

NCLR
NATIONAL COUNCIL OF LA RAZA

An Introductory Guide to

**The Subsector Approach to
Community Economic
Development**



The National Council of La Raza (NCLR)

The National Council of La Raza (NCLR), the largest constituency-based Hispanic organization in the nation, exists to improve opportunities for the more than 28 million Americans of Hispanic descent. A nonprofit, tax-exempt organization incorporated in Arizona in 1968, NCLR serves as an advocate for Hispanic Americans and as a national umbrella organization for more than 220 formal "affiliates," community-based organizations serving Hispanics in 37 states, Puerto Rico, and the District of Columbia. NCLR seeks to create opportunities and address problems of discrimination and poverty through four major types of initiatives:

- ▶ Capacity-building assistance to support and strengthen Hispanic community-based organizations.
- ▶ Applied research, public policy analysis, and advocacy on behalf of the entire Hispanic community, designed to influence public policies and programs so that they equitably address Hispanic needs.
- ▶ Public information efforts to provide accurate information and positive images of Hispanics in the mainstream and Hispanic media.
- ▶ Special catalytic efforts which use the NCLR structure and reputation to create other entities or projects important to the Hispanic community, including international projects consistent with NCLR's mission.

NCLR is headquartered in Washington, D.C. and has program offices in Chicago, Illinois; Los Angeles, California; Phoenix, Arizona; and San Antonio, Texas.

An Introductory Guide to

The Subsector Approach to Community Economic Development

Prepared by:

Curtis M. Dowds, Ph.D
Balancing Interests in Economics

and

Jorge Hinojosa
Director
NCLR Midwest Regional Office
Office of Technical Assistance and Constituency Support

Raul Yzaguirre
President

National Council of La Raza
1111 19th Street, N.W., Suite 1000
Washington, D.C. 20036

© July 1999

ACKNOWLEDGEMENTS

This Introductory Guide would not have been possible without the support of the National Council of La Raza (NCLR) Office of Technical Assistance and Constituency Support (TACS).

The authors would like to acknowledge and thank several people who provided guidance throughout this project. First and foremost, we would like to thank Tom Espinoza, Vice President for TACS, and Mark Van Brunt and Bernardo Ramirez, Deputy Vice Presidents for TACS, for their vision and support not only for this document but in the search for new economic and workforce development tools so greatly needed by our community. In particular, we would like to thank Mark Van Brunt for being such a strong advocate for our work.

Many other people provided invaluable comments and support. At NCLR, we would like to thank: Charles Kamasaki, Senior Vice President for Research, Advocacy, and Legislation, for his significant feedback and constant push for NCLR to identify and incorporate new approaches into its work; Margot Córdova and Kyle Shinseki, former Community Development Specialists, for providing important comments in the first rounds of this document; Magdalena Durán, Clarissa Martínez, and Alvin Cruz, NCLR Regional Office Directors, for their comments and promotion of the Subsector Approach in their respective regions; Cristina Bryan for her essential editorial and proof-reading oversight; and Ofelia Ardón-Jones, Design Specialist with the Graphics and Design Unit, for the design and layout of this Guide.

The authors would also like to thank: Elvira Díaz, Vice President of Resource Development, MAAC Project, San Diego, California; Miguel Palacio, Associate Director, Association House of Chicago; John "Juanito" Glaser, Director, Hispanic Economic Development Corporation, Kansas City, Missouri; Arturo López, Executive Director, Coalition of Florida Farmworker Organizations, Homestead, Florida; Dave Ranney, Professor, Urban Planning & Policy Program, University of Illinois at Chicago; Bill Howard, Director, Center for Urban Economic Development, University of Illinois at Chicago (UICUED); and Tim Lohrentz, Senior Economic Development Planner, UICUED.

This document was prepared by NCLR's Office of Technical Assistance and Constituency Support (TACS) with support from the Ford Foundation and Bank of America.

This Introductory Guide is dedicated to all the working women and men in search of better lives for themselves and their families.

TABLE OF CONTENTS

Foreword

Introduction	1
Purpose of Introductory Guide	1
Target Audience	1
Why Use The Subsector Approach To Community Economic Development?	2
Programmatic Overview	5
CHAPTER 1	9
The Subsector Approach: A New Community Economic Development Strategy	9
Income-Building: The Basis For Sustainable Community Economic Development	9
Traditional Approaches To Improving Economic Opportunity In the United States: Descriptions and Limitations	10
Regional Economic Development	10
Community Economic Development	12
Employment and Training	16
A Word On Consumption and Subsidies	18
The Subsector Approach - Important Distinctions	19
Looking for Synergies - Moving Beyond Individuals To Enterprises and Productive Systems	19
Enterprise Development - Working With and Linking Dynamic Firms To The Community	20
Workforce Development - Developing The Specifics and Linking Community People To Enterprises	21
Looking For Balance In Economic and Workforce Development	22
CHAPTER 2	23
Phase I - Identifying a Subsector	23
Doing the Regional Industry Scan	23
"Data" Sources and Uses - Quick Overview	24
Moving Beyond Data - Getting Into the Field	27

TABLE OF CONTENTS CONT.

CHAPTER 3	31
Phase II - Subsector Analysis: The Conceptual Framework	31
Thinking About Your Local Economy - Doing Your Economic Development Homework	31
The Vertical System - Production and Distribution	31
Market Niches - The Horizontal Economy	34
The Subsector Map	35
Why the Detail?	40
The Information-Gathering Methodology	41
CHAPTER 4	43
Phase III - Project Development	43
Subsector Organization - Building Your Relationships With The Private Sector	43
Strategic Institutional Partnering	44
CHAPTER 5	49
Phase IV - Project Implementation	49
Enterprise Facilitation	49
Worker Enabling	52
Conclusion	57
Endnotes	59

FOREWORD

In one form or another, the National Council of La Raza has been in the business of job creation and job training for its entire 31 years of existence. Our first challenge was simply to try and make sure our community got its fair share of the available public and private sector programs. I'm pleased to note that a few years ago, after more than two decades of advocacy, the data showed that Hispanics finally were equitably served by federal job training programs. Our very first affiliates included community development corporations and other groups involved in economic development programs. Here, too, we've been challenged to assure that Latinos have access to an effective institutional infrastructure that can promote full inclusion of our community in housing and economic development strategies.

In recent years NCLR has become aware of the limitations of "traditional" workforce and community economic development models. The causes for the often weak results such models produce are multiple and complex, and in some cases we believe the criticisms of these programs is excessive. However, as a result of the research we've conducted and our own practical experience, two relatively simple strategies have emerged to address these limitations. First, Latinos need front-line practitioners capable of developing and implementing more effective workforce and economic development initiatives, incorporating the latest "cutting edge," innovative techniques. Toward that end, NCLR is committed to increasing economic and workforce development professionalism everywhere we can, in our own ranks, among our affiliate institutions, and with our many public and private sector partners.

Second, NCLR decided to identify and test some new approaches. One "traditional" model focused exclusively on the "supply side" of the labor market, and tried to improve the human capital characteristics of workers. More recently, greater attention has been given to "demand side" approaches, which emphasize supporting private sector firms that provide good jobs for members of our community. We thought that one productive approach might be find a model that could link these two approaches, but do so in a way that could be effectively implemented by community-based practitioners.

In this connection, NCLR has identified as one of its principal development tools the Subsector Approach, a methodology adapted from work conducted by agricultural extension services. By supporting the development of the Subsector Approach through this Introductory Guide, and in our day-to-day technical assistance work in community economic and workforce development, we seek to promote:

- ▶ Widespread use of an appropriate investigative tool to help our community understand better how the private sector works and how jobs are created,
-

-
- ▶ Through the understanding developed and a process of developing information which emphasizes direct outreach through on-site interviews, build stronger long-term relationships between Latino workforce development groups and key players in their regional economies;
 - ▶ A capacity within our affiliate network to shape workforce development and job recruitment initiatives that respond more precisely to the market's demand for products and people; and, perhaps most importantly,
 - ▶ A stronger, more sustained flow of income into our communities.

Information is power. Resources are scarce. Effective economic and workforce development projects for the Latino community require a precise understanding of the requirements of competing in the modern economy. We urge our affiliates, and for that matter other practitioners, advocates, and institutions committed to poverty alleviation, to consider mastering the demands of this complex, but ultimately common sense, tool for individual and community empowerment.



Raul Yzaguirre

President

INTRODUCTION

PURPOSE OF INTRODUCTORY GUIDE

The National Council of La Raza (NCLR) hopes to accomplish several goals with this guide, namely:

- Define and provide the conceptual framework for the **Subsector Approach** and the analytical practice that underlies it, known as **Subsector Analysis**.
- Provide grassroots Hispanic institutions with a firmer understanding of the global economic context, and a rationale for why they might wish to engage in the Subsector Approach to community economic development.
- Present information on the subsequent phases and intervention strategies that community-based organizations might pursue following completion of a Subsector Analysis.
- Encourage Hispanic agencies to obtain subsequent NCLR documents, which will present a complete step-by-step process that these local community-based initiatives with proper support can follow to design and implement a Subsector Approach project in their regions.

TARGET AUDIENCE

This guide is aimed at grassroots Hispanic institutions who have watched as economic opportunities have continued to bypass their communities and who want to develop the tools they would need to become more effective economic development "players" and, by so doing, provide stronger benefits to their communities. These grassroots groups include both community-based organizations (CBOs) with essentially social missions, and community development agencies (CDCs) that have been involved in a range of economic initiatives, including housing and other real estate projects, workforce development like JTPA job training, and small business development, often working exclusively at the neighborhood level.

The purpose of this document is to empower these local Hispanic agencies to confront the economic obstacles facing their communities by taking a pro-active role in developing new opportunities.

If you would like to learn how to play a role in shaping the type and quality of jobs and entrepreneurial opportunities available to your community, and are also interested in developing a capacity to understand the economic forces that affect the economic life and future of your community, the material presented here is for you. While this introductory guide is intended primarily for Hispanic CBOs/CDCs, it can be used by any organization with similar objectives that wants to get involved in economic development to improve opportunities for people who find themselves on the margins economically and socially.

This guide is aimed at grassroots Hispanic institutions who have watched as economic opportunities have continued to bypass their communities

The purpose of this document is to empower these local Hispanic agencies to confront the economic obstacles facing their communities by taking a pro-active role in developing new opportunities

As economic life has become increasingly complex and interconnected, it has become more and more difficult for low-income people and communities to understand how they fit into this new global economy

Through this document NCLR intends to encourage its affiliates and other interested organizations to consider a particular way of working toward job creation, economic empowerment, poverty alleviation, and enterprise support. NCLR calls this strategy "the Subsector Approach." For most grass-roots institutions, the way of working being suggested will be a significant departure from earlier initiatives. For a few who have followed the discussion of "clusters" or "networks" in the economic development literature, the general approach will look familiar. However, the specifics of the strategy embrace new methodologies. These innovative methodologies have been adapted to community economic development and the problems of urban and rural poverty from a methodology called "Subsector Analysis," which was first developed as an agricultural extension strategy and then used overseas to promote small businesses in the lesser-developed economies.

WHY USE THE SUBSECTOR APPROACH TO COMMUNITY ECONOMIC DEVELOPMENT?

Tremendous structural changes have been occurring in the U.S. economy. As economic life has become increasingly complex and interconnected, it has become more and more difficult for low-income people and communities to understand how they fit into this new global economy. At the same time the political will to support low-income communities has diminished. Technological change and trade that allow global corporations access to a never-ending supply of very low-wage and very trainable workers have been undermining wages in the United States. The U.S. working middle class built on union or union-influenced jobs has weakened as "temp work" with lower wages and invariably fewer benefits has expanded dramatically. Workers without advanced educations, who tend to be trained on-the-job in specific, job-related skills, find themselves under increasing economic stress.

Well-paid, lifetime manufacturing jobs—the historical economic bedrock for this working middle class—are disappearing, either moving off-shore, falling to technology, or being shifted to temporary work. Trade- or technology-displaced manufacturing workers have been finding that the skills developed earlier are not easily transported to other well-paying jobs in the new economy. Unorganized, poorly-paid jobs in the lower reaches of the service economy have been multiplying as the economy restructures and even expands. For these and other reasons, the distribution of income in the U.S. has been polarizing. Poverty persists, and the gap between the rich and the poor has been widening.

These are major challenges that Latino communities and the organizations that represent them must face. Clearly, these issues will only get more complex. And these negative trends may well continue to affect Latino communities disproportionately. Meanwhile, many Hispanic CBOs feel that such issues are daunting and beyond their control; they tend to see themselves as bystanders to disruptive change rather than potential agents of constructive change.

This guide challenges the notion that Hispanic CBOs/CDCs lack or cannot develop the capacity to have a major impact on the economic future and well-being of the people they represent. To the contrary, Hispanic agencies are critical to the successful integration of Latinos in today's workforce. No other institutions know the Latino community as well or are in such a good position to mobilize the community's vast resources. They are often the *only* organizations with the credibility and commitment to serve the community, especially its most hard-to-reach members: at-risk youth, poorly-educated men and women entering the workforce, and trade-dislocated workers.

While many Hispanic CBOs/CDCs already work on federal employment initiatives such as Welfare-to-Work and School-to-Work, it is still important that they develop the most effective workforce and economic development practices/methods for reaching and improving the lives of their constituent communities. More effective initiatives will create better-paying jobs and entrepreneurial opportunities in industries with a future—industries that offer a long-term potential for growth and job creation. But what skills do we need as intermediaries to create better-paying jobs and entrepreneurial opportunities in industries with a future? This introductory guide will provide an overview of the fundamental skills Hispanic CBOs/CDCs need to understand, intervene in, and impact our economic reality.

The Subsector Approach is a community economic development and poverty alleviation strategy. The principal goal of the Subsector Approach is to *build community incomes* by improving access to well-paying jobs and entrepreneurial opportunities for people at the bottom rung of income distribution. Only good jobs with decent incomes in strong and growing firms will bring these communities sustainably into the middle class. But where are those good jobs with decent incomes? And where are those strong and growing firms? The Subsector Approach is a way of learning where these opportunities lie in and around a community.

The Subsector Approach is innovative because it is a holistic, integrated systems strategy for empowering low-income communities. It builds upon and unifies a number of earlier, often fragmented approaches to community renewal. But what does this mean? At the most basic level it means that you work with firms *while* you work with people. In other words, it integrates initiatives aimed at enterprise development with workforce development. Historically, continuing education and training in this country have been largely divorced from efforts to enhance and support the competitiveness of firms and industries in and around the community. The Subsector Approach is aimed at simultaneously strengthening nearby regional industries—firms with good jobs for people from our communities—and the community workforce. The Subsector Approach is *strategic workforce development* in that it creates linkages between these stronger industries and this better-trained community workforce.

This guide challenges the notion that Hispanic CBOs/CDCs lack or cannot develop the capacity to have a major impact on the economic future and well-being of the people they represent

The Subsector Approach is innovative because it is a holistic, integrated systems strategy for empowering low-income communities. It builds upon and unifies a number of earlier, often fragmented approaches to community renewal

Well-paid, lifetime manufacturing jobs—the historical economic bedrock for this working middle-class—are disappearing

Subsectors are chains of firms from different industries that produce marketable products and deliver them to consumers in a targeted set of markets

While the principal goal of the Subsector Approach is to build community incomes, its immediate focus is on dynamic industries *in the regional economy* that can provide good jobs to community people: understanding how communities and their residents relate to the economic systems which have a future at the regional level. This does not mean that you must abandon your commitment to the community or to low-income people at large. It only means that in order to empower the people in your neighborhood, you must join them to the multiple and interwoven regional economic *systems* of suppliers, producers, and distributors of goods and services called *subsectors*. It is in this sense that the Subsector Approach is a systems approach to community economic development.

But what are "subsectors" and why focus on them? ***Subsectors are chains of firms from different industries that produce marketable products and deliver them to consumers in a targeted set of markets.*** Why focus on these chains and systems or "subsectors" Because real people in real firms think and operate according to the logic of subsectors, without, of course, using the economic development terminology. If community economic development practitioners respect that same logic in their work, we argue that they will have more success developing and implementing projects that meet the basic goal of building community incomes.

Why regional? Because *neighborhoods are local but economies organize themselves regionally—and beyond*. Industry, capital, products, and workers do not limit themselves to neighborhood boundaries. Neither should you if you hope to do economic development with community impact. Typically, it is only at the regional level that you can effectively identify and then link to those dynamic economic systems where you can create meaningful and sustainable opportunities for community people.

