

# **Building Competitive Networks in the Black Business Community**

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## Executive Summary

Scholars and policy makers have pronounced that America's inner cities are ripe for economic development and community revitalization. The advantages that inner cities offer include close proximity to their business clusters, concentrated spending power, inexpensive developable land and infrastructure, and underutilized human capital. While recent discourse on inner-city business development has provided many useful insights on the benefits of close proximity to inner-city business clusters, missing from most of these dialogues is an examination of efforts by local governmental and nonprofit agencies to promote black business development.

The purpose of this project is to review the range of business development programs available to black businesses in terms of the type of network-related capital these programs are attempting to build into the economic environment. Anecdotal information on black business development suggests that black businesses are underrepresented in inner-city business clusters.<sup>1</sup> Proposals have been put forth to utilize local government and nonprofit agencies as intermediaries to strengthen black business networks within inner-city economies.<sup>2</sup>

### Project Scope

The scope of the inquiry is to (1) develop an understanding of business development agencies that provide services to black businesses, (2) identify the types of programs and services offered by business development agencies to black businesses, (3) develop a classification of network-building programs and services available for black business development, and (4) assess the extent that business development agencies engage in promoting network building as a strategy for business

development.

## Key Findings

The survey of minority business development programs reveals that programs available to black businesses have emerged in response to specific issues and concerns facing minority entrepreneurs within particular metropolitan areas. The challenges that these programs strive to overcome are similar to the minority business development challenges identified in economic development literature, including difficult access to capital, inadequate managerial experience and education, insufficient resources and support services, and poor access to markets. In addition to these challenges, agencies participating in the minority business development survey identified problematic neighborhood conditions, misperceptions of the inner city, the presence of negative stereotypes, and perceptions of minority business enterprises (MBEs) as challenges for small business development in inner cities.

Programs and services that have arisen to meet these challenges place greater emphasis on activities for starting and maintaining a business than on services for expanding a business. Technical assistance readily available for starting a business include assistance for business plans and business start-up training. Funds for starting a business are available through microbusiness loans.

However, there are indications that programs are emerging to provide more assistance for expanding businesses within the inner city. Entrepreneurial assistance for such issues as promotion, marketing, business networking, managerial training, and business mentoring are offered by a majority of the agencies. Microbusiness loans and venture capital funds are available as well for business expansion.

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Even though the survey finds a growing recognition of the importance of strengthening the relations among businesses and their connections to outside institutions and opportunities, it reinforces the findings in the literature that industrial strategies to strengthen intracommunity and intercommunity links between black businesses in particular industrial sectors are lacking.

Nevertheless, there is an emphasis on network-building efforts that assist businesses to build connections to nonlocal consumers and business markets located in the mainstream economy. Agencies engage in network building for specific program purposes. Four models of network building appear to be functioning:

- **Entrepreneurial Capacity Capital:** Teaching individuals the basic business acumen and life skills in an effort to assist them become economically sufficient and independent.
- **Community Capital:** Building social relationships between entrepreneurs and public and private actors within a specific geographic area for the purpose of improving the social, political, and economic climate of the community.
- **Minority Network Capital:** Building connections that are designed to level the playing field for minority entrepreneurs through programs that work to build relations within the business community itself and to build connections to more mainstream business opportunities.
- **Minority Niche Capital:** Targeting smaller firms in particular industrial sectors to acquire skills and create sophisticated relationships with established mainstream businesses in the same industrial sector.

### **Implications of Findings**

Critical elements are in place to strengthen network-building efforts for black business development:

- There is active collaboration among agencies to provide programs and services to black businesses.
- Business development agencies recognize the importance of building relationships within the business community and making connections to outside mainstream institutions.
- Model intermediary programs are emerging that have the potential to be replicated elsewhere.

