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Harnessing the Economic Power of Anchor Institutions Lessons learned through Living Cities investments from 2010 through 2013

INTRODUCTION

For generations, cities have been places where people of every background have sought opportunity. But as urban economies have evolved in recent decades, our cities have experienced sharp growth in economic disparities, and many communities have suffered. At Living Cities, we believe that an important part of addressing these disparities is to leverage cities' economic assets in order to better create, prepare people for and connect them to economic opportunity.

Among the greatest assets found in cities are large, geographically rooted businesses such as corporate headquarters, sports teams, universities and hospitals (often called “anchor institutions”). Our work to date has focused on universities and hospitals. These institutions own and manage vast real estate holdings, purchase many goods and services, and rank as the largest employers in 66 out of the 100 largest inner cities in the U.S.¹. Anchors and their executives are often called upon to play the leadership roles that business leaders did in prior eras, before globalization weakened their ties to place.

Over the past three years, Living Cities has been testing the hypothesis that anchor institutions can play a significant role in creating economic opportunity in cities. Our largest learning laboratory for this work has been The Integration Initiative, an \$85-million effort which supports leaders in five sites who are working to overhaul long obsolete systems and fundamentally reshape their communities and policies to meet the needs of low-income residents. Almost all of The Integration Initiative sites have developed strategies involving anchor institutions – mainly focused on real-estate development (“placemaking”), hiring and procurement – a subset of a broader range of anchor institution activities including research and development and faculty engagement. In 2012, drawing from the work we have supported through The Integration Initiative, we held a [Design Lab](#) to explore what anchors and other leaders in metropolitan regions can do collectively to further leverage these anchor business functions.

These efforts remain in their early stages and, for the most part, have not to date produced change at a scale commensurate to the challenge. But Living Cities is learning from this work—both about approaches that are promising and about challenges and barriers to results at greater scale. We have come to believe that the role anchors are being asked to play is more than any one institution can do on its own. Rather, through the work and reflections we summarize below, we have come to the following new hypotheses about how to maximize the economic impact of these institutions:

1. If a city wants to maximize the economic impact of anchor institutions, then local public and private leaders, along with anchors, need to align their collective efforts towards this outcome;

¹ Source: Initiative for a Competitive Inner City, *Creating Shared Value: Anchors and the Inner City*, June 2011
http://www.icic.org/ee_uploads/images/Anchor_Paper_Web2.pdf

2. If anchor institutions are to orient their business practices to benefit the local economy and local residents, then doing so should carry business benefits for the institution, and strategies to support them in their work must recognize the limits on what they can do as businesses; and
3. If cities are to transform systems to increase economic opportunity and reduce economic disparities, then leadership from anchor institutions needs to be engaged in this systems-level work.

In the following sections, we present more detailed learnings from our investments.

PLACEMAKING

Initial Hypothesis: Through their real-estate development and related activities, anchors can help to revitalize low-income communities and create economic opportunities for their residents.

Results to Date: Placemaking efforts we have supported are helping to attract people and businesses to target neighborhoods, which may, in turn, contribute over time to local or even regional economic growth.

Looking Ahead: Developing a clearer framework for connecting anchor placemaking efforts to local and regional economic strategies, and strengthening the systems that support investment in target communities, may be two frontiers in this work.

Anchor placemaking work² in many Integration Initiative sites long pre-dates The Integration Initiative itself. The Johns Hopkins University in Baltimore, for example, has engaged in placemaking work since the 1990s. Historically, anchor placemaking initiatives have been driven by anchors themselves, and some critics have faulted them for being too focused on anchors' priorities at the expense of community priorities, or, on the other hand, for being insufficient by themselves to achieve transformational change in neighborhoods. Integration Initiative sites have sought to connect anchor revitalization efforts into a broader array of neighborhood revitalization and local economic development strategies, as well as to networks of public, private, nonprofit and philanthropic leaders governing that work.

Placemaking work in Integration Initiative sites has included real-estate development (both by anchors and by other actors such as community development corporations), business attraction, and "live local" initiatives focused on specific target neighborhoods. These efforts are taking place in connection to other placemaking strategies affecting these same neighborhoods and/or geared towards strengthening sites' regional economies. Detroit's Live Midtown program, for instance, has helped over 500 individuals (mostly anchor employees and their families) to move to or stay in the Midtown neighborhood where the anchors are located. Live Midtown has been so successful that it spawned an offshoot, Live Downtown, funded entirely by five private employers. The program comes as part of a larger strategy to make Midtown an economic core of a renewed Detroit, a strategy which also includes changes to land use policies and an ambitious light rail line connecting the community with other parts of the city.

² Placemaking has different definitions in the field – in context, when we say "placemaking" we generally mean the revitalization of distressed communities around anchors.