There are several other ways in which the Subsector Approach is a more integrated, holistic systems strategy than previous efforts at poverty alleviation. Two stand out. First, the information gathered to guide the work integrates data from public-sector databases with more qualitative and strategic information concerning opportunities and obstacles. This more discriminating information is collected from field interviews with entrepreneurs, managers, workers, and other "players" in regional industries. Second, concrete projects developed around the Subsector Approach join traditionally isolated institutions in "strategic partnerships" formed around specific project needs. These might include regional and local economic development agencies, training institutions such as community colleges, university research institutions, commercial banks in the region, other CBOs and CDCs, or any other "partners" who might be crucial to bringing a project to fruition. Through these strategic partnerships, scarce community resources can be leveraged to produce stronger community benefits.

In economic development, especially where workforce development and poverty alleviation objectives are paramount, political power will never be a substitute for direct economic participation and economic influence in the private sector. This

is especially so where the objective is to empower poor people and help them to establish the sustainable market relationships they will need to make it to the middle class for a lifetime. First and foremost, poor people with lesser levels of education, fewer marketable skills, sometimes less stable families, and just generally less of what is required to compete economically, need to be connected to good jobs in the private sector. Only a real job with a stable, middle-class income in a real firm with strong prospects will bring most poor people sustainably to the middle class. While in the past, predictable support in the form of subsidies and transfer payments was available from the government, the social safety net has suffered significant damage in the last two decades. It is necessary now more than ever for defenders of the poor to work directly with the private sector and the industries of their regional economies. The Subsector Approach is about making a direct connection to those regional economic systems from which economic resources—dependable, better-paying jobs and entrepreneurial opportunities and their reward—can be drawn.

PROGRAMMATIC OVERVIEW

The Subsector Approach is designed to help CBOs understand their regional economies and develop strategies for intervention to empower their communities economically. Below are outlined the Principal Goal, Specific Objectives, and Principal Tasks of the Subsector Approach.

PRINCIPAL GOAL

- ▶ **Build community incomes** by improving access to well-paying jobs and entrepreneurial opportunities for low-income people residing in economically disenfranchised communities.

SPECIFIC OBJECTIVES

- ▶ **Establish linkage between regional industries**—which create jobs and shape entrepreneurial opportunities—*and low-income people* with fewer skills
- ▶ **Prepare grassroots organizations to become *facilitators*** in community and regional economic development efforts by developing their capacity to work as project intermediaries with interwoven economic and social objectives. This requires grassroots organizations to work closely with the dominant industries in the private sector of their regional economies and with other economic development players, both public and private, in the region.

PRINCIPAL TASKS

- ▶ **Develop appropriate (and detailed) information about the structure and dynamics of regional industries**, a process driven by conducting field interviews with **Key Players in the private sector**. Use the information developed to analyze and map these regional economic systems.

The Subsector Approach is about making a direct connection to regional economic systems from which economic resources—dependable, better paying jobs and entrepreneurial opportunities and their rewards—can be drawn

-
- ▶ Use the understanding of the needs of these regional industries to **build substantive working relationships with Key Players in the private sector**, to accomplish the following:
 - **Create targeted training programs** working with strategic workforce development partners (e.g., community colleges, private training institutes) to develop the work-culture skills, basic skills, and industry-specific job skills that community people need to compete in regional labor markets, focusing particularly on the difficulties faced by new entrants and the long-time unemployed and disenfranchised.
 - **Facilitate the delivery of technical assistance, finance, and other needed support to firms in targeted regional industries**, thereby catalyzing employment and entrepreneurial opportunities for community people.
 - ▶ **Develop strategic partnerships with other local institutions to leverage and build upon existing resources and deliver sustainable economic development and support services to community people.** Partner institutions may be public-sector or non-governmental, and might include: regional economic development authorities; training institutions such as local community colleges; universities; commercial banks; foundations; and, most important, other CBOs/CDCs and their umbrella groups.

These are the general and specific objectives of the Subsector Approach. Programmatically, the steps to building a specific project around the Subsector Approach fall into four phases:

PHASE I: IDENTIFY A SUBSECTOR (OR SUBSECTORS)

- ▶ *Do a regional industry scan.* Consult the available employment and production data, as well as any professional analyses that exist, to obtain an overview of the regional economy. Try to identify subsectors that might deliver significant community benefits.
- ▶ *Choose one regional subsector or at most several around which to build a project*, without worrying about choosing the "best" subsector(s).

PHASE II: SUBSECTOR ANALYSIS

- ▶ *Perform a Subsector Analysis of the most promising regional subsector(s)*, eventually focusing on the channel(s) in those subsectors with the strongest positive linkages to the community.

PHASE III: PROJECT DEVELOPMENT

SUBSECTOR ORGANIZATION

- ▶ *Work to bring the Key Players in the Subsector and its Environment together* to pursue firm-level and community benefits.

STRATEGIC INSTITUTIONAL PARTNERING

- ▶ *Build the institutional partnerships with public-sector and other non-governmental institutions you will need to develop and implement a project.*

PHASE IV: PROJECT IMPLEMENTATION

ENTERPRISE FACILITATION

- ▶ *Assist subsector firms that can deliver community benefits, by delivering to them technical assistance, access to financing, regulatory lobbying, etc.*

WORKER ENABLING

- ▶ *Create targeted training programs to enable (educate and train) workers from the community to gain employment and career advancement opportunities with subsector firms.*
- ▶ *Arrange job placement and provide support services where work opportunities have been identified.*



CHAPTER 1

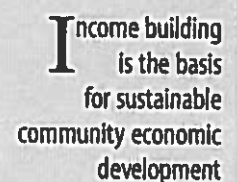
THE SUBSECTOR APPROACH: A NEW COMMUNITY ECONOMIC DEVELOPMENT STRATEGY

INCOME - BUILDING: THE BASIS FOR SUSTAINABLE COMMUNITY ECONOMIC DEVELOPMENT

As a community economic development and poverty alleviation strategy, the Subsector Approach is about **building income**, improving access to "middle-class" jobs and entrepreneurial opportunities for people at the bottom of the income distribution. The argument is straightforward. If you start from the assumption that the community is poor to begin with, then everything else economically flows from improving the level of community incomes. The question is how you can do this most effectively.

Income building is the basis for *sustainable* community economic development and all other self-perpetuating improvements to community life. *Sustainability* is easier to talk about than to achieve, but the concept has an underlying meaning which must be respected. If people in the community lack stable employment in decent jobs which deliver middle-class incomes somewhere in the surrounding region, or income from entrepreneurship and other forms of ownership (much less likely if the community is poor to begin with), nothing else can prosper in the community. Everything else economically in the community depends on these initial and fundamental income improvements.

Crucial secondary economic feedbacks which occur as money circulates in the community, what economists call "multiplier effects," weaken drastically without underlying income from ongoing, fairly-paid employment. If an unemployed person from the community finds a well-paid job, or an already-employed person obtains a better-paying job, they have more money to spend. Part of that new income will be spent in the community, which means that the local merchant or service provider in turn has more business and earns more money. If either the merchant or service provider is also a local resident, he or she then spends more money in the community. This new spending has the same general effect as the original increase. However, the amount of spending in this second round will usually be somewhat less, because the worker with new income probably will not spend all of his or her money in the community, nor will those in the community who immediately benefit from this spending. Some of the new money will leave the community, but much of it will remain. If the local employer has enough new business, a new job might be created in the community, and if a person from the community is hired, the multiplier effects will intensify accordingly. However, none of these multiplied economic benefits can occur in a community without first bringing in new income.



Income building
is the basis
for sustainable
community economic
development

Despite significant investment of both public and private resources, efforts to improve the condition of low-income populations have met with limited success

Without a solid income base, local businesses dependent on local customers stagnate and, in many cases, eventually fail. Without middle-class incomes the community's likelihood of escaping the multitude of social problems, which themselves have economic consequences, is small. Crime and drug abuse attend economic isolation. Families deteriorate and with their collapse family members lose the support they need to weather the many stresses that today's competitive reality inevitably brings. Even education, the most basic and increasingly essential economic empowerment, depends at one level on enough family income to provide a stable learning environment.

TRADITIONAL APPROACHES TO IMPROVING ECONOMIC OPPORTUNITY IN THE UNITED STATES: DESCRIPTIONS AND LIMITATIONS*

Over the past three decades, public-sector and quasi-governmental institutions throughout the nation have attempted to develop effective strategies around the general themes of economic and workforce development. Some of these efforts have had specific poverty alleviation objectives, aiming to improve economic opportunity for the urban and rural poor. Other initiatives undertaken with public resources could easily have contributed to those objectives but never developed those potentials. Despite significant investment of both public and private resources, efforts to improve the condition of low-income populations have met with limited success.¹ Poverty persists. The gap between the rich and poor continues to grow. This is particularly true for the Hispanic population.

To understand better the policy and program context in which the Subsector Approach lies, it is helpful to contrast three strategies that have evolved over the last thirty years: regional economic development, community economic development, and employment and training.

1. REGIONAL ECONOMIC DEVELOPMENT

The principal goal in regional economic development sponsored by public-sector and closely related non-governmental agencies has been the *attraction* of established firms from outside the region. The emphasis has been on recruiting outsiders to move toward you. Mostly, these initiatives have involved "marketing" a region on the basis of the benefits which the region could extend. The work has been very much viewed as competition between regions. Negotiations have often led to significant tax concessions, bargain-rate real estate, land-use planning waivers, special transportation linkages and infrastructural improvements, and other lucrative enticements for the firms. The existence of a trained workforce and of local suppliers has also been used as an inducement from time to time. However, the focus has invariably been on the concrete bottom-line benefits the firms would receive.

* The general outlines of this critique and in places its specifics, have been borrowed from the pioneering work by Mt. Auburn Associates, Inc. However, in its emphasis, the argument presented here differs, sometimes significantly, from the logic developed by Mt. Auburn.

In recent years, greater attention has been placed—belatedly—on what is known as "retention," and to a much lesser extent on promoting business start-ups. Much of this regional work has taken place within programs aimed at fostering existing "industry clusters" which can be thought of as significant groups of firms doing the same or related things in the region. The general idea with retention efforts has been to identify those industries which are relatively strong in the region, which have shown significant recent growth, and which are capable of delivering high wages (especially those where wages have been rising in recent years). These initiatives have often targeted "high tech" industries because, structurally, these are often the only industries capable of meeting all these criteria consistently. Promoting linkage between these initiatives and local university research and development has been characteristic of the more progressive retention efforts.

There are some important parallels, but also a number of striking differences, between what we are proposing with the Subsector Approach and these region-based "industry cluster" initiatives. This is a theme we will touch on later in this document.

Limitations of the Approach: Regional economic development programs have tended to view individual firms and businesses as their exclusive constituency. Public-sector economic development officials and those from the near public sector (for instance, quasi-public "economic development corporations") have rarely, if ever, considered the poor their responsibility.² These same officials have often viewed poverty alleviation as a social services mission, not an economic development one. The regional economic development paradigm has also been constrained by generally poor linkage to workforce development for low-income individuals, in part because the focus has so often been on "high tech"; and this population, with generally limited education and fewer technical skills, especially limited familiarity with computers, has often been thought to have only a minor role to play in "high tech." The working assumption has been that expensive remedial education and considerable training would be involved to put the poor to work in these frontier industries, if it were possible at all.

In general, little thought tends to be given by these regional economic development practitioners to what would be involved in coordinating their efforts with educators, trainers, and other human services providers to improve economic opportunities in the targeted industries for the poor. Further, the bias in favor of "high tech" has often been justified in the name of "comparative advantage," the notion that trade will move off-shore to lower-wage economies where production is largely done with conventional, more labor-intensive technologies. This black-and-white view of a region's potentials excludes a huge swath of mid-technology niche market activity. In the developed economies, the focus on "high tech" has mostly consigned the poor with fewer skills to the trickle-down benefits which flow from the "high tech" economy in which they do not themselves directly participate. These

In general, the regional economic development paradigm has been constrained by poor linkage to workforce development for low-income individuals, in part because the focus has so often been on "high tech" industries

derivative benefits rarely improve the condition of the poor in any measurable way except at the top of the business cycle.

Lastly, many critics of recruitment efforts have maintained that relocation entails costs to the region considerably greater than any conceivable benefits to be received. Regions have been pitted against each other by firms to garner significant concessions, with little for the public in return. For the reasons we have touched upon, this has been especially so for the poor. Even where attraction has succeeded, that is, the opportunity costs are thought to have been too high.

2. COMMUNITY ECONOMIC DEVELOPMENT*

Community economic development programs have tended to break down into two kinds of efforts, both with presumed long-term anti-poverty benefits. The first of these has focused on conventional real estate development, albeit with a socially progressive character. The intention has been to remove "blight" from neighborhoods. The second common form of community economic development has been community-based small business development. In both efforts, the concept "community" has been defined for the most part geographically rather than in terms of a population with certain characteristics which may or may not live within a certain geography (e.g., "low-income," or "low-income Latinos," or "workers without adequate technical skills" or even "Latino workers without adequate technical skills").

The real estate effort has taken two basic forms: low-income housing on the one hand and commercial/industrial development on the other. Both efforts have pursued rehab where it is feasible and torn structures down and started over where that makes sense. Community development corporations have been the primary vehicles for implementing most of these real estate strategies. At the same time, in addition to their social services mission, some community-based organizations have taken up housing and housing finance and have also undertaken some industrial space developments. Where access to lost-cost financing has been a barrier to homeownership, many of these CBOs/CDCs have worked to provide families with sources of more equitable financing. This has been an important community empowerment tool.

Like their regional counterparts, CBOs/CDCs have combined real estate work with firm recruitment, attempting to attract firms from outside the community to locate within it. More often than not, this has meant attracting firms from somewhere else in the region to relocate to the neighborhood in an attempt to obtain a community gain. In fact, this internal regional recruitment has

* Much of this section follows from concerns similar to those expressed in one of the seminal works on sectoral approaches, published by the Aspen Institute. Once again, in its emphasis, the argument presented differs, sometimes significantly, from the Aspen Institute's analysis and approach.

often been at the center of modern urban-suburban conflict with the inner city for a whole host of reasons—land values, available ground floor square footage, crime, to name three—often losing out to the rural-suburban fringes in a process that no one knows how to control. Not unexpectedly, these community recruitment efforts have rarely been joined with larger regional efforts to recruit major corporations, since regional marketers are unlikely to view the "blighted" community as a recruitment asset.

Second in terms of community economic development initiatives, many of the same local institutions who have been involved in real estate development of one form or another—and some who have not—have taken on a small-business development role. Small-business development has also often been integrated with store-front rehab and small strip-mall projects, and in that context has tended to focus on community-based retailers and household services providers (video rental shops, drug and grocery stores, restaurants, plumbers, electricians, auto repair shops, etc.).

Revolving loan funds have often supported small-business development efforts.³ Technical assistance usually takes the form of grassroots consulting services. The programs offer such things as business plan preparation, basic accounting, tax preparation, inventory control, etc. The information provided is typically generic, rarely sectorally specific, and often delivered in a classroom setting. On the margins of this small-business development activity, CBOs have tended in recent years to work with community-based microenterprises of different types. While these efforts can have an important empowering effect, they have yet to contribute significantly to building community income.

Limitations of the Approach: The community economic development model tends to focus on a specific geography and has rarely concerned itself with the question of linkage to activities in the broader regional economy. From an "incomes" perspective, an emphasis on building and/or rehabbing community housing and supporting small businesspersons in community retail and household services has significant limitations. Neither is effective as *primary* community economic development. Both activities are circular in that they presume pre-existing income to sustain themselves long-term.

It would be unfair to say that all practitioners of community-based real estate development have viewed their work as community economic development. However, it has often been the case that these real estate improvements are put forth as a form of community economic development, especially when industrial space is at issue. And in many cases, important distinctions have been blurred because it is assumed without thinking about it too much that building something new or rehabbing something old has to be "economic development."

While housing development is important from a social perspective, it fails as a form of economic development unless the community finds a way to move

The community economic development model tends to focus on a specific geography and has rarely concerned itself with the question of linkage to activities in the broader regional economy

beyond constructing housing *for itself* to a broader regional enterprise which will draw new resources toward the community. Sustainable community economic development through housing would only occur if one moved beyond building for consumption within the immediate geography of an impoverished community to producing and selling construction services for people with disposable income, most of whom by definition live elsewhere. People desiring to earn a living over a lifetime with housing skills, either as workers or small-scale contractors, would have to be able to "export" the skills acquired from building locally to areas in the region where the money exists to buy their services on a sustainable basis.