The survey results suggest more attention needs to be directed to the promotion of black businesses within the context of specific industrial sectors. Evidence from the literature review and minority business development survey suggests that such a model already exists for minority contractors in the construction trades. The potential for replicating this type of business support model in other industry niches and ethnic communities has not been fully explored. The literature review and minority business survey found evidence of small-scale attempts to implement specialized retail trade models utilizing vendor pushcarts and a specialized kitchen incubator in immigrant communities, but these programs are not common within majority-black neighborhoods.

## **Introduction**

This report presents a review of business development agencies that provide services to black businesses located in the fifty largest U.S. metropolitan areas.

Economic development planners are reevaluating the role that nonprofit organizations and local governments play in promoting black business development. Michael Porter brought attention to the need to explore alternative strategies for inner-city economic development in his seminal article, “The Competitive Advantage of the Inner City.”<sup>3</sup> Porter advocates that inner-city business locations offer unique competitive advantages for economic development. Porter’s competitive advantage theory is centered on the thesis that “longer-term development opportunities for inner cities lie in capitalizing on nearby regional clusters of firms and industries—unique concentrations of competitive companies in related fields.”<sup>4</sup>

Even Porter’s critics have applauded him for bringing renewed dialogue to inner-city business development issues. Skepticism of Porter, however, comes from his dismissal of the contributions of both local government and nonprofit agencies to inner-city regeneration.<sup>5</sup> Skeptics point out that before dismissing these organizations, it is important to take a critical look at what they do, and examine their current efforts to reintegrate inner-city communities back into the mainstream of metropolitan life.<sup>6</sup>

## **Research Objectives and Tasks**

The research scope is to (1) acquire an understanding of business development agencies that promote black business development (2) identify services and programs available to black businesses located in the fifty largest U.S. metropolitan areas (3)

develop a classification of taxonomy for black business development network-building and (4) examine the extent to which business development agencies engage in networking activities that facilitate black business development.

A case study approach was employed to analyze business development programs. This qualitative approach is suitable for this type of inquiry, because it sheds insight on business development programs, and, in particular, their success stories and the obstacles in program implementation. A mail survey was conducted to determine the types of business development programs and services currently available to black businesses. The survey was supplemented with focus interviews, a literature review, and a review of program brochures and Web pages published by economic development agencies.

The following section outlines the research tasks conducted for this project:

- Task One: Compile background information on the local context in which the business development agencies operate.

Metropolitan profiles were compiled based on data from U.S. Census of Population and Housing, the U.S. Economic Census of Minority-Owned Business Enterprises, the U.S. Department of Housing and Urban Development State of the Cities Data Systems (SOCDS), and the State University of New York at Albany's Lewis Mumford Center for Comparative Urban and Regional Research Census 2000 project.

- Task Two: Conduct a literature review of business development and network building literature as it pertains to black businesses.

A literature search was conducted of business, economic, geography, planning,

and urban studies publications. The search was conducted utilizing keyword searches such as African-American, black, ethnic, and neighborhood businesses; neighborhood business development; social capital; and social and business networks.

- Task Three: Identify business development agencies that serve black businesses.

Several sources were utilized to identify these agencies. Internet searches were conducted to identify business development agencies that target black businesses. This was supplemented by searches of directories and member listings of specific MBE-related organizational Web sites, such as the Aspen Institute, the Association for Enterprise Opportunities, the National Black Chamber of Commerce, the National African-American Chamber of Commerce, the National Supplier Network, and the National Urban League.

- Task Four: Design a minority business development survey.

A survey instrument was designed to ascertain efforts and steps taken by business development agencies to build relations within the black business community and create links to established mainstream institutions and opportunities. Questions on the survey were designed to obtain program histories, objectives, missions, and program offerings. Questions were intentionally open-ended in order to allow for greater content in the responses.

- Task Five: Develop a classification of network-building business development programs and services available for black businesses.

A content analysis enabled the development of a classification of the network-building business development programs and services available to black businesses.

Particular attention was paid to (1) the influence of program orientation on the provision of network-building programs and services and (2) the extent that business development agencies engage in network-building activities that build relations within the black business community and connections between black businesses and established mainstream businesses and institutions.