These approaches are promising, but also reveal the complexities in maximizing the impact of placemaking strategies for cities, neighborhoods and their low-income residents. Alignment is one such challenge. Ideally, anchor investments should be aligned with the overall local [capital absorption ecosystem](#) – the constellation of actors, resource flows and policies that support the aggregation and deployment of capital for public purposes, including placemaking. This alignment, however, is not so easily achieved. To begin with, cities and neighborhoods do not always have clear placemaking strategies, which can make it difficult for anchors and others to align their efforts and investments coherently. As a start towards alignment, anchors and other sources of public and private capital can reach out to one another to leverage and strengthen their investments in priority places.

Geographic scope can be another challenge: Ideally anchors should be interested in investing in a geography that is broader than just their local neighborhoods, because the vitality of the overall city and region is important to the overall success of the anchor institutions. To date, however, institutional interest in the placemaking work has often weakened as the geographic scope of the work expands. Addressing these two challenges – alignment and geography – remains a frontier for the work.

HIRING

Initial Hypothesis: With the right supports, anchors can increase their hiring of low-income local residents into entry level positions.

Results to Date: To date, pilots have placed several hundred individuals into jobs, a figure which, while not insignificant, falls short of aspirations.

Looking Ahead: For the impact of this work to increase, local leaders may need to better align job training offerings with anchor hiring needs, create opportunities for incumbent workers within anchors to advance, and find better ways to implement hiring initiatives across anchors' organizational silos.

To date, Integration Initiative sites have generally sought to advance two types of anchor hiring strategies: (1) Pilots with training providers to help low-income community or city residents get placed into anchor jobs; and/ or (2) working with anchors to analyze and adjust their internal policies to better support this kind of hiring.

Pilots in three sites—Baltimore, Cleveland, and Detroit have to date placed several hundred individuals in jobs within anchors and their suppliers. These pilots may reach greater scale over time, though it is not yet clear how long that will be and what order of magnitude these job placements might ultimately take. The pilots have run into barriers both within anchors and as a result of issues in local workforce development systems, including: greater-than-expected barriers to employment among trainees from target communities (e.g., basic education, soft skills); a tendency for incumbent anchor employees to stay in their positions, driven by the recession and by a lack of clear advancement opportunities within anchors (an issue which is perhaps reflective of a lack of clear career ladders in healthcare systems more broadly); and varying hiring processes and requirements across anchors, and across silos within anchors, which make training approaches more difficult to scale and changes to anchor hiring policies more difficult and slower to implement.

Sites are currently seeking to address these issues more fully. In Cleveland, for example, anchors are participating in a public-private working group seeking to better align workforce training with the needs of employers, including the anchors themselves (e.g., by exploring standards for job readiness around which job training can be organized). In Baltimore, several anchors are participating in a roving career coach program, which in turn is helping current anchor employees and area residents get jobs and advance their careers, which helps to create openings for new employees to fill.

Based on our experience supporting this work, we are coming to believe that, if anchors are ever to hire significantly larger numbers of low-income people, job training offerings will need to be better aligned to anchor hiring needs, anchors and their partners will need to identify and implement solutions to help current employees advance their careers, and new approaches will be needed to help implement hiring initiatives across anchor silos.

PROCUREMENT

Initial Hypothesis: By capturing more of anchors' procurement spending locally, anchors could strengthen local economies and create jobs for low-income people.

Results to Date: We have seen some signs of incremental progress, but the initiatives we have supported are far from creating significant numbers of new jobs, including for low-income people, or generating spillover effects in their local economies.

Looking Ahead: Components of local procurement "systems" are currently missing which, if developed, could help the work reach greater scale. These include anchor purchasing data and measures to address gaps between anchor contracting requirements and local business capacity to meet those requirements.

Procurement strategies are rooted in the hypothesis that, if enough of anchors' spending can be captured locally, two things could happen: (1) participating local vendors could expand and create new jobs; and (2) the resulting increase in economic activity could generate "spillover effects" such as growth of related firms or creation of new businesses. A 2010 study by U3 Ventures in Detroit suggested that the city could capture up to 30 percent of their anchors' total procurement dollars (over \$4 billion a year) locally. Over the past three years, sites have sought to lay the groundwork for this kind of scale by analyzing anchor purchasing needs to identify opportunities for local procurement, identifying types of industries (e.g., food service) well-suited for local procurement and likely to create low- and mid-skill jobs, and connecting suppliers in target communities directly to anchors.

Progress towards this goal has been incremental, and it has been difficult to get past one-off deals with suppliers to create the systems necessary to fully harness local procurement. Accordingly, a critical achievement of The Integration Initiative sites to date has been to surface systemic challenges in this work. For example, absent a clearly documented business case for buying locally, it has been difficult to convince anchors to undertake this work. It also can be difficult to decide how best to tailor local procurement strategies to anchors' actual business needs. For example, anchors may in some cases need greater flexibility from suppliers on order quantity, timing, etc., which smaller local firms may be

better-positioned to provide, while other supply needs may indeed best be provided by larger national or multinational companies.