Done properly, developing industrial space in the community and recruiting firms to relocate there probably has more to say for it as community economic development, but with a significant proviso: jobs in the firms relocated to the community through this effort must go to community residents for there to be any significant economic effect on the community. If the jobs are not appropriate for the skills the community possesses, or if remedial education and training are not available to promote residents into jobs in the firms which move in, little will have been accomplished beyond a few lunchtime meals. If the firms moving in only hire college graduates and the community is composed of people with less than complete high school educations, the effort makes no sense if the objective is income-building in the community. The mere presence of a firm in a building in the community does not guarantee an economic linkage with the community. Most of all, filling up space and rehabbing buildings is not in itself "economic development." Historically, this method has mostly been a cart-before-the-horse diversion of economic development energies, promoted by professionals whose expertise is in architecture and its academic cousin, urban planning. More microeconomics and business common sense and less (attention to) geography is needed in order to "rebuild" poor communities.

On the second front, technical assistance and credit delivery to small businesses in low-income communities helps these businesses survive an inherently difficult environment, especially if they are engaged exclusively in community-directed retail and household services. Access to affordable credit through community-targeted credit facilities has kept many hardworking, community-serving small businesses contributing to the well-being of low-income communities. However, like housing services for the mostly low-income people in a poor neighborhood, without an increase in community income these small businesses can at best subsist without a strategy to sell their goods and services outside the community. In addition, as with industrial site development, even if one succeeds in promoting growth in firms situated on the geography of one's community, it remains to be seen whether these exertions will have any impact at all on the economy of the community itself. Simply helping any firm in the community, however isolated economically from the community itself, does not amount to effective community

economic development. If, for instance, the owner of this local business does not him- or herself live in the community, and hires family members who themselves live elsewhere—or hires community members but only at very low wages—the community economic impact can amount to next to nothing.

Enterprise development with community-based firms, especially when it is joined with indiscriminately recruiting firms from elsewhere to relocate to the community, might fill up vacant space or rehabilitate dilapidated buildings in the neighborhood. However, the effort can and often will have little or even no impact on community incomes *when building community incomes is the first order of economic development business*. Only if a firm employs community people in good jobs, or its owners actually live in the community itself and spend their money there, will there be a lasting community impact as a firm in the community grows.

As we have already stressed, many enterprise development efforts at community-based institutions have tended to operate exclusively at the neighborhood level, with little concern for linkage to regional industries, when these larger economic systems, which may or may not pass through the community, control the lion's share of accessible resources in the region. Even where these enterprise support efforts have looked beyond community retail and household services, they have mostly disregarded the relationships between the community-based firms and the extended productive systems in which they are embedded and where potentially important economic development synergies exist. An important point which we hope to stress by introducing CBOs/CDCs and other grassroots institutions to the Subsector Approach is the following: *in community economic development, the location of the firm itself is largely immaterial, as long as income flowing from that firm comes back to the community we are hoping to affect.*

Many highly-touted government programs aimed at geography-targeted poverty alleviation and community renewal have failed to realize their objectives over the years. This has been so in large part because they were restricted geographically to the community itself. In many cases, projects developed by these programs have been prohibited outright from working with enterprises at the regional level. This self-defeating barrier to community gains persists in much of the current legislation and programs.

If we look at the big picture, restricting one's self to working only with community-based businesses disregards how any economy—any economic system—is organized and works. Identifying a specific geography to support based on its income level or some other set of characteristics defining its socio-economic condition, and then targeting benefits to that population, makes perfect sense. We support community-targeted empowerment and poverty alleviation efforts fully. **However, many, if not most, of these initiatives have missed the fundamental fact that an economy is organized—and will always be organized—according to an entirely**

In community economic development, the location of the firm itself is largely immaterial, as long as income flowing from that firm comes back to the community we are hoping to affect

different logic than are our communities. *Economically, firms live in subsectors, not in communities.* One must respect economic logic if one has any hope of doing community or any other kind of economic development effectively.

3. EMPLOYMENT AND TRAINING

Historically, employment and training activities have accounted for only a small portion of a CBO's work.⁴ Where CBOs or other community institutions have engaged in employment and training activities, they have usually received funding under the Job Training Partnership Act (JTPA). Resources in the system are usually a combination of state and federal funds distributed locally through an apex Service Delivery Area institution (SDA), which usually covers a county, sometimes a larger metropolitan area. Local quasi-governmental Private Industry Councils have often served as SDAs (although a number of these institutions have been renamed to conform to recent legislative changes under the Workforce Investment Act). CBOs have usually hired an outside trainer to work from a list of occupational categories suggested by the regional SDA or sometimes the state-level employment services agency.

CBO involvement in employment and training has been changing in recent years under a new federal program, the Workforce Investment Act. Smaller agencies have tended to lose their access to JTPA resources, lacking the administrative capacity to provide the integrated employment and training institutions—or One-Stops—that stand at the center of the new federal legislation. On the other hand, a few of the more powerful CBOs have managed to establish One-Stops in spite of the obstacles. The jury is still out on the success of these efforts, and evaluation of these changes will have to wait for another study.

In the typical employment and training paradigm, the focus has tended to be strictly on preparing the individual, not on job creation itself. On the training side, beyond generic job skills like basic computer skills, service providers have attempted to address individual deficiencies that impact a prospective worker's ability to participate in the labor force. Counseling concerning basic job-seeking skills, resume writing, interviewing techniques, etc. is given increasing attention, especially for low-income people coming from a welfare experience. Much more emphasis is placed now on developing "work culture." Personnel in the agencies devoted to providing employment and training services have often come from a social services background, rarely from industry.

Limitations of the Approach: The employment and training paradigm has tended to focus exclusively on preparing the individual for work. Moreover, with some notable exceptions, the system tends to prepare clients generically for "jobs," not for specific jobs in specific industries. A sectoral orientation is almost completely lacking in many of these initiatives. Worse, from our

The employment and training system generally tends to prepare clients generically for "jobs," not for specific jobs in specific industries

perspective, *job development* as we understand it rarely takes place. Many employment and training agencies, whether CBO-based or tucked inside public-sector institutions, have been little more than re-packagers of other information, like the want-ads from the newspapers or voluntary submissions by employers to a regional or state job database. Little effort has been made that one can identify to build relationships with the local private sector, unless an employer for one reason or another shows up at the door. Frequently, no job development has existed in the sense of a pro-active approach to nearby industries.

This training has often been done in something resembling a classroom, only occasionally in a more hands-on setting. The trainee is then turned over to a local employment agency—only to discover that there are a number of fallacies to the approach:

- The jobs do not really exist -the shortfall is a "data illusion."
- The skills are obsolete or are not precisely what employers are looking for.
- The problems are deeper than simply a lack of job-specific skills— basic education is missing or work culture is underdeveloped.
- The employers who have employment opportunities are not listed with the agency which has the people, and no one knows how to approach the firms.
- There is no transportation to the jobs, which are miles removed from the community ("nearby" is not the rural-suburban fringe for most inner city residents).

In most cases the training scheme is a waste of the scarce resources allocated to the task. This is not because the trainers are not well-intentioned or are incapable of imparting the skill (although they are too frequently behind the curve technologically). It is because there is something important missing. This something is what we call **linkage**. There is often no connection between the program and real economic activity in the region.

Training in a vacuum divorced from real firms in real industries with good jobs makes little sense. The conventional training we have seen in many formal training programs might have brought needed resources to grassroots institutions, but has not reliably and sustainably placed community members in middle-class jobs or jobs with a middle-class future. Successful training has to flow from the needs of real firms locally.

Another limitation of the existing employment and training system is perhaps even more serious when seen from a broader perspective. Even where there has been a sectoral perspective so that training is specific, targeting real jobs, trainers have generally assumed that these jobs exist

Trainning in a vacuum divorced from real firms in real industries with good jobs makes little sense

and that the problem is preparing people, often lacking education and skills, for the jobs. However, as the global economy has expanded and foreign firms have increasingly constituted a competitive threat everywhere, the assumption that the same good jobs are out there for which you can train just about anyone no longer holds. At the same time, partly in response to trade patterns, technology is increasingly retooling the workplace, eliminating some job descriptions altogether, merging others. The skills required to operate a new generation of equipment deepen as the production process transforms. Many job ladders where one could enter with few skills and work one's way up, acquiring skills along the way, have been dismantled. The economy is forever changing. The responses of CBOs involved in delivering employment and training services have often not adapted accordingly.

Economic sustainability in what is fundamentally a market economy means not relying on subsidies or transfer payments

Among many CBOs and other agencies involved in employment services and training there has been a fundamental conceptual problem: jobs for a community do not exist in isolation. Even those jobs physically located within a community are elements of the multiple and interwoven economic sub-systems of suppliers, producers, and distributors of goods and services that for the most part only take shape at the regional level (and beyond). Taken as a whole and aimed at a specific market, one of these sub-systems constitutes what we call a **subsector**. Trainers, although they often have known the requirements of the occupational categories in the databases, rarely have seen that the quality and stability of the targeted job itself is bound up with the fate of one of these forever-restructuring, dynamic chains of activities, firms, and industries.

A WORD ON CONSUMPTION AND SUBSIDIES

CBOs focusing on consumption-targeted initiatives like housing, or on shifting consumption patterns back to community-based small business storefronts (what economists call "import-substitution"), may succeed because of significant government subsidies and transfer payments. However, once government subsidies are removed, without an underlying, permanent, and usually private-sector income improvement, community gains evaporate. Economic sustainability in what is fundamentally a market economy means not relying on subsidies or transfer payments. In our economy, low-income communities need the tools to pull themselves up into the middle class through private sector initiative. Direct government support, even in the most constructive, least dependency-burdened form, cannot be counted on in the every-man-and-woman-for-themselves environment of today to resurrect economically disenfranchised communities. ***Self-reliance is not a choice, but a necessity.***

Fundamentally, economic development is about building firms and about building people

Instinctively, most of those involved in the CBO professional community understand the basic premise that improvements in underlying income are fundamental to achieving sustainable community economic development. They also understand the importance of linkage to those parts of the private sector that

offer good jobs. However, there has been considerable confusion strategically about just how to accomplish these ends. NCLR believes that the Subsector Approach is a constructive way to organize our thinking about the struggle for self-reliance, as well as a practical set of tools around which to develop projects which can offer stronger private sector gains for today's low-income communities.

THE SUBSECTOR APPROACH—IMPORTANT DISTINCTIONS

One of our purposes in introducing the Subsector Approach is to return to economic development basics. Fundamentally, economic development is about building firms, the basic institutions of the private sector economy, and about building people. Resorting to a somewhat more technical language, economic development can be thought of as:

- ▶ **Enterprise development** (building firms)
- ▶ **Workforce development** (building people)

Community economic development aimed at improving community incomes could be either of these two types of activities, or much better, some mix of the two. One of the main contentions of the approach that we are advocating is that in a ferociously competitive global economy, *workforce development* and *enterprise development* (which generates employment) must be viewed as coordinated elements of an integrated strategy.

On the other hand, although building firms and building people should be coordinated, they are not the same thing. Over the years, many professionals involved in economic development efforts have seemed to suggest that we could reduce all economic development to workforce development, to educating and training individuals, sometimes workers, sometimes managers, or even the entrepreneur him- or herself. In short, *technical assistance* for firms—what we are calling *enterprise development*—has often been reduced, sometimes unconsciously, to "training" for individuals.

LOOKING FOR SYNERGIES—MOVING BEYOND INDIVIDUALS TO ENTERPRISES AND PRODUCTIVE SYSTEMS

Although training people in firms will almost certainly be an important element of any well-balanced technical assistance program aimed at enterprise development, training *individuals* is a way of thinking about the process of enterprise and economic development beyond which we hope to move. Individuals, even the most famous entrepreneurs, do not really build enterprises single-handedly; and, much more to the point for our purposes, single enterprises rarely build local economies—as much as American economic mythology would seem to tell us otherwise.

Enterprises are organizational phenomena, imparting a level of complexity to building successful firms that goes beyond training a single worker, manager, or entrepreneur, or even every last person in the enterprise *individually*.⁷ More

importantly for our purposes, chains of enterprises—not individuals and rarely single firms—develop, produce, and market products. The quality and efficiency of the collective operations of the enterprises of the community and surrounding region make or break the local economy, not the output of individuals or even of a single firm.

Enterprises are teams of people working together, and enterprises working together build community and regional economies. What matters is how the parts of the firm work together, and, beyond that, how these firms themselves collaborate—or don't—as a product moves from inputs through production to markets. Capturing these *synergies* at many levels, but especially for low-income communities, is the kernel of the economic development process according to the Subsector Approach. Hubert Schmitz at the Institute of Development Studies at the University of Sussex in Brighton, England, talks about developing the "collective efficiency" of a regional economy. NCLR believes that the Subsector Approach will enable us more effectively to direct the benefits of these synergies to an important constituency: low-income communities and those populations in regions that have been left behind economically.

ENTERPRISE DEVELOPMENT—WORKING WITH AND LINKING DYNAMIC FIRMS TO THE COMMUNITY

Enterprise development is a topic often riddled with ideology today—what is acceptable "intervention," what is too much interference in the market, etc.—and we will not undertake to treat the subject in depth in this document. As community economic developers, we will focus most of our work on supporting and promoting firms that could deliver employment opportunities to community people. Our objective will be to project community people into "good jobs" in nearby firms participating in regional activities with dynamic futures. Establishing this relationship between the support work we might do with firms and the employment and income opportunities available to the community is what we mean by "linkage."

Besides employing people, firms also buy and sell goods and services. As we work, we should remain vigilant concerning subcontracting and distribution opportunities that these regional firms could offer other community-linked entrepreneurs and managers. Recruiting firms from prominent regional industries to establish a presence in the community can also deliver significant community benefits, but only if these newly-arrived firms are going somewhere themselves and hire community people in jobs with middle-class futures. It is an important additional

In thinking about enterprise development aimed at community renewal, we need to keep asking the fundamental question: Will helping a firm in some way improve community incomes?

* Entrepreneurial firms, where the owner actually manages the operation, are a cross-over breed where "building" the person and the firm are closely related. In truly entrepreneurial firms, outcomes are invariably more dependent on the personal skills of the owner than in more managerial, highly structured firms. Even in highly entrepreneurial firms, however, how the parts of the operation work together remains the crucial determinant for success.

benefit if the firms also participate actively in the social and cultural life of the community.

In thinking about enterprise development aimed at community renewal, we need to keep asking the fundamental question: Will helping a firm in some way improve community incomes?

WORKFORCE DEVELOPMENT—DEVELOPING THE SPECIFICS AND LINKING COMMUNITY PEOPLE TO ENTERPRISES

By ensuring the stability of the good jobs themselves, enterprise development is an indirect attack on the problem of community poverty. In the modern economy, it is also an essential component of any long-term solution to this problem. Workforce development, on the other hand, is a more direct attack—preparing the people of the community themselves for better jobs, especially those with "middle-class" futures. Sometimes, simply getting a job when there had been none is important. In those cases we need to focus on placing people on the first rung of a job ladder where a personal investment in self-improvement can pay off with better and better jobs over a lifetime. Workforce development has three components that are important to distinguish: work culture, core education (basic skills), and job-specific skills. Work culture assumes particular significance in preparing long-term marginalized populations for modern jobs. Clearly, if firms are not growing and conquering markets and generating employment, workforce development by itself will only produce limited results. Also, populations with fewer skills need to be attached to the train if it is moving forward, and workforce development as a poverty alleviation strategy should be aimed at making this connection.

*On the workforce development front, the **Subsector Approach** is about building relationships with the private sector, getting to know not only owners and managers in real firms in the region, but getting to know how these real firms live and breath economically, then using these new relationships to develop responsive training programs that tackle all three of the possible deficiencies that we have identified: work-culture, basic, and job/industry-specific skills. Intensive on-site, one-on-one interviews with Key Informants is the informational core of a Subsector Analysis—the way we learn how regional subsectors work. Survey databases are consulted as a point of departure but not relied on to produce answers to the training-for-employment dilemma.*

Critically for what we are trying to accomplish, these interviews are the beginning of long-term relationships with the owners, managers, and key workers of regional firms if they are properly managed. In turn, these relationships are the substantive core of an effective training agenda. The information provided from the steady give and take of a healthy relationship with the businessmen and women of a region's prominent industries allows the training system to hone in on those specific problems that are preventing community people from obtaining the middle-class jobs that are the basis for community renewal. As importantly, these personal relationships are also the mechanism whereby trainees can be hired into good jobs in growing firms at the end of the training effort.