**Data Limitations**

A major difficulty confronting research on black businesses is the lack of accessible data on the breadth and effectiveness of business development programs. The 1997 U.S. Economic Census survey of Minority-Owned Business Enterprises (SMOBE) and the Survey of Characteristics of Company Business Owners (CBO) provide aggregate data on business enterprises, but do not provide information on intermediary or nonprofit programs providing services to these business enterprises.

## **Background: Black Businesses in U.S. Metropolitan Areas**

Metropolitan areas benefit from the presence of entrepreneurial innovation and creativity. In the 1980s, researchers hypothesized that small entrepreneurs were the driving force behind economic revitalization and advancement in U.S. metropolitan regions.<sup>7</sup> Minorities, however, are underrepresented in the nation's total businesses. Minority groups today represent thirty-one percent of the total population, but own just fifteen percent of the nation's total businesses. Blacks are even more underrepresented. Blacks make up twelve percent of the total population, but own just four percent of the nation's businesses.<sup>8</sup>

### **Spatial Dynamics of Black-Owned Enterprises**

Black-owned firms tend to spatially concentrate in large metropolitan areas (MAs). In 1997, the metropolitan areas with the largest number of black-owned firms are New York City (69,410), Washington, DC (48,709), Los Angeles (38,277), Chicago (35,569), Atlanta (34,592), Houston (24,286), Philadelphia (17,863), Detroit (17,692), Miami (16,918), Baltimore (16,712) and Dallas (14,021). In all but one of these metropolitan areas, growth rates for the number of black firms was higher than the total firm growth rates.

**Table 1**  
**Number and Percentage of Black-Owned Firms, 1992 and 1997**

<b>Metropolitan Area</b>	<b>Black Firms 1992</b>	<b>Total Firms 1992</b>	<b>Black Firms 1997</b>	<b>Total Firms 1997</b>	<b>Percentage Growth Black Firms</b>	<b>Percentage Growth Total Firms</b>
New York	39,404	533,831	69,410	784,876	76	47
Washington DC	37,988	318,452	48,709	394,576	28	24
Los Angeles	32,645	667,299	38,277	778,577	17	17
Chicago	24,844	473,100	35,569	598,175	43	26
Atlanta	23,485	238,198	34,592	327,053	47	37
Houston	18,840	261,102	24,286	326,513	29	25
Philadelphia	13,956	299,705	17,863	353,657	28	18
Detroit	13,910	233,601	17,692	289,080	27	24
Miami	10,387	161,642	16,918	238,602	63	48
Baltimore	12,492	147,926	16,712	182,549	34	23
Dallas	11,395	236,920	14,021	288,728	23	22
Nation	620,912	17,253,000	823,499	20,821,935	33	21

Data Source: U.S. Bureau of the Census (1992 and 1997). *Survey of Minority-Owned Business Enterprises, Company Statistics Series: Black*. Washington, DC: U.S. Government Printing Office.

A measure of a metropolitan area's black business strength is its concentration of black-owned enterprises. The black business concentration index was calculated as the proportion of black enterprises to the black population within a metropolitan area compared to the proportion of black enterprises to the black population nationally. A number greater than 1.0 indicates that a metropolitan area has a concentration above the national average. As the following chart indicates, Washington DC has the highest black business concentration (3.02), followed by San Francisco (2.19), Los Angeles (1.78), Miami (1.67), San Jose (1.66), Oakland (1.60), Houston (1.46), Boston (1.44),

West Palm Beach (1.39), New York City (1.38), Portland (1.38), and Raleigh-Durham (1.37).