There are more concrete challenges as well. Data on anchor supply needs and purchasing activities, viewed by many as essential to the work, has been difficult to aggregate, in at least some cases due to anchors' concerns about ceding competitive advantage by sharing that data. In addition, anchors often outsource some of their procurement to Group Purchasing Organizations, which operate globally and prioritize cost savings. And gaps exist between anchors' procurement requirements (e.g., construction bonding) and the capacity of local businesses, many of them small or midsized, to meet these requirements. Local small business development systems, in turn, are currently not configured to support local businesses in competing for institutional contracts, for example by providing back-office support to help smaller businesses apply for anchor contracts, or pooled construction bonds for small contractors.³

Though the barriers are considerable, there have also been steps forward. Local vendor fairs have helped to create new connections between anchors and local businesses. Several Integration Initiative sites have convinced at least one supplier to relocate within city or neighborhood limits, creating some jobs in the process. Further innovation in anchor procurement (e.g., enhancements to procurement software to support appropriate data collection) could potentially help collect that data without compromising anchors' competitive needs. Meanwhile, local leaders in the Twin Cities successfully negotiated local hiring requirements into a Group Purchasing Organization contract. And in Detroit, local sourcing appears to have increased by a few percentage points. Ultimately, we do not yet know whether, at their maximum possible scale, procurement strategies will create net gains in jobs and economic activity or simply "rob Peter to pay Paul" by moving jobs from one place to another. However, we believe that, for these initiatives to get to the scale that we can test the hypotheses at their root, the challenges described above will need to be addressed.

ONGOING, CROSS-CUTTING ISSUES IN THE WORK

As The Integration Initiative sites' early-stage anchor work evolves, we are seeing some additional issues play out which, if better understood, might accelerate progress:

- **Engagement:** Engagement between anchors and their surrounding communities can help to "reality check" the strategies discussed in this paper. However, the onus for this kind of engagement has typically been placed on anchors, which do not always consider it their responsibility to create or sustain the organizational infrastructure necessary to support that kind of engagement. Several of our sites are experimenting with new approaches to address this challenge: Cleveland, for example, has created Innovation Teams including community residents, anchor representatives and others to identify and help address issues of common interest.

³ For additional information on the potential for and barriers to anchor procurement strategies, please see <http://www.livingcities.org/knowledge/media/?id=100>

- **Intermediaries:** Important pieces of work are currently nobody’s “day job.” For example, it is currently no one’s responsibility to address gaps in capacity between anchors’ supplier requirements and local small businesses’ ability to meet these requirements. In order to address these issues, new entities may be needed, and existing entities may need to take on new responsibilities. In Integration Initiative cities, the cross-sector “tables” we have supported have been brokering discussions between anchors and other players to move the work described above forward. Nationally, intermediaries like Initiative for a Competitive Inner City and U3 Ventures are seen as trusted providers of support and expertise and may choose to take on some of these tasks; additional entities may or may not be needed to take on parts of the systemic work that these entities may not be positioned to do themselves.

Data: Local leaders in Integration Initiative sites have told us that good data, particularly from anchors, is critical for reaching greater scale with this work. Unfortunately, aggregating this data has been a challenge. For example, three Integration Initiative cities considered building or began to build anchor procurement databases and decided against it, concluding that the challenge of collecting the data outweighed their ability to make at least some progress without it. Broadly, data sensitivity issues appear to be more pronounced around procurement than hiring. It may take time and perhaps innovation in the data collection mechanisms themselves to facilitate this kind of data-sharing. Data is also important for evaluating the effectiveness of anchor strategies. A recent [report](#) explores what indicators, both in terms of procurement and hiring, as well as in terms of community well-being, might be apt for a “dashboard” that could measure and track developments in this area.

- **Defining “Local:”** “Local” has been a catch-all term for work at multiple geographies (neighborhood, city, region). In practice, different definitions of “local” can lead to varying results. In hiring work, for example, defining “local” as “city” might make it easier to find candidates for training for anchor jobs, but the overall effort might then have less impact on the neighborhoods immediately surrounding the anchors than desired. More concrete guidance on navigating these tradeoffs could help those leading anchor strategies to tailor their efforts to maximum effect.

CONCLUSION

Through the work going on in The Integration Initiative, leaders are now testing and refining approaches to engage anchors as mission-driven businesses rather than charitable or socially obligated entities, to align local systems to make it easier and more beneficial for anchors to play what roles they can, and to engage anchors as participants in efforts towards deeper systems change. Thanks to their efforts, we’ve increasingly come to realize that anchors, acting on their own, cannot reach their full potential as creators of opportunity for cities and their low-income residents – let alone produce the more fundamental transformation of systems that is needed to reduce the disparities anchors are now being called upon to address. As a result, our thinking has evolved and become more nuanced about the ability of anchor institutions to connect low-income people to economic opportunities in cities. Our collective learnings from this work may be applicable not just to universities and hospitals, but also to a wider array of entities from sports teams to local governments. We invite readers of this report to share their own reflections on their anchor-related work, and offer their thoughts on how this work might come closer to its full potential.