On the workforce development front, the Subsector Approach is about building relationships with the private sector then using these new relationships to develop responsive training programs

The Subsector Approach is designed to give NCLR affiliates and other grassroots organizations subscribing to an economic empowerment, poverty alleviation, and community economic development agenda the tools to engage the private sector at the regional level

LOOKING FOR BALANCE IN ECONOMIC AND WORKFORCE DEVELOPMENT

In the modern economy it is less and less reasonable to assume that all you need to do to employ someone for a lifetime at a respectable wage is educate and train them and push them out the door. Today, you have to also assure—policy-wise and programmatically—that you are *creating and holding middle-class employment for everyone*. Creating middle-class employment for everyone, especially for those in poorer communities, requires that we promote and support our regional industries as we go—while we also educate and train for the new industrial reality we are confronting. These activities cannot be separated if we hope for success in either; *poverty alleviation at the community level and economic development at the regional level* must be joined.

The Subsector Approach is designed to give NCLR affiliates and other grassroots organizations subscribing to an economic empowerment, poverty alleviation, and community economic development agenda the tools to engage the private sector at the regional level. The extended methodology is based on Subsector Analysis, which, at its simplest, is a form of investigative economic journalism. However, studies are not what the Subsector Approach is about, and NCLR's endorsement of the methodology is based on its capacity to move beyond abstract studies to intervention on behalf of NCLR's Latino constituency. Working through the methodology, NCLR aims to promote partnerships between CBOs/CDCs, firms in regional industries, and public sector and other non-governmental agencies to assure significant employment and, more importantly, a strong income impact on our low-income communities and related populations.

The following chapters describe the four phases for building a specific project around the Subsector Approach, beginning with how to identify a promising subsector in a regional economy (Phase I), which would then undergo a more refined Subsector Analysis (Phase II). The other two phases are Project Development (Phase III) and Project Implementation (Phase IV).

CHAPTER 2

Phase I - Identifying a Subsector

DOING THE REGIONAL INDUSTRY SCAN

There are no magic formulas for choosing a subsector. The process is mostly trial and error, informed by common sense. What you will be trying to gauge is at the same time both straightforward and complex. What economic activity around you is strong and dynamic and also capable of delivering good jobs and entrepreneurial activity to your community and/or the population you serve? By the phrase "dynamic" one is implicitly asking, Where does your community's economic future lie? If you know virtually nothing about your local economy but have decided you want to work at economic development from scratch, there are several options for beginning to inform yourself about what kind of activities are strong in your local economy.

- ▶ **Consult with local experts.** Some regions are blessed with local researchers who have studied the local economy in depth. You should establish contact and develop relationships with these experts if they exist. Keep in mind, however, that just as CBOs have often *not* looked in depth at regional economic activity, many public-sector agencies, university faculties, and private and non-governmental research institutes have also failed to develop complete information. On the other hand, analytical work on regional economies has been improving as authorities and researchers have become more sensitive to the fact that whole regional economies can be undone by the economic forces at play today. You should know what is available and read it. Here is an example of some places to start:
 - City/county regional economic development agencies
 - Regional economic development corporations
 - Regional associations of governments
 - Chambers of commerce (including Hispanic chambers)
 - University faculty
- ▶ **Read the business section of your daily newspaper—every day!** The local paper's approach to the regional economy is usually pretty topical. However, if you read the business section every day, you will begin to see industry patterns emerge after a while. In most of the major metropolitan regions there is also often a dedicated business periodical of some form. Typically, they are called something like The Business Journal (fill in the name of your metropolitan region). Building a professional relationship with one or more of the business reporters with these publications is an excellent way to develop an information conduit and, beyond that, an analytical partnership with someone whose nose is stuck in the local economy day in and day out.

-
- ▶ **Gather and analyze the raw data and develop the formal regional economic overview yourself.** In many regions of the country, either little work has been done to ascertain the strengths and weaknesses of regional industries or what has been done is biased—in ways that make these efforts of little value to grassroots organizations trying to do community economic development. In the latter case, this is usually because the work has gravitated toward "high tech" industries in the narrowest sense of the term, e.g., industries like "bio-tech" research that hire predominantly highly-educated people, and typically very few of those.

"DATA" SOURCES AND USES—QUICK OVERVIEW

In subsequent NCLR documents, there will be a chapter on what is required to acquire and then evaluate the formal data for yourselves. Basically, from the formal data you would be trying to understand employment patterns around you, what activities or economically-organized sets of activities (again, what we call "subsectors") are large, which ones not so large, and so forth. If you can find data on wage levels, these also might tell you something important, although these data are often compromised by their being expressed in industry averages. Averaging wages can mask a large spread between people at the top and people at the bottom, very high management salaries and very low and unattractive entry-level wages for the lesser-skilled workers who tend to be the constituency of grassroots organizations. All of the data limitations that trained experts confront in doing effective analysis of local economic activity will apply to your own work, but that should not deter you from gathering the information, if you need to, as a point of departure for your own work. It is not as difficult as it might seem.

The typical data source for employment information about counties is a series published by the Bureau of the Census known as *County Business Patterns*. More and more data, including *County Business Patterns*, are available over the Internet, which greatly facilitates the work of building the economic profile you need. We will explore these electronic data roadways more fully in later documents. The same *County Business Patterns* data are often aggregated across several contiguous counties to develop an employment profile of a metropolitan region. Since many NCLR affiliates represent communities in larger (sometimes much larger) metropolitan areas, it will often be the case that the regional data available "out of the can" will not be relevant to the needs of a community because it measures economic activity in terms of counties and/or sometimes groups of counties, but nothing in between. If you want to work at the sub-county level or even with some irregular sub-regional construct that cuts across counties, *County Business Patterns* will not help you much.*

* County Business Patterns publishes a series by zip codes, but the series only tells you how many firms there are in firm-size employment brackets, e.g., # of firms with 0-5 employees, 6-20, 21-50, etc.; this prevents you from developing a clear picture of what's happening in terms of total employment by SIC code in a particular zip code.

Clearly, in today's monster metropolises, there is a distance that is simply too far to go. If you are involved in workforce development, it does not matter what kind of jobs there might be on the edge of nowhere if your purpose is to revive a community by pulling income from good jobs into it. A workforce development project where the goal is to place community people in jobs with middle-class futures would need to know more than anything else what kinds of industries were strong *in and around the community**—what we call an employment geography "core." This "core" may or may not correspond to the entire county. It may even have bits and pieces of several counties in it. In Kansas City, for example, it might even have areas from two states in it!

It would also be interesting to know if there might be a better set of jobs outside of the "core," somewhat further removed but still reachable—in what we call a "periphery." This "periphery" would be a geography beyond the "core" where someone from the community would consider making a daily sacrifice commuting because the job was well paid or had interesting benefits. Once again, however, this "periphery" might or might not correspond to a county.

County Business Patterns will tell you about counties, with all the limitations that are inherent in SIC-code-based employment data, and typically with a couple of years' delay. If you are going to work at a sub-regional level, for example, parts of a county or even parts of several contiguous counties, then you are going to have to find data that are coded by zip code or census tract (or possibly by municipality) and then filter them according to a list of these areas that defines the irregular composite geography in which you are interested. You generate this list by looking at a physical map of some kind and entering the information in a file that you can use as a database query instrument—or you can get trickier and have a GIS (Geographical Information Systems) program construct the list for you (if you have got access to these programs or the sometimes considerable resources to pay someone to run the programs for you).

If the Census Bureau's *County Business Patterns* will not help you come to terms with sub-county geographies or constructs of them, how do you proceed? There are three sources of data which are coded by zip code, and in one case that we know of by census tract. The first of these is a state-generated data series based on mandatory firm unemployment insurance reports. We will cover this source last. The second and third are two private data sources, Dunn & Bradstreet (D&B) and American Business Information (ABI). Like *County Business Patterns*, all three of these sources have limitations that we will discuss in greater depth in subsequent

* As we have already pointed out in the strongest terms, in very few circumstances would we be interested in only the jobs on the geography of the community itself. A large part of what we are trying to achieve here is to move beyond this kind of economic development reductionism and autarky. At the same time there are often peripheries of these huge metropolitan regions where establishing linkage to a poor inner city community through employment is also impractical.

NCLR documents. Particularly, if your objective is to look at more than activity in an individual SIC code, namely, systems of different firms and industries which work together to produce a specific good or service, what we call a "subsector," you have a problem. Nothing in the way the data are presented in any of these data sources will allow you to understand how large or small the whole system of firms and industries is.

The main problem with the private data sources is that they are voluntary. Because the information cannot be compelled, it is often a less than perfectly accurate measure of economic activity. On the other hand, these sources do have the decided advantage that if you can afford the information—and cost is another consideration with these sources which are in business to earn a profit from the information they control—they will also provide you with important aspects of the firm level records. In particular, through these private sources you can obtain the firm names, the name of a contact at the firm, addresses, and, remarkably, telephone numbers, which you can then use to interview people in the firm. **Remember that what we need to know to do effective community economic and workforce development is not just employment numbers, but qualitative information about the industry-level structure and dynamics, and firm-level opportunities and constraints in these nearby dominant regional subsectors.** Actual names, addresses, and telephone numbers is methodological gold in Subsector Analysis, even if the accuracy of the data itself is less than what we would like.

Lastly, there are state data sources, in particular data from the ES202 series, which is available in all 50 states. Once again, there are strengths and weaknesses here. Running the data queries also costs, but accessing ES202 data is not as costly as working with the private data sources. However, this will depend to some extent on what kind of *pro bono* agreements you might be able to take advantage of using the private data.

- ES202 data are available by zip code, city, and county, and thus can be used to construct sub-county employment data profiles by zip code and/or by city. They can also be used to construct county and multi-county metropolitan area profiles. ES202 data are thus very versatile.
- The data are taken from firm unemployment insurance records which must be submitted quarterly. Thus, ES202 data are as accurate and timely as you are going to find, especially if they are aggregated for large areas. However, the data are sometimes reported collectively for all the establishments in a large, multi-establishment firm. This can mean that zip codes with the headquarters of a multi-establishment firm could over-report activity in that firm's SIC code, while zip codes with the individual establishments themselves could under-report the same activity. Thus, at the zip code level these data could be seriously distorted (experts have estimated as much as in the 20-30 percent range). This could be a problem for your work.

-
- ▶ For smaller geographies, the data will tend to come aggregated at two- and sometimes three-digits because of confidentiality problems.* This may or may not be a hindrance if your objective is to build a more detailed four-digit SIC code sub-county data profile in a major metropolitan region. The more zip codes included in your query the less likely it is there will be confidentiality problems. However, for a smaller area there could be a problem developing the detail you need to do effective community economic development.
 - ▶ Lastly, because there are these confidentiality concerns with ES202 data, access to those all-important names and addresses of individual firms in and around your community is questionable. There seems to be some feeling that a good argument for the social importance of revealing *only* these names and addresses (and not the underlying employment and payroll information) might prevail. It will probably depend on how skillfully the argument is presented, and to whom.

Needless to say, were it possible somehow to obtain the underlying names and addresses and correct for the firm/establishment distortion," state-level ES202 would be ideal for the work we are proposing.

MOVING BEYOND DATA—GETTING INTO THE FIELD

The main objective of CBO/CDC data work would be to re-aggregate whichever of these data sources you have access to across the zip codes that interest you, in order to see what is big and what is not so big in terms of economic activity around you. There are a few twists on structuring the data which can give you a better comparative profile of what you do more of in your region than they do in other regions. But we will leave exploration of what data mavens call "locational quotients" for later documents.

But our main point about data is a skeptical one. The data that are out there on employment numbers, and sometimes average wage levels or payroll, are going to tell you very little about what you really need to know about the future of economic activity around you: what businesses are thinking about, what markets can you still compete in given the restructuring of the economy as it responds to the forces of globalization, what technologies and thus worker skills will be

The data that are out there on employment numbers, and sometimes average wage levels or payroll, are going to tell you very little about what you really need to know about the future of economic activity around you

* Revealing sensitive information about individual firms is prohibited. In a smaller area like a zip code, an individual firm might be more readily identified from data reported in a four-digit SIC code.

** The Dunn & Bradstreet data could be used to cross-check ES202 data (and vice versa) if you have access to both. Also, even if they did not show up in the data initially, establishments of very large firms are likely to reveal themselves quickly when you take to the field to do interviews. What you have to worry about is missing a whole area of important economic activity in your initial data work because it mostly takes place in local establishments (i.e., plants and offices) of large-scale firms that report their data using the headquarter's zip code.

As you proceed, continue to think about your findings. Are there real opportunities for your community in this subsector? This question should never be far from your mind.

required to compete, and, just as important, what relationships exist between different firms and industries within a particular subsector, and how these relationships affect the ability of local firms to compete in the markets they are targeting. No data set on employment and wages is going to give you the answers to these questions, when answering these questions is the whole nine yards of economic development. On the other hand, the employment and, if you can get it, wage data describing the regional economy around you are clearly one of the tools needed to develop an economic and workforce development agenda. We have to go there to get started.

Because of these practical and inherent limitations in the conventional formal quantitative data, you must do some preliminary fieldwork to begin to understand the reality of the local economy. Essentially, you must do some basic Subsector Analysis to know where to do more refined Subsector Analysis. Dive in after you have taken a look at the numbers to sensitize yourself to what is strong around you. Even without the numbers, do not be afraid to get out in your car and drive around. Knock on a few doors when you begin to see patterns emerging. It is probably better to do this after you have looked at the available data, but you should trust your instincts. Most people know more about their local economy than they realize, especially if they have followed the local news regularly. Local businesspersons themselves usually have a pretty good idea of what is happening around them. Talk with them. Immerse yourself in economic reality—now, not later. Most of all—and it is one of our main points—**do not limit yourself to the geographical boundaries of your community.** You are trying to understand how regional economic systems that pass through or nearby your community work.

After some predictable morning fog, certain local activities will begin to suggest themselves. Choose one that looks a little more interesting than the rest, and go for it—extend your preliminary inquiries by continuing your Subsector Analysis in the area of the economy you have chosen. There are no methodologies that can assure you that you have made the right choice from the beginning. As we have tried to make clear, the information is imperfect, especially at the beginning. It will remain imperfect, just less so, after you have spent a long time doing the work. Remember that you are investigating business, and everything in business is constantly changing. There is always the risk that you could have picked a better subsector. But you can only know that in hindsight. Rather than wringing your hands over whether you are moving in the right direction, try to choose what the data and your abundance of common sense tell you is a promising subsector, and move ahead. Do not worry about its being "the best."

With this crucial caveat. **As you proceed, continue to think about your findings. Are there real opportunities for your community in this subsector?** This question should never be far from your mind. Your findings may show that there is not much promise after all in the subsector you have chosen. If that is so, simply start over. Choose another subsector. It is that simple. From the work you have already done, you will have learned a substantial amount of

generalized information about your local economy which will be applicable to the next investigation. Moreover, you will have honed your interviewing skills and become much more familiar with who is out there doing business. The Subsector Approach *is an iterative process*. You start one place with imperfect information and take the process as far as you can go. You may or may not hit a jackpot of opportunities, but rarely will it be a complete bust. Sometimes, however, you will want to start over someplace else. That should not bother you. Our objective is to establish a continuous process that will pull people into the economic mainstream who are on the margins. We are trying to develop a way of learning about opportunities for these people and about the obstacles to realizing them. It is the cumulative experience and the economic learning that matters, not being "right" in the narrowest sense of picking a "best."



CHAPTER 3

Phase II - Subsector Analysis: The Conceptual Framework

THINKING ABOUT YOUR LOCAL ECONOMY—DOING YOUR ECONOMIC DEVELOPMENT HOMEWORK

The regional industry scan will lead you to a subsector you want to know more about because you have reason to believe that working there can deliver community gains. The next step in the process is an intensive round of industry interviews. These will mostly be conducted with entrepreneurs, managers, and workers in regional firms. Important players in the Subsector Environment, players with an overview of how the subsector works, will almost certainly also be on your list. Interviewing skills are the fundamental talent you will need to develop to execute the Subsector Approach.