**Table 2**

**Metropolitan Areas with Highest Black Business Concentration, 1997  
(Greater than 1.00)**

<b>Metropolitan Area</b>	<b>Black Firms 1997</b>	<b>Black Population 2000</b>	<b>Business Concentration Index, 1997</b>
<b>U.S. Black Firms</b>	<b>823,499</b>	<b>36,419,434</b>	<b>1.00</b>
Washington DC	48,709	712,873	3.02
San Francisco	4,423	89,156	2.19
Los Angeles	38,277	950,982	1.78
Miami	16,918	448,194	1.67
San Jose	1,665	44,475	1.66
Oakland	10,779	297,975	1.60
Houston	24,286	734,848	1.46
Boston	8,043	247,615	1.44
West Palm Beach	4,781	152,433	1.39
New York	69,410	2,217,719	1.38
Portland	1,919	61,376	1.38
Raleigh-Durham	8,455	273,702	1.37
Atlanta	34,592	1,202,407	1.27
Nashville	5,242	196,148	1.18
Dallas	14,021	537,730	1.15
Dayton	3,664	141,063	1.15
Providence	1,311	50,991	1.14
Austin	2,517	101,481	1.10
San Diego	3,978	161,233	1.09
Hartford	2,779	114,407	1.07
Baltimore	16,712	712,030	1.04
Indianapolis	5,416	230,835	1.04
Greensboro	5,933	255,058	1.03

Data Source: U.S. Bureau of the Census (1997). *Survey of Minority-Owned Business Enterprises, Company Statistics Series: Black*. Washington, DC: U.S. Government Printing Office.

Another key measure of black business strength is the level of receipts per firm. The metropolitan areas with the highest level of receipts per firm were Detroit (\$198,200), Portland (\$190,700), San Francisco (\$171,900), Columbus (\$161,900), Dallas (\$158,200), Minneapolis-St. Paul (\$135,700), Cincinnati (\$133,700), Cleveland (\$129,000), Kansas City (\$118,800), Indianapolis (\$114,700), and Washington DC (\$111,100).

**Table 3**

**Metropolitan Areas with Highest Black Firm Receipts, 1997**

<b>Metropolitan Area</b>	<b>Black Firms</b>	<b>Black Firm Receipts (\$1,000)</b>	<b>Black Firm Receipts per firm (\$1,000)</b>
<b>U.S. Black Firms</b>	<b>823,499</b>	<b>32,197,361</b>	<b>39.1</b>
Detroit	17,692	3,507,051	198.2
Portland	1,919	365,944	190.7
San Francisco	4,423	760,358	171.9
Columbus	4,955	802,156	161.9
Dallas	14,021	2,217,466	158.2
Minneapolis-St. Paul	3,740	507,398	135.7
Cincinnati	4,728	631,878	133.7
Cleveland	8,575	1,106,532	129.0
Kansas City	5,047	599,358	118.8
Indianapolis	5,416	621,002	114.7
Washington, DC	48,709	5,410,464	111.1

Data Source: U.S. Bureau of the Census (1997). *Survey of Minority-Owned Business Enterprises, Company Statistics Series: Black*. Washington, DC: U.S. Government Printing Office.

Still another measure of black business strength is the rate of growth of black

businesses. Rapid business growth is defined as metropolitan black business growth above the average of U.S. black business growth. The metropolitan areas with higher than average black business growth rates are New York (76 percent growth rate), West Palm Beach (73 percent), Miami (63 percent), Las Vegas (62 percent), Boston (60 percent), Providence (55 percent), Memphis (53 percent), Portland (52 percent), Raleigh-Durham (51 percent), and Atlanta (47 percent).

**Table 4**  
**Metropolitan Areas with Rapid Black Business Growth**

<b>Metropolitan Area</b>	<b>Black Firms 1992</b>	<b>Black Firms 1997</b>	<b>Percentage Change in Black Firms</b>
<b>U.S. Black Firms</b>	<b>620,912</b>	<b>823,499</b>	<b>33</b>
New York	39,404	69,410	76
West Palm Beach	2,765	4,781	73
Miami	10,387	16,918	63
Las Vegas	1,560	2,534	62
Boston	5,036	8,043	60
Providence	846	1,311	55
Memphis	7,139	10,931	53
Portland	1,260	1,919	52
Raleigh-Durham	5,601	8,455	51
Atlanta	23,488	34,592	47

Data Source: U.S. Bureau of the Census (1992, 1997). *Survey of Minority-Owned Business Enterprises, Company Statistics Series: Black*. Washington, DC: U.S. Government Printing Office.

