizations within the Northeast Ohio innovation ecosystem to apply and enhance proven technology and innovation-based economic development principles, practices, and strategies to efforts to improve the performance of African Americans and Latinos within regional innovation clusters and emerging industry sectors.
- Organize a subset of senior leaders of the Northeast Ohio innovation ecosystem, who will be responsible for ensuring operational execution and impact throughout the innovation ecosystem.
- Connect and convene public, private, and academic partners to define the vision, strategy, and priorities for inclusively increasing regional economic competitiveness.
- Monitor local, state, federal and regional government; regional and national philanthropy; and corporate funding opportunities.
- Build relationships to attract later stage investment capital to Northeast Ohio.
- Host networking and educational events.
- Communicate progress and performance of efforts to inclusively strengthen regional economic competitiveness.

creating enterprises, including minority business enterprises (MBEs). Unfortunately, these types of intermediary organizations are virtually nonexistent in distressed communities today, severely undermining the ability of residents and businesses in these communities to meaningfully connect to some of the country's highest-potential clusters.

Strengthening inclusive cluster approaches on a large scale will also require advancements in policy and practice across a diverse set of stakeholders, including business organizations and anti-poverty groups but also the academic, research, corporate, and philanthropic communities. These groups must collectively support inclusive cluster demonstration projects, disseminate research and findings, and work to change organizational policies and practices to promote inclusion within cluster initiatives. Where possible, public agencies and philanthropic organizations must relax restrictions on existing funding to allow needed experimentation and tie new funding to commitments to demonstration projects and dissemination of findings. Such advocacy will be critical for the development of an actionable framework to support inclusive cluster policy and practice.¹⁸

NEXT STEPS

It is imperative to shift the conversation around industry cluster-based economic development strategies to one that is focused on equitable inclusion and competitiveness. More importantly, there is an urgent need for

specific findings and recommendations on how the selection, organization, performance, and communication of cluster initiatives affect competitiveness, equity, and inclusion. Never has it been more important to understand how the micro-organization of clusters affects broader equity outcomes. An inclusive approach to cluster development will ensure that future initiatives are developed and evaluated not only on their potential to catalyze growth but on their ability to benefit broad segments of the population, in particular those most in need of new economic opportunities.

Ultimately, efforts that drive toward improving the equity and inclusiveness associated with cluster initiatives represent an important step in the right direction. At a time when concerns about inclusion, inequality, and job creation have permeated so much of the national discourse, it is vital to leverage one of the most effective economic development tools that exists today – cluster policy and practice – to address these issues. In fact, cluster strategies and tools can eventually be leveraged more broadly to organize inner city residents and communities to maximize the collective benefit to them. Ultimately, such a focus represents not only a pathway to prosperity for those who have often been bypassed by traditional economic development strategies, but also a key to preserving and enhancing our national competitiveness. ☰

ENDNOTES

- 1 Based on U.S. Census Bureau projections, which can be found at <http://www.census.gov/population/www/projections/analytical-document09.pdf>.
- 2 See, for example, <http://www.isc.hbs.edu/econ-clusters.htm>.
- 3 See, for example, Mark Muro and Sarah Rahman, *Budget 2011: Industry Clusters as a Paradigm for Job Growth*. The Metropolitan Policy Program at The Brookings Institution. Available at <http://www.brookings.edu/blogs/up-front/posts/2010/02/02-fy11budget-cluster-muro-rahman>.
- 4 Teresa Lynch and Adam Kamins. *Creating Equity: Does Regionalism Have an Answer for Urban Poverty? Can It?* ICIC Research: September 2011.
- 5 Demographic data are based on information from the 2005-09 American Community Survey (ACS); inner city definitions are from ICIC's State of the Inner City Economies (SICE) database.
- 6 Johnathan M. Holifield, Esq., *Why Inclusion Matters for Economic Competitiveness*, ICIC Ask the Expert: August 2012. <http://www.icic.org/connection/blog-entry/blog-ask-the-expert-why-inclusion-matters-for-economic-competitiveness>.
- 7 See for example, Pastor, Manuel and Chris Benner. "Been Down So Long: Weak-Market Cities and Regional Equity." In Richard M. McGahey and Jennifer S. Vey, eds., *Retooling for Growth*. New York: American Assembly and Columbia University, 2008; Katherine S. Newman, James B. Knapp Dean of the Arts and Sciences, Johns Hopkins University, Testimony to the Senate Finance Committee, Hearing on "Drivers of Intergenerational Mobility and the Tax Code," July 10, 2012; Robert Weissbourd, "Strengthening Communities for Regional Prosperity." The Living Cities Policy Series, 2006.
- 8 The America21 Project is a nationally networked and regionally focused social enterprise to advance Inclusive Competitiveness – connecting diverse populations to the Innovation Economy – through STEM education achievement, high-growth entrepreneurship, and private capital formation and investment. <http://blackinnovation.org>.
- 9 Detroit Works Project Technical Team. *Detroit Strategic Framework Plan*, October 2012 (Draft).
- 10 Based on an interview with a key stakeholder in Newark, NJ.
- 11 Disadvantaged business defined by the Small Business Administration, <http://www.sba.gov/content/8a-business-development>.
- 12 Ben Worthen, "The Tech Industry's Diversity Problem," *The Wall Street Journal*, June 1, 2009.
- 13 Northeast Ohio Organizations Receive International Recognition for Economic Development Approaches, <http://www.nortech.org/news-room/press-releases/northeast-ohio-organizations-receive-international-recognition-for-economic-development-approaches>.
- 14 The Inclusive Competitiveness concept was developed by Johnathan M. Holifield, Esq., of The America21 Project. <http://www.blackinnovation.org>.
- 15 NorTech Adds Economic Inclusion Expert to Leadership Team, <http://www.nortech.org/news-room/press-releases/nortech-adds-economic-inclusion-expert-to-leadership-team>.
- 16 NAICS refers to the North American Industry Classification System that is used to identify various types of business activities.
- 17 Local B2B was defined based on an exercise in which all six-digit industries were categorized into various segments as part of a Major Purchaser Study conducted by Mass Economics and ICIC for the Detroit Economic Growth Corporation (DEGC).
- 18 The America21 Project has explicated this progression in its "T.A.P.I.M." (Thought – Advocacy – Policy – Investment – Market) Model, see "Inclusive Competitiveness: Glossary of Terms," <http://blackinnovation.org/about/>.



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