This chapter is *not* about how to go about doing the interviews themselves, a training that we are leaving for a subsequent document, and, where possible, on-site NCLR support. It would extend this document beyond its purpose to undertake that subject here. On the other hand, success in engaging the private sector through interviews demands a clear mental picture of where you are going with your Subsector Analysis. The same can be said about developing an agenda for CBO/CDC work with subsector firms. Without a firm grasp of the conceptual landscape and analytical logic, project development and implementation will be little more than shooting in the dark. Fundamental to both these efforts—doing the interviews of a Subsector Analysis and developing and implementing a project — is a clear understanding of what we mean when we talk about a *subsector*. The concept of a subsector is the intellectual core of the economic development approach presented in this document. Leaving you with an appreciation for the concept, a way of thinking about your local economy, is the purpose of this chapter.

The concept of a subsector is the intellectual core of the economic development approach presented in this document.

THE VERTICAL SYSTEM—PRODUCTION AND DISTRIBUTION

As we have suggested, a subsector is a *chain of firms from different industries* that produces a marketable product and delivers it to consumers in a targeted set of markets. Expressed slightly differently and a little more technically, a subsector is *a vertical system of production and distribution aimed at a horizontal set of competing market niches*.

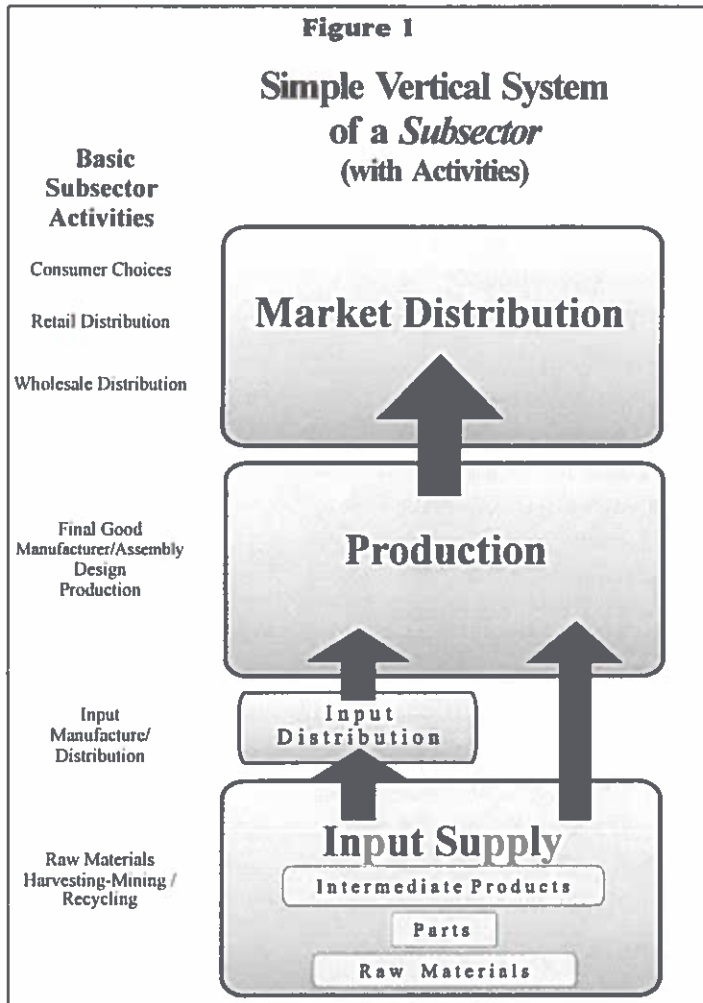
In Subsector Analysis we use the term "vertical" to signify *up through* this system. **Figure 1** represents that general progression from raw materials and inputs through production to market distribution and a consumer somewhere. Although real subsectors differ significantly in their complexity, they can all be thought of as chains of firms from *different industries* which perform different sequences of *activities, each associated with a technology or set of technologies implying a set of worker skills* (not identified in the diagram).

Vertically, if we think of passenger vehicles as an example, the lower strata of the subsector would be very broad in terms of the "industries" involved, beginning at the very bottom with raw materials: steel and aluminum alloys, copper, plastic resins, textiles, even silica, the basic ingredients for semi conductors and glass, and

so on. Raw materials are often "processed" before they enter production, in which sense many raw materials "industries" are really sophisticated subsectoral systems themselves (e.g., the production of metal alloys). In the passenger vehicle subsector, all of these raw materials are then transformed into parts and intermediate products (through the sequences of activities and their associated technologies and worker skills). For example, camshafts, rods, pistons, rings, gaskets, wiring, etc., and the block itself all go into making an engine; different types of plastic, stamped metal, wire, and textiles make the seats; various new materials composites, steel, and microchips make anti-skid brakes, and so on. And then the parts and intermediate products are *assembled* into a final product, a type of car. Sometimes input manufacture and final assembly occurs under the same roof. Often, however, some of the inputs are subcontracted out to other producers who can be as big as, or even bigger than, the final goods producer.

Final assembly is not the end of the chain in passenger vehicles, however. Market distribution follows production. Moving on up the *vertical system* of passenger vehicles, we find a reasonably complex distribution system which includes local car dealers, car rental companies, leasing firms, truck transport firms and rail lines, and even commercial banks. The automobile industry constitutes as much as one-sixth of the entire economy of the U.S.,

especially if we include fuel and lubricant manufacture/distribution and spare parts and repairs. Nothing short of enormous. For that reason alone, if you are doing economic development at the local level, you would probably only look at a very small part of this extended chain of firms and industries. You would also probably want to begin with what is already taking place in your region, if you are going to work at all in this subsector. To illustrate, in Northern Mexico there has been considerable off-shoring of automotive parts, especially the engine and its components. If we are trying to imagine a future for El Paso, we would probably like to know as much as possible about the complete chain of activities involved in producing engines and their components to see what, if anything, we might produce on our side of the border. Just the production chain involved in making



car seats and interiors is a significant portion of modern American industry. It would be perfectly reasonable for a CBO with an employment objective to limit itself to working with just that part of the passenger vehicle *vertical system*.

Also, some production produces a product or commodity through manufacturing. Other production gives rise to a service. Manufacturing processes use services as inputs (i.e., engineering and design, quality control statistical consulting, etc.). And these services are often subcontracted to firms specializing in them. Likewise, service providers often use manufactured goods to produce an output (e.g., computers, drafting equipment, office furnishings, etc.). Subsector Analysis itself is basically indifferent to the distinction between manufacturing and services, although in economic development work, manufacturing firms and service firms (not to mention different kinds of each) might have different impacts on the geographies and populations NCLR and its affiliates strive to support.

The same product can be made and distributed by firms of significantly different sizes. Production of the same basic product can even take place with different activities and technologies, some more labor-intensive (or capital-intensive) than others, implying vastly different workforce requirements. Production may be very simple—stick it in the ground, grow it, and cut it down—or incredibly complex, involving many stages, some given to producing simple, undifferentiated parts, others to integrating complex intermediate products, yet others involved in elaborate final assembly. Production can be organized around a set of complex subcontracting relationships, with final assembly completed by a master firm or done strictly in-house from top to bottom (vertical integration). Also involved in the system are firms that design product and production systems, and firms that produce the tools of production ("capital goods"), in which much of the technology is "embedded." In passenger vehicle production, this could run from metal stamping presses to robots to CAD-CAM design systems.

Finally, commercial distribution, so often overlooked in economic development, takes the product to a consumer to meet specific wants and needs (or in some cases, such as in tourism, brings the consumer to the product). The "consumer" may be an individual (in a household) or another firm (i.e., the subsector may produce an *intermediate product*). If we are only going to work with the middle of an extended chain, car seats manufacture, for instance, the buyer is almost certainly going to be another firm. Distribution will be truncated. But if the product ends up in our daily lives, wholesalers and retailers will probably be involved. These commercial agents, other "industries" in the progression, will sit at the top of the map.

The inclusion of marketing agents and all kinds of suppliers in the Subsector Approach—as we have just stressed, most of them from *different* industries—is a significant departure from most earlier approaches to economic development. Overwhelmingly, these earlier efforts tended to focus only on the center of the chain, namely, production, and there only on a single SIC (Standard Industrial Classification) code. In contrast, a subsector is an extended vertical production

and distribution system comprised of many industries and their respective activities, technologies, and workforce skills. Subsector Analysis looks at the entire sequence of activities "from seeds to selling fruit loops."

Surrounding the system (not shown on the maps presented on the next pages) there exists a Subsector Environment which includes finance providers, educators and trainers, research and development scientists and engineers in both basic and applied sciences, regulators of the activities involved, public-sector and other agents pursuing economic development objectives, consultants of various types, accountants, lawyers, lobbyists, and labor representatives, each relating to the players in the vertical system in multiple ways. The subsector is this whole ball of wax, very complex and at the same time—once you have got a handle on it—often surprisingly simple.

Another way to think of a subsector is as a "niche" within a sector

MARKET NICHES—THE HORIZONTAL ECONOMY

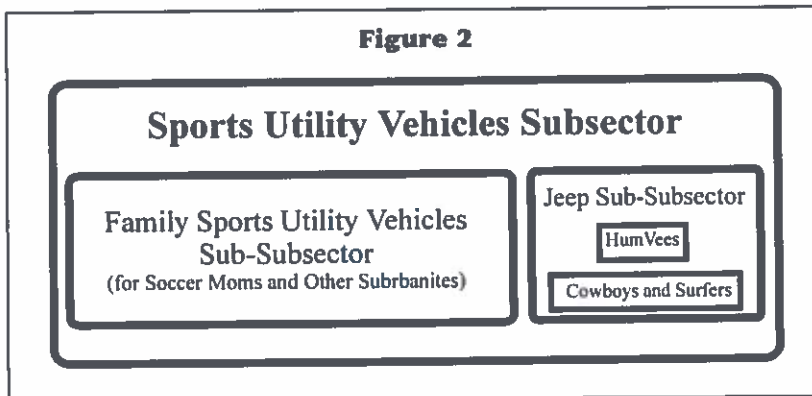
In Subsector Analysis the term "horizontal" describes a spectrum of discrete market segments—or "niches"—where the same basic product is differentiated to target different consumer wants and needs, different notions about what consumers want from the product, as on the **Subsector Maps** in Figures 3 to 5. Horizontally, a subsector can be thought of as a narrower slice of a sector. In a sector, production and distribution would be aimed at the broadest possible market class. Garments and passenger vehicles could probably be thought of as sectors, for instance. A subsector within these broader designations would be

something like women's garments, or, even more narrowly, women's sportswear, or, more narrowly still, women's active wear (the marketers call work-out gear "active wear" now).

Another way to think of a subsector is as a niche within a sector. Within the passenger vehicles sector, family sedans or sports utility vehicles would be subsectors. However, even these categories are subject to further differentiation—subsectors within subsectors, niches within niches. In

fact, many subsectors will need to be broken down further before you can make sense of them from either a business or an economic development perspective. For example, sports utility vehicles are a large market that is constantly redefining itself. Figure 2 loosely diagrams these markets. Most sports utility vehicles production is aimed today at upscale suburban families. A HumVee, on the other hand, is an extreme case of a sports utility vehicle aimed at a very narrow market satisfying very special consumer tastes and incomes! In fact, HumVees might be viewed as part of a jeep (sub-)subsector where the lower end product is a simple jeep aimed at, say, range cowboys, surfers, and, of course, the military.

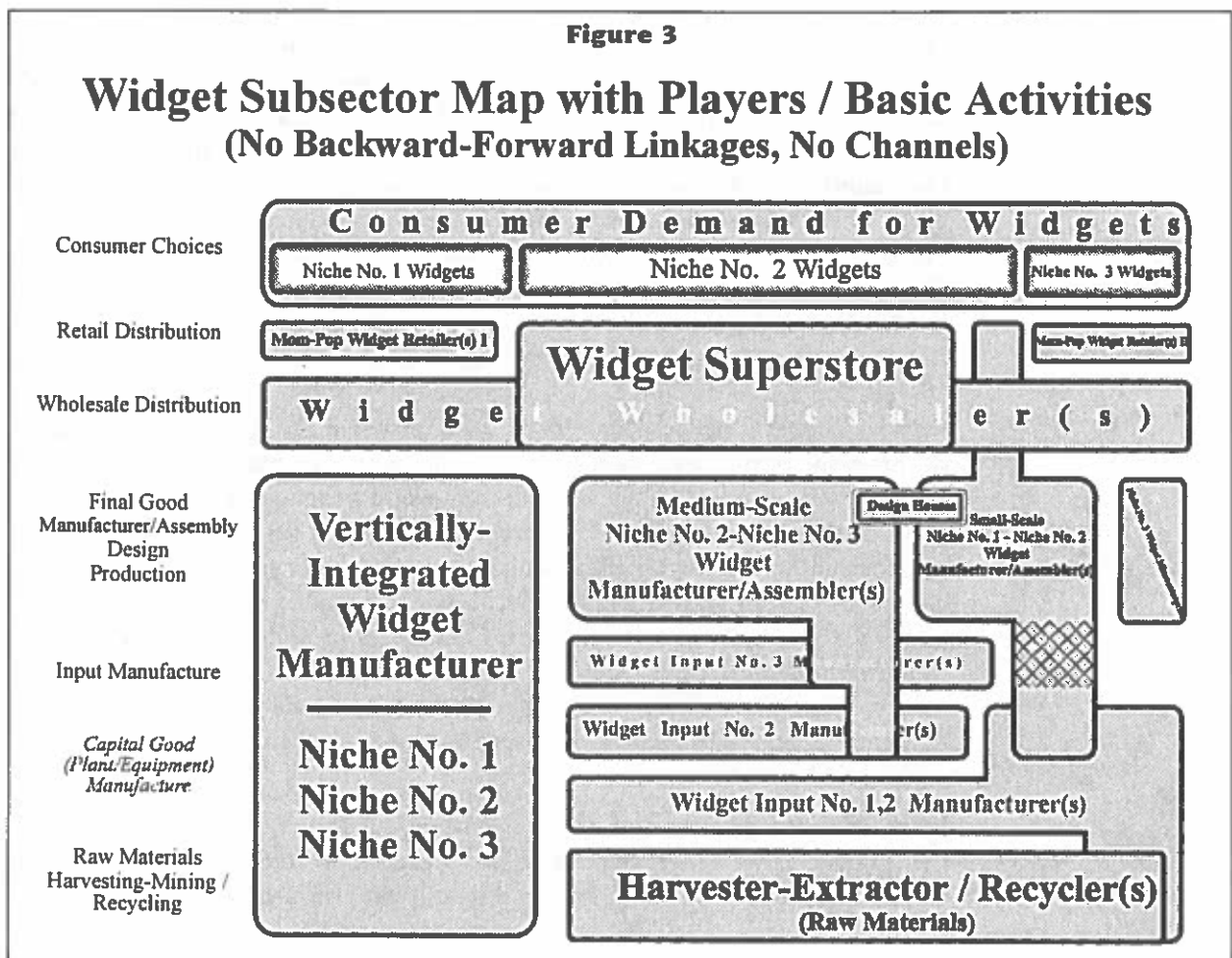
Figure 2



Two points are important. First, as a practical consideration, few if any firms work at the sectoral level. Even firms that target the entire gamut of subsectors in a sector structure their marketing, execute their research and development, and plan their operations at the subsectoral level. Why? Because that is where real consumers live. Firms may specialize or tackle the gamut of niches, depending on their capacities and strategies, but they all do business at the subsectoral level. Second, analytically in your work, a subsector will be construed more widely or more narrowly in terms of the niches included depending on what your region is doing and where its firms might be headed. What is/are the market(s) targeted by the firms with which you are thinking of working? To do effective economic development you need a precise answer to this question.