Slow black business growth is defined as metropolitan black business growth below the average of U.S. black business growth. Metropolitan areas with slow black business growth include Sacramento (26 percent decline), San Jose (25 percent decline), San Antonio (5 percent decline), Dayton (3 percent decline), San Diego (4

percent growth), Oklahoma City (9 percent growth), Denver (11 percent growth), Richmond (12 percent growth), and Columbus (16 percent growth).

**Table 5**

**Metropolitan Areas with Slow Black Business Growth**

<b>Metropolitan Areas</b>	<b>Black Firms 1992</b>	<b>Black Firms 1997</b>	<b>Percentage Change in Black Firms</b>
<b>U.S. Black Firms</b>	<b>620,912</b>	<b>823,499</b>	<b>33</b>
Sacramento	2734	2028	-26
San Jose	2229	1665	-25
San Antonio	2215	2100	-5
Dayton	2541	2458	-3
San Diego	3819	3978	4
Oklahoma City	2108	2298	9
Denver	3293	3664	11
Richmond	5752	6468	12
Louisville	2509	2904	16
Columbus	4268	4955	16

Data Source: U.S. Bureau of the Census (1992, 1997). *Survey of Minority-Owned Business Enterprises, Company Statistics Series: Black*. Washington, DC: U.S. Government Printing Office.

**Challenges for Black Business Development**

Several of the preceding charts have shown that black businesses, even with their relative size and economic strength, tend to be concentrated in a few metropolitan areas. At the same time, there does not appear to be a relationship between receipts and the other measures of business strength. It is not clear from the aggregate data the challenges that black businesses encounter.

Several challenges for black business development have been identified in the business development literature. The most often cited challenge is access to capital. A

lending gap exists between minority and nonminority firms, but the gap is substantially greater for African-American and Hispanic firms. The Milken Institute, in their study of minority business challenges, notes that eighty-seven percent of black business owners cite access to personal and business loans, cash flow, or sales, as reasons for their business failure.<sup>9</sup>

Personal assets can play a critical role in financing and sustaining a small business. Several factors or challenges come into play when looking at the role of personal assets and business success in the black community. Black assets lag behind other ethnic groups. Black wealth accumulation has been weakened as a result of structural shifts in the metropolitan economy. The income gap between white and black households widened in the 1990s.<sup>10</sup> The U.S. Census Bureau estimates that in 1995 the median net worth of white households was \$49,030 compared to \$7,073 for black households.<sup>11</sup>

Educational attainment is also critical for business success. Part of the explanation for black-owned enterprises being less profitable and prone to business failure has been attributed to the business owner's educational background. Nineteen percent of black business owners have less than a high school education, compared to ten percent of nonminority business owners. A larger proportion of nonminority business owners (38 percent compared to 30 percent) graduated from college.<sup>12</sup>

Penetration of public and private-sector procurement markets has been a challenge for all minority business enterprises. Minority firms receive less than five percent of all federal procurement contracts. The situation is similar for state and local governmental procurement contracts. Setting targets and implementing procurement

programs has been challenging for state and local governments since the 1989 U.S. Supreme Court decision overturning the procurement program utilized in Richmond, Virginia, to increase involvement by minority firms (Richmond versus Croson, 1989).<sup>13</sup> In addition to overcoming issues related to discrimination, black firms have to overcome obstacles such as a lack of expertise in bidding for contracts, short-term cash flow problems, and limited project management experience.

Low rates of black business ownership can make it difficult for blacks to learn from friends and relatives about business know-how.<sup>14</sup> In a study of the social capital of black business owners, Fratoe observed that blacks are less likely than other ethnic groups to have family members who owned or operated a business, to have worked for relatives who owned a business, and to have relied on relatives for start-up or equity capital.

## Objectives and Significance: Competitive Network Building

Regional development scholars have extensively examined industrial and firm competitiveness.<sup>15</sup> Research efforts have largely been directed at understanding the impacts of corporate downsizing and outsourcing on local economic development. Particular emphasis has been given to the advantages of economic development strategies that support industrial agglomeration through business clustering.<sup>16</sup> These strategies are increasingly viewed as superior to traditional initiatives based on “entrepreneurial local government action,” which typically involve tax breaks or subsidies to attract enterprises to a particular region.<sup>17</sup> Of special interest to local economic development planners, as an outgrowth of recent public attention to regional competitiveness policy and research, are the formal and informal networks that strengthen local relationships between suppliers and clients.<sup>18</sup>

Against this backdrop, economic development planners are assessing the viability of black business development as a means for transforming inner-city economies. Traditionally, black enterprises consisted of “mom-and-pop” food stores, beauty parlors, barbershops and other community services, whose market orientations are targeted to their surrounding neighborhood. Most of these enterprises required minimal start-up capital, educational credentials, and professional work experience for success. Today, however, the growth sectors of the economy are driven by technology and capital. These enterprises generally require a college degree, professional work experience, and access to venture capital. Increasingly, these enterprises sell their goods and services within a larger metropolitan market, particularly to other businesses and government agencies.<sup>19</sup>

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Michael Porter advises that new business development strategies be framed in the context of the strategic advantage of the inner city.<sup>20</sup> Porter asserts that the competitive strength of inner-city enterprises lies in the fundamental principle that location matters for business development, and that inner-city enterprises are well positioned to occupy niches that are hard to replicate elsewhere. A critical aspect of Porter's strategy is the emphasis on the development of inner-city business clusters, external economies, and building inner-city supplier networks. The latter has been of special interest to local economic development planners.

Networks emerge from the geographic clustering of interrelated economic activities within a region, enabling enterprises to collectively benefit from "agglomeration-specific skills, sensitivities, and tacit knowledge."<sup>21</sup> A firm's network encompasses a wide range of formal or informal contacts. Formal networks include contractual arrangements, such as strategic alliances and joint ventures, whereas informal networks emerge from personal contacts with acquaintances, such as suppliers and customers.<sup>22</sup> A key feature of any network is the interdependency of relationships. Through interactions with other businesses, enterprises learn the "know-why, know-how, know-when, and know-what" necessary for their success.<sup>23</sup> Participation in networks enables enterprises to collectively target available opportunities. If enterprises are not active participants in networks, the overall area's network is underutilized and deteriorates.<sup>24</sup>

One critique of Michael Porter notes that the turnaround of a local economy has historically resulted from visionaries pushing "a moribund local economy into a new trajectory."<sup>25</sup> It should be no less the case, therefore, that visionaries would be central

to the expansion of black business capacity.

Few studies have examined the potential of business development agencies as visionary agents for black business development. Studies of black entrepreneurship focus instead on comparative differences between black and other ethnic entrepreneurs. The research emphasis, therefore, becomes the relationship between a firm and the local ethnic economy.<sup>26</sup> Studies show, for example, that black entrepreneurs act more individualistically and Asian entrepreneurs act more collectively.<sup>27</sup> The researchers assert that networks are vital to business sustainability.<sup>28</sup> Through ethnic networks, Asian entrepreneurs find reliable, low-wage labor (typically family members), thus reducing their business overhead. This ethnic solidarity increases the scope of social resources available to Asian entrepreneurs.

However, it has not increased the access of Asian entrepreneurs to broader markets.