THE SUBSECTOR MAP

As community economic developers, we are trying to understand through an *iterative* investigative process *how a subsector works in the region where the community we are hoping to assist exists*. We need to develop a skill in identifying all the important parts of this narrowly-targeted economic



The mapping process helps us identify as an outcome the dominant inter-firm relationships in the system and focuses our attention on the dominant constraints subsector firms face at different strata of the system

system.—a *sub*-system of the larger economy—and in understanding how these parts relate to each other, sometimes with great efficiency, sometimes with much less. To help us we use a visual tool called the Subsector Map. The map tells us how the subsector is organized, who the players are in the vertical system, who is big, who is small (in terms of a common variable like sales or number of employees), how the firms in the system relate to each other, who sells to whom, who buys from whom, the strength of these interfirm *linkages*, the activities each firm performs, who is more vertically integrated, who is less, and who is aimed at what niche and consumer. The mapping process also helps us identify as an outcome the dominant inter-firm relationships in the system. This in turn focuses our attention on the dominant constraints subsector firms face at different strata of the system. These constraints are often the flipside of the opportunities. Resolving constraints delivers opportunities for *both* firm success *and* community gains. We pay particular attention to what the analytical process identifies as "leveraged" constraints: those obstacles which, if removed, would liberate stronger or more opportunities for the community or population we are serving.

In Figures 3 to 5 we see the principal "players" or "participants" in an imaginary Widget Subsector. In Subsector Analysis, "players" or "participants" are economic agents who affect the way a subsector works. In the Widget Subsector we have identified three different market segments or "niches." Remember that "vertical" represents the sequence of production and distribution activities. In the middle of the Widget Subsector map, we have final good production (between input and raw materials production toward the bottom and market distribution toward the top). There are four different scales of final good production from large-scale to micro-, running left to right across the middle of the map. Slightly lower there is also the production of three principal inputs (besides the basic raw material). Distribution at the top of the map moves through two basic systems. In one of the distribution networks, product moves directly to the consumer through the Widget Superstore, a combined wholesaler-retailer. It should not surprise anyone that the Widget Superstore is a very powerful player in this system. In the second distribution system there is a major wholesaler who then moves product through the two Mom And Pop Retailers. In the real world there would probably be many more of these little retailers. Sometimes, to simplify our map, we may bunch together all of the players of a similar type in a single box if we do not lose anything analytically by doing so. Then again, we might choose to identify each player within a type with its own box if that helps us understand better specific inter-firm relationships of interest. The point to make is that we are going to construct our map differently to pursue different analytical objectives. Whether to identify a firm individually or as a type is a judgment call that depends on your analytical objectives.

In the Widget Subsector, some firms specialize and some firms engage in more of the process. The Widget Superstore, for instance, not only retails its products, but acts as its own wholesaler, buying directly from the factories. The large-scale,

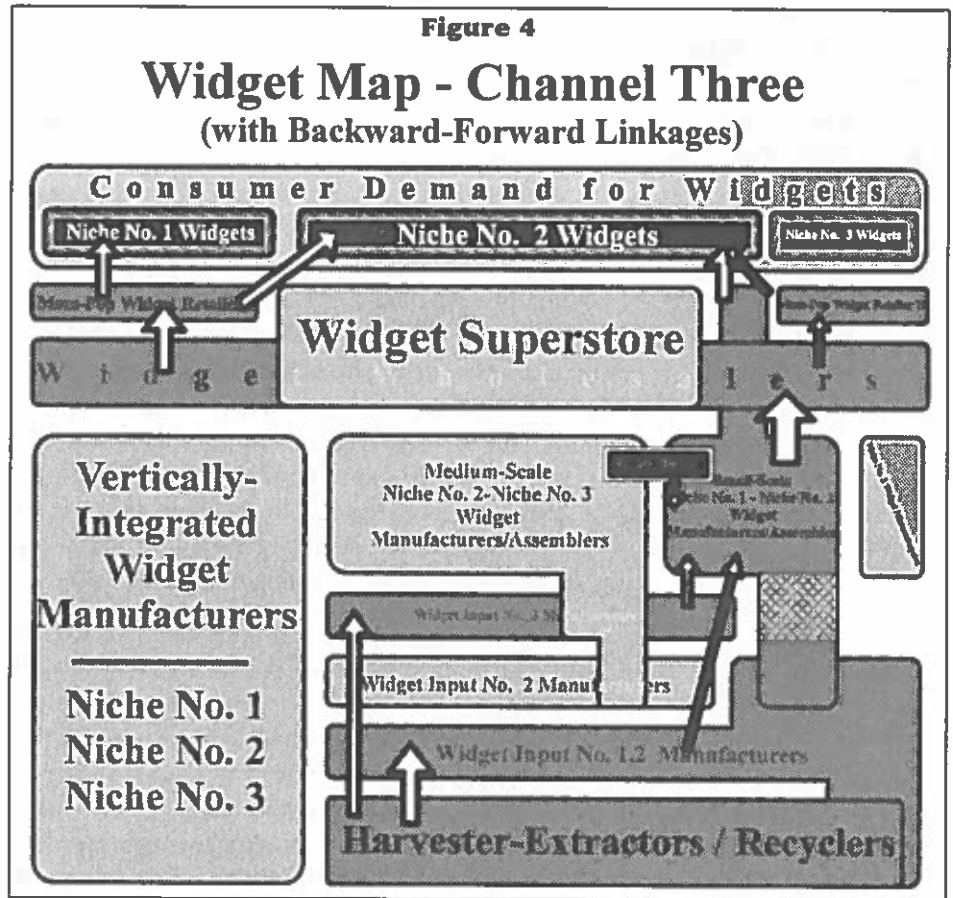
vertically-integrated manufacturer on the left edge of the map produces all its own inputs as well as harvest/extract-recycles its own raw material. It also buys some of these inputs from other producers when it needs to (relationships that are not represented on these maps). Although this firm does not distribute its own product, it should be obvious that the production system is dominated by this firm with considerable market power.

Input production is even more complex, possibly hard to understand completely without a fuller explanation of how we build a Subsector Map, which we will tackle in detail in subsequent NCLR documents. Remember that the vertical

extension of a box on the map represents the activities that a firm performs (possibly type of firm). Can you see that inputs are produced by six different firms? Three of the final good manufacturers-assembler(s) produce at least some inputs in-house. Three other firms are strictly dedicated to the production of inputs. One of these input manufacturer(s) produces two of the inputs (and also a limited amount of raw material).

In this vocabulary we call the relationship between firms **linkages** (represented by the arrows in Figure 4). The pattern of linkages imposes a distinct industrial organization on the subsectoral system. When we use the term "structure" in Subsector Analysis, we are mostly referring to the pattern of these linkages (as well as to

the size distribution and the shape of the firms involved). In a real subsector there may be all sorts of possible combinations of firms as a product moves toward the consumer. These different top-to-bottom sub-systems are called *channels* in



* Economists use the terms "backward and forward linkages" to refer to the reciprocity of the contractual relationship between firms. Here the arrows only represent the flow of product and, by and large, are pointed up in the map.

Some channels may deliver more easily captured and/or more immediate benefits to a community than others. We can also think of our job as community economic developers to be that of establishing linkage between the community and those firms in channels that are in some sense more approachable, more penetrable

Subsector Analysis. A channel passing through the Small-Scale Manufacturer-Assembler in the Widget Subsector is represented by the darkened shapes and arrows in Figure 4.

In terms of project development and developing a technical assistance agenda for local firms, *channels* is one of the most important concepts in the methodology. Why are channels important to our work? Because the sequences of linkages from the top to the bottom of the map—once again, the channel or channels in which a firm operates—are the *choices* made by private-sector firms in orchestrating a competitive strategy in the niche or niches at which the firm is targeted. Understanding the logic of these choices, then working with regional firms to improve the menu of choices before them, is our best chance for putting community people to work in sustainable employment.

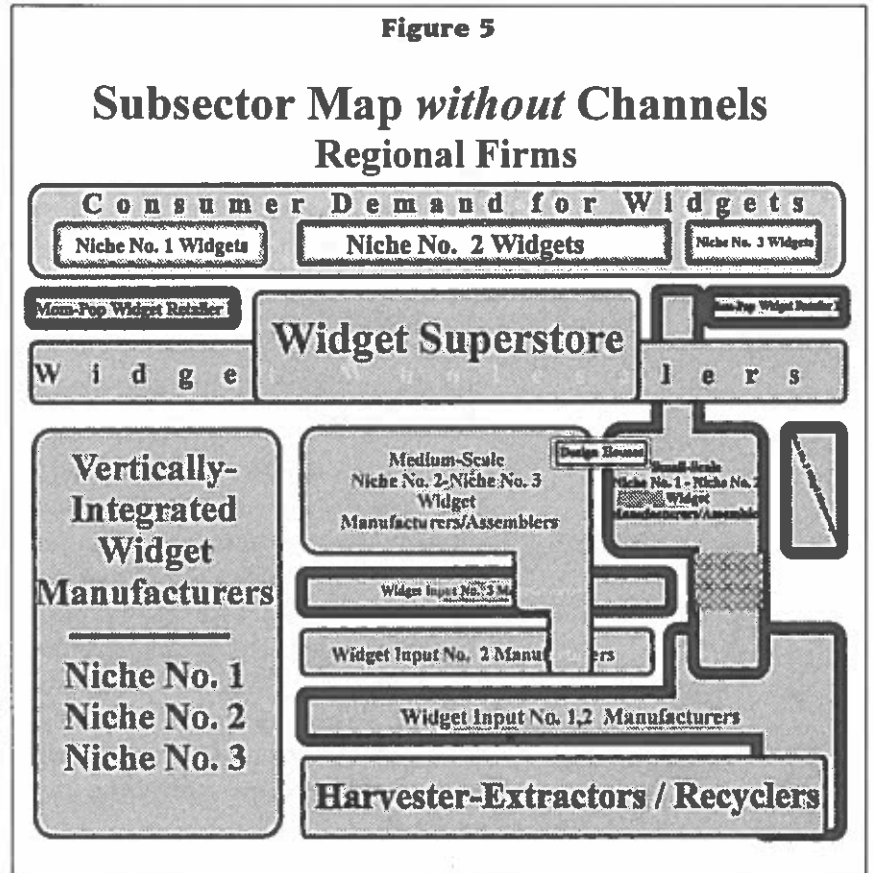
As we can see in Figure 4, the Small-Scale Widget Manufacturer and the channel in which it participates target only two of the three niches possible in our imaginary Widget Subsector. What can we do to improve performance up and down this chain so that the firms along it in the region grow and employ more people? This may involve working with the firms in the system to improve the quality or cost of a product as it moves from one firm to another along the chain. It might mean establishing a linkage that does not yet exist, working to bring another firm to the channel (building a relationship with your community as a consequence). It might even mean working with a firm to restructure an operation to aim at a different niche by sharpening its marketing strategy (possibly also adopting more appropriate technologies)—always if and only if the firm itself expresses an interest in making the transition and welcomes the support. Economic development is not about running private-sector businesses but about supporting them to realize objectives they *choose* to pursue.

We have highlighted only one channel, Channel Three, in our example in Figure 4. Within a complex subsector aimed at several niches there is rarely just one and are more often multiple channels with which to work. In fact, in the Widget Subsector there are three other channels that we have not highlighted, each passing through a different Widget manufacturer-assembler. We could construct other maps like Figure 4 for each of these other three channels. If we look ahead at Figure 5 we can see that two other producers, the Medium-Scale Manufacturer-Assembler and the Microenterprise, are also nearby in the region. We could choose to work in these channels, too. However, some channels may deliver more easily captured and/or more immediate benefits to a community than others. Yet other channels may take more work to penetrate but deliver stronger long-term benefits. We want to concentrate our efforts on those channels consistent with our economic development objectives and strategy. We can also think of our job as community economic developers to be that of *establishing linkage* between the community and those firms in channels that are in some sense more approachable, more penetrable.

Lastly, not all the firms on the subsector map you construct will be accessible to your community. Some important firms on the map will not be nearby in the region or even in the region. The heavier outlines in Figure 5 identify the firms nearby our hypothetical community in the imaginary Widget Subsector. These are the firms with whom we can potentially work. The option always exists, of course, to attract some of the other players to your community or nearby. We are lucky enough to have in our region three of the four final good producers in this subsector. But the largest of them all, the Large-Scale, Vertically-Integrated Manufacturer, is established elsewhere. Could we attract at least a plant from this firm into our region? It's a possible strategy to follow. In fact, at the regional level in the U.S., this kind of industrial recruitment has sometimes been the sum total of local economic development work.

On the other hand, the Subsector Approach is much more focused on improving the prospects of the firms already in your community or nearby in your region. Several things jump out at us immediately from Figure 5 where our regional firms are highlighted, if we compare it to the Channel Three map in Figure 4. First, a dominant wholesaler is in our region. That is a tremendous market advantage we need to exploit, especially since our regional producers are relatively small and we would like to grow them to create more jobs for our community. Second, although a major input manufacturer is in the region (Widget Input No. 1, 2 Manufacturer), we only make a small amount of Input No. 3 in-house in the Medium-Scale Producer. We might want to work on developing a stronger (higher quality, more efficient) capacity in that area. Next, our microenterprise producer is fairly disconnected (not shown). This firm shows a lot of talent aiming at a minor niche market. How can we help it develop stronger relationships—with the Major Wholesaler, for instance?

Perhaps most importantly in terms of possible work, *are there ways that our producers on the map can work together better?* What would happen if the Small-Scale Manufacturer-Assembler and the Widget Input No. 1, 2 Manufacturer pursued a joint venture? Together they would span the production and distribu-



Our objective is to use what we learn to influence events in such a way that jobs and entrepreneurial opportunities—wherever we can find them in this system—flow back to our community or to the population we are serving

tion system from top to bottom and could rival the other large-scale firms who are decidedly competitive threats. Would they consider it? Could a community economic developer serve as intermediary in the process? We also might investigate whether the Small-Scale and the Medium-Scale Manufacturer-Assemblers would consider merging. Once again, this might help each of them defend against the competitive pressures of the always aggressive Large-Scale Manufacturer. Is there an interest we could facilitate? Maybe these two producers would like to undertake a joint venture to expand regional production of Input No. 3? As we suggested, this would strengthen our over-all regional capacity in the subsector. It is worth exploring. Understanding the Subsector Map, its channels, and the relationships they describe is the beginning of effective community and regional economic development.

Information is power. Our objective, it should be obvious, is to use what we learn to influence events in such a way that jobs and entrepreneurial opportunities—wherever we can find them in this system—flow back to our community or to the population we are serving. What are the economic, political, and social forces that are driving the productive system where we want to establish stronger linkage? Where are the most important constraints on firms that might have an impact on your community or region? What are the labor market requirements up and down the chain? And, most importantly, what opportunities are ours if we can devise strategies to address the prevailing constraints consistent with these Driving Forces?

WHY THE DETAIL?

Why engage in this level of complexity? Do we need all this information to do economic development? From our perspective, the response is an emphatic "yes," and for two reasons. First of all, economic development is not, as the economics profession has generally presumed, about manipulating macroeconomic variables like the interest rate, but about gathering detailed and appropriate information and using it to influence *market outcomes* and subsequently strengthen social and political objectives that would not otherwise be affected. Secondly, and perhaps more importantly in the long run, success in our work as community economic developers requires learning how to speak the same language as the Key Players in these regional industries. What is important in the business lives of these potential allies? We need an answer to this crucial question. Commanding the informational detail is the only way we know to establish this substantive dialogue.

Although few, if any, private-sector players would use the subsector terminology themselves, thinking in terms of subsector(s) is effective because the analysis captures how any successful businessperson engaged in competition thinks about his or her own work. This applies particularly to almost anything a firm might need from its external environment: access to finance when finance is important, information about markets that is too expensive to gather with its own resources,

Facilitating the connection between the community's potentials and the firms' needs is one of the central objectives of the way of working we are proposing

exposure to frontline technology about which the firm has been unaware, almost anything that an economic development agency can help the firm acquire more effectively than the firm has been able to manage on its own.