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### **Black Business Development**

To appreciate the context of black business development, it is necessary to understand the key features of black networks and social capital. Empirical studies of black business networks provide contradictory evidence as to whether black entrepreneurs historically cooperate with one another or work individualistically. Historical studies of black businesses find evidence that business development was rooted in the principle of “collective advancement through mutual cooperation.”<sup>29</sup> However, in a study of black retail trade networks in New York City, James Rauch finds black businesses are generally ineffective in making use of collective action to enhance their businesses.<sup>30</sup>

To redress this situation, Rauch advocates a strategy to level the playing field between black retailers and their white or Asian counterparts “by bringing the level of intercommunity ties to vendors up to that of whites or bringing the level of “social capital” up to that of Asian immigrants.”<sup>31</sup> It is through interaction that sellers and buyers come to know and trust each other, and thus become more informed about potential opportunities. Rauch recommends the establishment of an intermediary institution as a broker to organize the black retail firms and to facilitate relations between the black retailers and their vendors.

Relatively little is known about the potential of intermediaries for promoting business development. Mark Granovetter’s work on weak ties provides a framework to examine intermediary institutions. Ties are measured in terms of frequency of interaction. If individuals interact on a frequent basis and their friends tend to know one another, the ties are regarded as strong or dense. If the interaction is less frequent and their friends are not likely to know each other, the ties are regarded as weak.<sup>32</sup> Weak ties, according to Granovetter, can serve as a bridge between members of different groups. According to Granovetter,

weak ties have a special role in a person’s opportunity for mobility—there is a ‘structural tendency for those to whom one is only weakly tied to have better access to job information one does not already have. Acquaintances, as compared to close friends, are more prone to move in different circles than oneself. Those to whom one is closest are likely to have the greatest overlap in contact with those one already knows, so that the information to which they are privy is likely to be much the same as that which one already has.’<sup>33</sup>

In terms of businesses, weak ties, thus, provide a firm “with access to information and resources beyond those available in their own circle.”<sup>34</sup>

The Granovetter framework equates social relations and ties within a community as social capital. The significance of social capital comes from whether the structure of relations within a community facilitates action, "making possible the achievement of certain ends that in its absence would not be possible."<sup>35</sup> In terms of economic development, Robert Putnam notes that without a clear understanding of how social capital helps mobilize business, government, and nonprofit institutions, it will be difficult to create the synergy necessary to revitalize a community.<sup>36</sup> Economic development planners are therefore concerned about the nature of social capital in the black business community.<sup>37</sup>

Social capital is defined as the community stock of mutual trust, reciprocity, and networks that community members rely upon to address community problems. Social scientists view social capital in terms of its two dimensions: social glue and social bridges:

*Social glue* refers to the degree to which people take part in group life. It also concerns the amount of trust or the comfort level that people feel when participating in these groups. Social trust and group participation form a recursive relationship. The level of trust influence's one's willingness to join a group. Likewise, group participation builds trust.

*Social bridges* are the links between groups. These links are vital because they not only connect groups to one another but also give members in any group access to the larger world outside their social circle through a chain of affiliations.<sup>38</sup>

An example of social glue is the trust that emerges between low-income clients who receive microbusiness loans and community loan officers. Because of the trust that evolves between the client and the loan officer, the client seeks mentoring and business support to pay back the loan.<sup>39</sup> This type of social capital is referred to as

bonding capital in the community development literature.<sup>40</sup>

Social bridges are the links that connect a firm to buyers and sellers. The National Minority Supplier Development Council's efforts to assist minority business owners penetrate networks from which they have previously been excluded represents a social bridge. This is referred to as bridging capital in the community development literature.<sup>41</sup>

Black entrepreneurs often fail to appreciate mainstream market opportunities and how to link to resources outside the inner city.<sup>42</sup> In part, this comes from not knowing how to make such links. Ronald Burt attributes this situation to "structural holes." Structural holes represent a gap that exists between people who know each other, but are ignorant of the benefits that come from working together.