Coming the other way, looking at the community's needs, one of our principal concerns in community economic development is to develop the skills in the community that private-sector firms nearby in the region require. We are especially interested in those skills that can deliver the middle-class wages that are essential to capturing those all-important multiplier effects we highlighted earlier. Facilitating this connection between the community's potentials (through arranging and/or providing education and training) and the firms' needs is one of the central objectives of the way of working we are proposing. Local NGOs and public-sector bureaucracies cannot serve effectively as labor market intermediaries without commanding detailed information about their local—mostly meaning "regional"—firms and industries. Another advantage on the labor market front is that the occupational categories of interest are broader and deeper in the Subsector Approach than working conventionally with a single industry. *Jobs come from all the activities up and down the chain.*

THE INFORMATION-GATHERING METHODOLOGY

How do we do Subsector Analysis? If what we are trying to understand seems complex at first exposure, the methodology itself is straightforward. *We talk to people.* Subsector Analysis is really *investigative economic journalism*, interviewing *players* in the Vertical System and Subsector Environment, with the curiosity and common sense most of us have in abundance, until we get the answers we need. Quantitative data are consulted. But basically this work is about picking brains and listening to people whose work is the work of this chain of economic activities. Examining the numbers can sometimes point the way if you can find "data" that actually contribute to what you need to know. Generally speaking, however, the quantitative methodologies that we see everywhere today do not tell us too much about how the system works: *how it is structured and where it is going (its dynamics)*. In our work we will be much more focused on listening to a lot of people with opinions about how things work—people who through their experience have a right to an opinion—and then applying our judgment to those opinions. The standards of proof we need to move forward are much closer to those of the legal profession than those of the scientist. What we are not doing here is constructing a mathematical economic model and expecting it to give us "the answer." Lastly, we should point out that the work is iterative and cumulative. No one interview will ever be complete. You will leave some interviews and immediately realize that you did not ask an important question. A talent for leaving the door open for later follow-ups will be invaluable. You learn a little here, a little there. Some interviews will reveal more than others. That is the nature of the beast. What is important is to develop a skill in talking to the private sector. Future NCLR documents and on-the-ground training will help you to develop this skill.



CHAPTER 4

Phase III - Project Development

Gathering information through Subsector Analysis will be a meaningless exercise unless you move forward from there to implementing an initiative that creates good jobs and entrepreneurial opportunities for your target communities. There are two team-building aspects to developing a project. The first is building your relationship with the private sector. The other is developing the local institutional relationships needed to obtain resources and to build the multi-faceted capacity required for successful project execution.

SUBSECTOR ORGANIZATION—BUILDING YOUR RELATIONSHIPS WITH THE PRIVATE SECTOR

As you go about the process of interviewing subsector participants, especially Key Players in the subsector and its environment, be aware that these interviews can be the beginnings of the long-term relationships that you need to further your economic and workforce development objectives. In economic and workforce development, as in other spheres of life, the strength and quality of your professional and, indeed, personal relationships will be crucial for success. At one level we do interviews to learn about how regional industries work. But there is a second objective of equal importance. One-on-one interviews, properly conducted with respect not only to the questions asked and information developed, but also to the interest conveyed concerning the issues a firm is facing, can become the beginnings of a genuinely reciprocal relationship with the private sector. Curiosity pays. That is the important lesson from the work we have done. Not invariably, of course. Sometimes your best intentions can hit a stone wall of preoccupation or indifference. But more often than not, engaging local businesspersons with a genuine interest in what they are doing opens more doors than you would imagine.

The public-private-NGO collaborations that can be fostered by building skillfully on these initial interviews are in turn crucial to strengthening regional competitiveness in ways that bring left-behind communities to the table. Most of all, projects developed out of these new relationships can be the vehicle for expanding the base of good jobs available to your community. In particular, this means providing members of the community with education and training that meet the technical and work-culture needs of the modern private sector. But it could also mean a reasonably long list of other kinds of firm support that we shall touch on briefly in the following chapter and cover much more fully in a subsequent document. In many employment and training initiatives, this ongoing dialogue with the private sector has been missing. Lack of one-on-one relationships with businesspersons in the private sector is why many well-meant CBO/CDC employment and training efforts have failed to develop the basic and industry-specific skills regional businesses have needed. It is also why these efforts have sometimes, failed to grasp the importance to business owners of the work-

Subsector Organization is about bringing together as many of the Key Players as possible from a subsector's Vertical System into a working collaboration to address common economic and workforce development interests and objectives

Our goal here is to build the internal capacity of grassroots institutions to enable them to play a leadership role in promoting projects

culture issue, and in the end have not been able to place trainees in good jobs after training has been completed.

Subsector Organization is about bringing together as many of the Key Players as possible from a subsector's Vertical System into a working collaboration to address common economic and workforce development interests and objectives. This project collaboration could and probably should also include interested colleagues from the Subsector Environment (e.g., consultants, regulators, finance professionals). There has been considerable discussion in the country of the concepts of "clusters" and "networks," especially at the regional level. The organizing phase of the Subsector Approach is an effort to use the information gathered and the relationships built to nurture and "operationalize" these kinds of collaborative initiatives. In some cases, this organizing effort might lead to the creation of a formal association of some form (in some cases one will already exist: the Florida Nursery Growers Association in Homestead, Florida, and the Southern California and Kansas City Printing Industry Associations are some examples). More often, one suspects, a looser form of collaboration will prevail, perfectly acceptable if these tangible relationships lead to the concrete accomplishments low-income communities need if they are to be brought into the economic mainstream.

STRATEGIC INSTITUTIONAL PARTNERING

Depending on the resources available, its local political clout, and the CBO/CDC's internal capacity, a CBO/CDC might choose to work alone as a Subsector Organizer. Or it might seek out partnerships with other regional institutions who would themselves benefit from stronger private sector linkage. One suspects that in the beginning, given the historical focus of many CBO/CDCs on other endeavors like low-income housing, economic and workforce development partnerships with other local institutions will tend to prevail. Everything depends, however, on the experience and skills an agency can bring to the effort. Clearly, our goal here is to build the internal capacity of grassroots institutions to enable them to play a leadership role in promoting the kinds of projects proposed here. One can easily imagine, however, especially in large metropolitan regions, that a consortium of CBO/CDCs might band together, possibly working with regional institutions dedicated to the same objectives, to tackle all four phases of the Subsector Approach.

Few grassroots institutions today are ready to implement *on their own* an economic and workforce development initiative addressing the complex needs of many Latino communities. Consequently, to succeed it will often be advisable, if not a requirement, to develop strategic institutional partnerships with a mix of private-sector, public-sector, and non-governmental organizations. Wherever partnerships are to be developed, it is important that a CBO/CDC taking a leadership role in shaping a project systematically and strategically identify the multiple requirements of the project—in order to recruit partners with the capacities required to meet those needs. Institutional collaborators might include regional

economic development authorities, educational and training institutions, labor unions, and other CBOs that provide social services, or any other institution that has something to bring to the table. A local Hispanic Chamber of Commerce would always be an asset. Involving a local or national foundation makes obvious sense. What is important is that each member of the project consortium have something specific to offer the initiative.

Take the following example. Say that after having completed your Subsector Analysis you decide to work with a cluster of firms that produces our imaginary Widgets. These firms indicate that demand for their products is growing, but all complain of a lack of skilled workers to fill their production needs. Moreover, there is more turnover in the workforce than they would like, often because, from the firm's perspective, workers don't seem interested in a long-term investment in building their skills toward an industry career. The latter is a common work-culture complaint that you have heard before. Beyond these workforce concerns, the firms also complain of relatively high prices for a key input whose quality is also irregular. They believe that they could grow 20% per year if they could lower their input costs and stabilize that input's quality. They argue that this would especially be true if they could break into new markets outside the region currently dominated by a large competitor in a neighboring state.

Your labor market assessment shows that, at least on the surface, many people in your community would be interested in jobs with these firms (which at an entry level pay \$7/hr and with a couple of years' experience pay as high as \$14/hr). However, many of these candidates lack the requisite skills:

- Work-culture—how to dress for an interview, leave home early and arrive on time, etc.
- Basic skills—language, math, and analytical
- Job/industry-specific skills—how to do the tasks that the current technology demands

There will also be a significant need for childcare accompanying both training and job placement. Since the members of the community in need of employment are also low-income, most potential trainees will not have cars. The public transportation system in our hypothetical community is also inadequate, and some of the firms in the group are located on the "periphery" of easy transportation connections. Transportation services will be essential to linking community members to this promising job ladder.

On the industry side, you want to support these firms on a number of fronts. As a CDC, you ask yourself how you might accomplish these objectives, because you have no prior experience with firm-level interventions (essentially, providing consulting services) and because many of these interventions must occur at the regional level, where other institutions have a stronger presence and identity. However, during your Subsector Analysis, you learned that the Regional Economic Development Corporation (REDC) is beginning to work more aggres-

It is important that each member of the project consortia have something specific to offer the initiative

sively to retain and grow local industries. You already know from your interviews that some of the firms you have investigated have established preliminary contacts with the REDC, but that these have yet to bear fruit.

You convene a meeting of the firms and the REDC to discuss a possible collaboration, simultaneously bringing together firms in the industry that have never really talked to each other before. You have been working on forming something that resembles an association—at a minimum, a "working group"—and this issue is something concrete around which some of the players will agree to work.

Eventually, there are three outcomes on the enterprise side.

First, the main producers of the product category you are targeting, namely, the Widget Manufacturers themselves, agree to develop a common purchasing contract from a local input supplier who will provide an overall lower price because of the combined size of the contract. Second, all of the main players determine that they should work together to identify ways for the input supplier to lower his costs and improve the quality of his product. This might include finding an outside consultant or identifying personnel from their own operations who could work with the input supplier. Third, the REDC agrees to work more actively with the firms to promote their products nationally and internationally. The firms also agree to market themselves collectively in these distant markets. Preliminary discussions of a production-sharing joint venture that would tackle a new product that could go head-to-head against products from the large-scale firm from the neighboring state are also broached.

On the labor side, possible strategic partners could include your own organization, which has done some training in the past, a nearby social services CBO which already has an excellent track record of offering services to the community, and the local community college, which is looking for programs to attract new students. Naturally, the firms themselves are essential participants in these workforce development discussions. Working with the social services CBOs primarily, but also with the firms to better understand their issues, the project designs and implements a program which helps community members improve their work-culture skills. Together with the local CBO, you agree to look for the resources to expand its existing child care program and to provide transportation services to training recipients. Similarly, the community college modifies and expands some of its existing programs to focus on the basic and job-specific skills that your industry partners have identified. Crucially, because of the tighter collaboration that exists, for the first time the industry makes modern, state-of-the-art equipment available for training. A high-quality program satisfies your clients' particular social services and training needs, and the skills training provided them also meets the specific needs of your industry partners.

Partnerships should be a functioning whole, where each institution involved and players from the private sector provide something necessary for success. Individually, any of the partners could contribute something important, but by itself insufficient for the community impact sought. A much more robust success and

Partnerships should be a functioning whole, where each institution involved and players from the private sector provide something necessary for success. A much more robust success and greater community impact can be achieved with an integrated initiative

greater community impact can be achieved with an integrated initiative. To achieve success, everyone involved must see the value of this integrated approach, as must the members of your community. Job candidates should be able to secure employment when training ends, but also learn that, ultimately, they must take responsibility for managing their own careers and participating in the modern economy.



CHAPTER 5

Phase IV - Project Implementation

ENTERPRISE FACILITATION

As already stressed, the purpose of the Subsector Approach is to identify intervention strategies and projects that build firms and employ people in good jobs in ways that the market, left to its own devices, would not be likely to accomplish. There are those who will disapprove of any market intervention, of course. However, the purpose is not to replace the market economy. To the contrary, the purpose is to give people and regional firms the best possible odds of succeeding in a market economy by creating *market opportunities* for firms and individuals to which the market itself is generally indifferent. Our simple goal is to make sure the communities and populations we serve get picked by the market!

The information developed by the Subsector Analysis reveals a set of constraints, factors in the system inhibiting firms and people from advancing. Whether under the aegis of the associations that could emerge from the organizing effort (preferred) or simply acting one firm at a time (less "leveraged"), the CBO/CDC, public-sector institution, or, more likely, consortium of public and private institutions, should set about addressing the obstacles identified by the Subsector Analysis and capturing the opportunities behind these barriers. The agent of change charged with the enterprise facilitation component of a project is called a **Subsector (or Industry) Facilitator**. In most situations, this would be the same person who earlier did the Subsector Analysis.

In the abstract, the spectrum of possible "interventions" that might be undertaken at the firm level is as broad as your economic development imagination. What is different about this list as compared to earlier economic development agendas is that it includes not only activities that might pass for "consulting," that is, technical and other forms of assistance aimed at factors *internal* to individual firms, but also a number of initiatives that look at this productive system as a *whole* and attempt to influence how it performs *as a system*.

Take a list of possible project tasks:

- ▶ Improve the quality and availability of information about export markets for smaller enterprises (other regions of the country, other economies).
- ▶ Develop a direct marketing strategy, possibly using the Internet and expedited delivery.
- ▶ Subcontract parts of a vertically-integrated production process that another firm can carry out with better quality and higher efficiency or look for opportunities to subcontract from other, usually larger companies some part of the production process that a smaller firm can carry out with better quality and higher efficiency.

The purpose is to give people and regional firms the best possible odds of succeeding in a market economy by creating market opportunities for firms and individuals to which the market itself is generally indifferent

-
- ▶ Improve access to credit and other forms of finance for smaller firms in the subsector (assuming larger firms do not suffer the same barriers, not always the case).
 - ▶ Improve the quality and availability of information about state-of-the-art technology.
 - ▶ Improve communication with regulators and policymakers. Etc.

A good Subsector Analysis may reveal a weakness in one of these areas in an individual firm. It may also identify certain patterns *and* possibilities for collaboration within the subsectoral system that a focus on individual firms might miss. The Subsector Facilitator's job is to find ways to work at both levels as conditions require. The advantage to the systems perspective, as suggested throughout this document, is that by looking for ways to promote collaboration and to improve the quality and efficiency of the whole system, the potential impact on a community and low-income populations can be greater.

One caveat is in order. And it is an important one. Our experience would lead us to believe that the typical CBO/CDC is not ready to deliver firm-level consulting to private sector firms. Generally speaking, the personnel and institutional experience do not exist to offer meaningful services. That could change as these efforts mature, particularly if a CBO/CDC and its Subsector Facilitator concentrate for an extended period in one subsector. What we are generally not talking about here, however, is the kinds of generalized services that CBO/CDCs have typically offered in their small business support programs, writing business plans, for instance. Industrial consultants are usually engineers or MBAs who have worked a long time in an industry and who as a consequence have developed a wealth of specific information about doing business in that activity. We would not exclude the possibility that over time a committed CBO/CDC would itself acquire considerable specific knowledge about an industry, including its technology and engineering requirements, that can be transferred to regional firms. On the other hand, what is crucial for success is that not only the general advice but also the specific technical assistance offered be reliable and accurate. Consequently, when it comes to providing specific technical assistance, assuredly at the beginning of an initiative, the Subsector Facilitator's role will quite likely be more to serve as an intermediary between the firm and competent providers than as a direct provider him- or herself.

To take a specific example of the individual firm-subsectoral system dichotomy that we are emphasizing in this chapter, let's look at the availability of information about export markets in smaller firms. The problem can be that a local entrepreneur or manager of a firm's marketing operation simply does not know how to acquire the information or develop a marketing plan. There is a lack of capacity within the firm that consulting can possibly improve. The early lives of firms are often haphazard events where the management is continually forced to jump ahead of itself. The owner and managers might know something about technology but have no marketing experience, for instance. This is very typical

The advantage to the systems perspective is that by looking for ways to promote collaboration and to improve the quality and efficiency of the whole system, the potential impact on a community and low-income populations can be greater

of people with "good ideas" who start a new firm. In these cases, specific consulting in the management training sense can be invaluable. The firm internalizes new skills and moves ahead on its own.

On the other hand, enterprise development is often more complex than just hiring a consultant. What happens if the firm does not have the resources to explore new markets and cannot find an investor or a bank willing to provide those resources? The managers of the firm are aware that they need to know more about markets outside the region, may have a general idea about how to go about it, but cannot find a way to finance the plan they have developed. Resources are tight. The firm is trapped. Bringing investors or an innovative banker to the firm is one approach. But what happens if in the region around your community a number of firms in the subsector could benefit from the same information, for example, about exporting to Europe, or—even more perplexing for some Americans because of language difficulties—Asia? What differentiation of the core product would be in demand in these foreign markets? What are the networks that distribute these kinds of product in those markets? Export requires precise answers to both these questions. But none of the smaller firms in the subsector is capable of developing the information on its own.

Here, a collaboration organized by the Subsector Facilitator, perhaps sending the Facilitator or some other *trusted* person overseas for market reconnaissance, can benefit a number of local players at once—without undermining any one firm's ability to compete against the others. All the firms in the region who might benefit from the information contribute something to support the trip. The regional government may have a trade and commerce office that has resources to subsidize the initiative. In the end you will have identified new opportunities from which the more competitive firms in the region can benefit. To the victor the spoils. But without the specific information about foreign markets, for the region it is only a spoil. Business loses opportunities and the community jobs. Everyone benefits from the information's having been developed.

Taking this example a step further, suppose that the information developed about opportunities in, take your pick, say the European common market, revealed a significant opportunity but at scales that no one firm in the region can currently match. Moreover, investments in new technology will be necessary to compete effectively and produce the quality of product required, new technology that was also observed during the European investigation. Under these conditions, the Subsector Facilitator's responsibilities deepen. These might include working to configure a subset of participating firms in a network of subcontracting relationships so that the total output of this consortium of smaller firms meets the requirements of a potential contract, possibly each firm specializing in some aspect of the process. If new capital equipment is required to implement the new technology, the Subsector Facilitator might also work to link a number of players to a local bank or local investors. The bank might not have been very interested in lending

to one small firm, but may look more favorably upon lending to the consortium, especially if the group decides to provide some sort of common collateral. And so on.

The benefits to the community should be obvious. Many firms advance from a common effort creating more employment and income for community people. This assumes, of course, that you are working in a subsector that will have jobs for your community on the basis of continuing education and training. Choosing an appropriate subsector to work in early in the process is crucial to the outcomes we are seeking. Not every system in the regional economy will be appropriate for your community. "High tech," knowledge-centric industries which rely primarily on a highly-educated elite for success might not be the best place to start a project aimed at poverty alleviation, especially if most of the activity in the region is research and development and manufacturing has been off-shored, a more and more common occurrence.

An increasing difficulty for poverty alleviation in this country is that industries with jobs for lesser-educated populations find themselves under increasing competition in the trade-liberalized global economy. The importance of working with enterprises to assure their competitiveness cannot be underestimated if our goal is to bring those who are falling out of the middle-class—or who never made it there—into the economic mainstream. In terms of project development, once a realistic area of the economy has been selected to work in, the Subsector Facilitator's job is to turn what is a long list of abstract possible interventions into a short- to medium-length list of concrete tasks to accomplish —ones that are consistent with the findings of the Subsector Analysis and with your community's interests. The purpose of a CBO/CDC's doing Subsector Analysis itself (possibly/probably in coordination with other institutions, yet still participating in the work) is to develop an agenda that responds to the needs of the community, to understand as a grassroots institution the possible community-industry linkages as well as the obstacles to building them.

Lastly, the discussion of enterprise facilitation is not complete without pointing out that resources to work systemically with industry chains, that is, resources to work *sectorally*, are scarce in this country. There are a number of programs that lend themselves to one-on-one firm-level consulting. It is sometimes very difficult, however, to find the resources needed to work more holistically at the regional level in the manner we are proposing. One of the contributions a national affiliate organization like NCLR can make to community economic development in the years ahead is to continue to push for more innovative and flexible program structures at the local, state, and federal levels.

WORKER ENABLING

Most CBO/CDCs with links to low-income communities will be particularly focused on the labor market implications of the work. Which firms in the chain are growing and looking for workers or subcontractors and which are not? Which

The purpose of a CBO/CDC's doing Subsector Analysis itself is to develop an agenda that responds to the needs of the community

firms could grow and employ more community people with what help, and which will never grow? More to the point, perhaps, what skills are necessary to work in the firms up and down the chain? Where are there job ladders where someone could enter on the bottom with fewer skills but make his or her way up the ladder through self-improvement? Which firms have good jobs people from your community could possibly fill without starting their lives over from scratch? Is the community deficit in basic education (possibly in language and math skills, also possible general analytical ability), in job-specific skills, or in work-culture? Do people need to know something they do not know, or, at a deeper level, do they need to re-discover their potentials and possibly change attitudes about themselves and work? Where does the labor market problem really lie? What public-sector institutions can be sought out as allies both for the industries you are working with and the people you are serving? On the labor market front, the community colleges will be likely collaborators. But who else can you work with? The go-talk-to-people-who-have-something-to-say-about-these-industries approach being advocated in this guide is an invaluable tool in building these collaborative networks—and an essential part of building effective partnerships.

Assume that you have identified a subsector or subsectors in the region where there are "good jobs" for people with good basic and job-specific skills. Suppose also that the jobs do not require the same level of preparation that might be involved in something like an advanced university degree. But they are not trivial either. It takes some effort and preparation to be ready for the good jobs in the industry. Furthermore, say that entry-level jobs are not very demanding, but an ability to calculate and read and write English at a basic level is still fundamental. If you cannot pass a simple test in these areas, you cannot get to first base. Also, to complicate matters, the industry has introduced new technology recently. To be able to move out of these entry-level positions—where wages are relatively low—to the "good jobs," you have to be able to make a computer tell a machine what to do. This requires an ability to run a particular class of software and even do some minor "programming."

Some rungs are missing in the middle of the job ladder that were there earlier. If you cannot negotiate this gap, you are consigned to the "working poor." Moreover, because the new technology and its machines have replaced a number of job designations (the machine does a number of tasks that were earlier done separately by humans), the job ladder is not as complex as it used to be. Consequently, there are also fewer avenues forward. As a worker you are confronted by starker choices. Either you make the leap off the floor into the more skilled classifications and economic comfort and security, or you stay on the bottom where your wages remain near the minimum wage. Lastly, for a whole host of reasons, the people in the community did not have much formal education early on. English might also not be their native language.

The objective of the project is to solve this modern industrial puzzle of moving low-income, less formally educated people from the community not only onto the lower rungs of the job ladder—with some populations a challenge in itself—but

The objective of the project is to solve this modern industrial puzzle of moving low-income, less formally educated people from the community not only onto the lower rungs of the job ladder—with some populations a challenge in itself—but into the more demanding "good jobs" in the middle

into the more demanding "good jobs" in the middle. Working in low-income communities today, this is the reality of workforce development for middle-class jobs. The job of the project's *Workforce Training Coordinator* is to

- Develop an understanding of the dynamics of local labor markets, especially in the subsector or subsectors chosen for concentration.
- Define the existing job ladders, both within firms and across firms that share technologies and skill sets within the subsector.
- Identify at each level of the job ladder what is needed specifically in terms of
 - Basic and advanced general skills (language, math, and problem-solving capacities)
 - Task-specific job skills
 - Work culture
- Inventory community skills and regional training opportunities.
- Work with local training institutions to adapt their training programs to the needs of local industries.
- Channel community people through recruitment, training, and placement into jobs that match their skills as *these skills advance and as jobs become available*.

This Workforce Training Coordinator could be the same person as the Subsector Facilitator or, if the project has the resources, he or she could be someone else with particular experience in workforce development in low-income communities.

Some of the work of the Workforce Training Coordinator will be motivational and involve background continuing education in the broadest sense. If you are unemployed today, the place for you is in school, whatever it takes to get there. With long-time marginalized populations without recent (sometimes without any) work experience, there will often be a need to improve *work culture*: how to dress for an interview, leave home early and arrive on time, etc. For people who have been out of the workforce for extended periods, confidence-boosting is often very important. When a job opens, no employer has time to wait for someone to start over from scratch. So in an effective workforce development project aimed at poorer populations, there should always be something going on in terms of general preparation behind the frontline job training and placement.

In general, the Subsector Analysis should have identified specific job skills that are likely to be in demand as the subsector grows or the labor market matures with turnover. Wherever possible, the analytical work should have identified the job ladders that exist regionally where someone with basic skills can enter on the bottom and then improve his or her position in the ensuing years if he or she gets proper support in mastering the technologies involved. This advancement through a job sequence can be supported through project-shaped, on-the-job training, although here the Workforce Training Coordinator will almost certainly find a need to work with local education and training institutions to insure that

their programs meet both the specific technology and the scheduling needs of employers and employees. The same can be said for working out the details of an apprenticeship program where a firm may be asked to make a long-term social investment in a person or people from the community, often without being entirely sure where the firm is headed itself. To the extent that there are risks involved for the firm, the project will want to be sure that it is meeting the firm's specific needs.

One of the strongest arguments for the more hands-on workforce development strategy of the Subsector Approach is that the U.S. economy is changing rapidly. The combined effects of off-shoring and technological change are increasing the number of smaller firms at the expense of larger firms in some sectors of our economy especially manufacturing. This is true, for instance, in Southern California. Defense down-sizing closed many very large factories in a relatively short time. Mergers and consolidations have not been kind to the region either. In the U.S. over the last several decades, many labor-intensive manufacturing processes with a lot of well-paid jobs for lesser-skilled labor have been leaving, and those industries that remain in manufacturing are more and more technology- and capital-intensive. As this process has been working itself out, the number of large firms in manufacturing (as measured by number of employees) has tended to shrink accordingly. This has been especially true in industries where unions had driven up wages historically. Many of the large employers that remain are in unorganized service industries where wages are lower and benefits fewer. In this environment, success in matching workers to good jobs is much more dependent on understanding in detail the reality and behavior of smaller firms in the region.

The technical demands of the American workplace have been changing for some time. Some characteristics are virtually immutable, however. Perhaps the most important of these constants is that education and training systems and private-sector firms move at *different rhythms*. Education and training systems tend to run by the clock and calendar. Firms, on the other hand, are in constant flux, as market opportunities not only ebb and flow but accelerate or retract unexpectedly. The size of a firm affects the play of these forces. A firm with a large workforce tends to have a steadier rate of job turnover, especially in entry-level positions, and thus a more constant demand for the cyclical output from educational and training institutions. On the other hand, the education and training system graduates students every so often (by quarters or semesters in school systems, by some other period in free-standing training institutions).

If you are lucky enough to have a number of larger employers with good jobs nearby and if the training is actually responsive to the general needs of these firms, these newly-graduated workers will be absorbed by these large-scale firms in relatively short order, assuming that there are no serious macroeconomic downdrafts in the economy at large. If firms are smaller, however, the placement challenge becomes that much greater. It becomes more and more important to gather as much information about the ebb and flow of the remaining, often more fragmented industries around you, and to work with the education and training

One of the strongest arguments for the more hands-on workforce development strategy of the Subsector Approach is that the U.S. economy is changing rapidly

institutions to design programs to respond to these private-sector patterns flexibly. A project's Workforce Training Coordinator is charged with weaving these two systems together to the extent possible, respecting the new realities, synchronizing education and training with the needs of the restructuring private sector regionally. There will never be perfect coordination. But we can do a better job of matching trainees with industry than has been done in recent years.

The crucial point is that apprenticeships, on-the-job support efforts, and external training and placement (where you are trying to place someone from outside directly on one of the higher rungs of the job ladder) all benefit enormously from an employer's cooperation, especially if the scale of firms is smaller. The firm idles for a while, then an opportunity presents itself, and without too much warning begins to hire and move people up into more responsible positions. Your chances of placing people from your community in that firm or moving them up the job ladder will be infinitely greater if you have already established a relationship with the firm through the investigative work being proposed.

Lastly, remember that enterprise development (which generates employment and entrepreneurial opportunities) and workforce development are inseparable in today's competitive reality. They must be done together, and in most cases regionally, to be effective. Many of the good jobs for people with less than college educations that do survive today are in industries that need to be supported because they are under enormous competitive stresses from off-shore production and related technological change. Perhaps the principal justification for the Subsector Approach is that as a strategy aimed at enhancing the competitiveness of these threatened industries, it gives us more hope of holding onto job ladders that serve an important social purpose by giving people a road to the middle class.

CONCLUSION

The Subsector Approach is not a panacea for poverty and economic exclusion in the U.S., but it is another way of thinking about how to work at solutions. The Subsector Approach, Subsector Analysis, and the underlying conceptual framework of subsectors are an organized way to approach the microeconomics of workforce and economic development. The Subsector Approach is simply a way of seeing and working at the problem of the economically excluded that makes sense because it begins by rigorously respecting the economic facts on the ground, and builds from those facts to fashion solutions holistically—or, as we might also say, systemically and subsectorally.

While much of what we have written questions the poverty alleviation and community renewal work that has been done in this country, we recognize that poverty alleviation is a complex and demanding undertaking with many facets that requires many different types of expertise in order to achieve success. However, the workforce and economic development tools at the disposal of many grassroots activists in the field might have been more robust, more flexible, more precise from a microeconomics perspective. In this context, our objective is simple: to convince grassroots institutions and the people in them to take a step back and commit themselves to developing the concrete information they need to understand how their local and regional economy works before they set out to design and implement workforce and economic development projects. ***Information is power.***



ENDNOTES

1. Siegel, Beth and Peter Kwass, *Jobs and the Urban Poor: Publicly Initiated Sectoral Strategies*. Somerville, MA: Mt. Auburn Associates, 1995. p. 1.
2. Ibid., p. 4
3. Clark, Peggy and Steven L. Dawson, *Jobs and the Urban Poor: Privately Initiated Sectoral Strategies*. Washington, D.C.: The Aspen Institute, 1995, p. 9.
4. Ibid., p. 9.

NCLR BOARD OF DIRECTORS

CHAIR

Ramon Murguia
Attorney at Law
Murguia Law Offices
Kansas City, MO

FIRST VICE-CHAIR

Jose Villarreal
Partner
Akin, Gump, Strauss, Hauer, & Feld,
L.L.P.
San Antonio, TX

SECOND VICE-CHAIR

Lillian Cruz
Executive Director
Humanidad, Inc.
Rocky Hill, CT

SECRETARY-TREASURER

Roger Cazares
President/CEO
MAAC Project
National City, CA

EXECUTIVE COMMITTEE

Humberto Fuentes
Executive Director
Idaho Migrant Council
Caldwell, ID

The Hon. Guillermo Linares
Councilman
New York, NY

Yvonne Martinez Vega
Executive Director
Ayuda, Inc.
Washington, DC

General Membership
Mari Carmen Aponte, Esq.
Washington, DC

Zulma X. Barrios
Vice President, Latin America
Leadership
The Gallup Organization
Lincoln, NE

Cordelia Candelaria
Professor, Department of English and
Chicano and Chicana Studies
Arizona State University
Tempe, AZ

Amancio J. Chapa, Jr.
Executive Director
Amigos Del Valle, Inc.
Mission, TX

Rita Di Martino
Director, Federal Government Affairs
AT&T
Washington, DC

Fernando Flores
President
Business Design Associate
Alameda, CA

Irma Flores-Gonzales
Consultant
Lake Oswego, OR

Linda Lehrer
Consultant
East Hampton, NY

Raymond Lozano
Mgr. of Community Affairs
Michigan Consolidated Gas Company
Detroit, MI

Dr. Herminio Martinez
Professor and Executive Director
Bronx Institute
Lehman College/CUNY
Bronx, NY

Pedro Narezo
Senior Monitor Advocate
Florida Department of Labor
Tallahassee, FL

Daniel Ortega, Jr., Esq.
Partner
Ortega & Associates, P.C.
Phoenix, AZ

Cecilia Ortiz
Dir., CO Women's Business Office
Governor's Office of Business Develop-
ment
Denver, CO

The Hon. Angel Luis Ortiz
City Councilman
Philadelphia, PA

The Hon. Deborah Ortiz
Assemblywoman
California State Assembly
Sacramento, CA

Verma Pastor
Program Director
WestEd Southwest Comprehensive Ctr.
Phoenix, AZ

Edward Reilly
President and CEO
Big Flower Holdings, Inc.
New York, NY

Deborah Szekely
Founder/Chairman of the Board
Eureka Communities
Washington, DC

Maria Elena Torralva-Alonso
Consultant and Interim Director
Guadalupe Cultural Arts Center
San Antonio, TX

Arturo G. Torres
Chair of the Board & CEO
Play By Play Toys & Novelties
San Antonio, TX

Hon. Esteban Torres
Former Congressman
United States House of Representatives
Washington, DC

Charles E. Vela, M. Sc.
Senior Science Advisor, IIT Research
Institute & Executive Director, Center for
the Advancement of Hispanics in
Science & Engineering Education
Potomac, MD

Carmen Velasquez
Executive Director
Alivio Medical Center
Chicago, IL

Ann Marie Wheelock
President and CEO
Fannie Mae Foundation
Washington, DC

Emeritus Directors
Herman E. Gallegos
Trustee Emeritus
National Council of La Raza
Brisbane, CA

R.P. (Bob) Sanchez, Esq.
Attorney at Law
McAllen, TX

Mitchell Sviridoff
Chilmark, MA

Gilbert R. Vasquez, C.P.A.
Vasquez and Company
Los Angeles, CA

LEGAL COUNSEL

Christopher R. Lipsett, Esq.
Partner
Wilmer, Cutler and Pickering
Washington, DC