From the business development perspective, the structural hole framework provides a theoretical perspective for the application of the Granovetter's weak tie concept to a business development strategy. The weak tie framework describes the conditions in which members of a group can make connections to outside resources. However, missing from the theoretical analysis is attention to who acts as a facilitator for making connections. In other words, the presence of weak ties is not significant enough to mobilize resources within a community, because "knowing about an opportunity and being in a position to develop it are distinct from doing something about it."<sup>43</sup> Filling a structural hole presents "the opportunity to broker the flow of information between people, and control the projects that bring people together from opposite sides of the hole."<sup>44</sup>

In the context of business development, filling the structural hole can be

translated into the opportunity that rises from a trusted individual, institution, or group in the community, instilled with the knowledge and connections to outside resources and the knowledge and trust of the community, to move forward a business, a project, or others to implement action.

This study is motivated by the desire to evaluate the extent that business development agencies act as intermediaries to strengthen the relationships between black businesses within a community and act as facilitators or bridges to mainstream businesses, institutions, and opportunities. Thus, a key question is, what type of institutional structures currently present in inner-city communities are positioned to function as network builders.<sup>45</sup> Should intermediary institutions target a specific industrial sector, or should they target all industries within a specified geographical area? Rauch recommends that the intermediary be affiliated with a particular industry, thus enabling firms to share common information and build trust between suppliers, vendors, and buyers.

Model programs cited in the literature of intermediary institutions are the Neighborhood Entrepreneurial Program (NEP) located in New York City, the Regional Alliance of Small Contractors located in the Greater New York and Northern Jersey region, and the Nuestra Comunidad Development Corporation Village Pushcarts and Kitchen Incubator Initiative in Roxbury and Dorchester, Massachusetts. Each of these organizations functions as a broker for a particular market niche. The Neighborhood Entrepreneurial Program was established to train neighborhood residents as property managers for a local housing authority. The Regional Alliance of Small Contractors emerged to assist small contractors to acquire the relationships and skills necessary to

work with the Port of Authority of New York and New Jersey's prime construction contractors.<sup>46</sup> Nuestra's Village Pushcarts Program is designed to assist low-income residents to engage in small-scale retailing via pushcarts; their need for certified kitchen space and storage space for food and carts led to the formation of the Kitchen Incubator Initiative, which provides commercial kitchen space for entrepreneurs interested in the food business whether it is catering, bodega ownership, or restaurants.

[Given the findings within the relevant literature, research into the mission and goals of potential intermediaries may shed more light on potential programs, efforts that are currently being undertaken.](#) Such research may also [explore further the potential gaps in business development within the black community](#) and provide an appreciation of the extent that current programs promote network building as a strategy for business development.

## **The Practice of Network Building: the Evidence**

A minority business development survey was designed to ascertain information on the types of programs and services currently available to black businesses located in the fifty largest U.S. metropolitan areas. The survey was mailed to 250 minority business development program managers in December 2001. Twenty-two surveys were returned as not deliverable. In February 2002, follow-up phone calls to nonrespondents were conducted. The final response rate was twenty-three percent (52 out of 228).

### **Program Organization and Structure**

The types of business development agencies that participated in the survey include economic development organizations (64 percent), governmental programs (13 percent), for-profit economic development agencies (10 percent), human service agencies (6 percent), university programs engaged in outreach activities to minority businesses (4 percent), and “other” agencies (4 percent).

The agencies included in the sample also represented an array of legal forms of organizational structure. The majority of the respondents were private nonprofit organizations with no subsidiaries (58 percent). Other forms of organizations that responded include public agencies (21 percent), private nonprofits with nonprofit subsidiaries (8 percent), private for-profit organizations (6 percent), private nonprofit organization with both nonprofit and for-profit subsidiaries (6 percent), and other agencies (2 percent).

## Program Organizations and Structure

A major component of the project was the review and analysis of agency mission statements to assess overall program orientation. Program orientation was assessed based upon whether the mission statement reflected an orientation toward serving individuals, businesses, or communities. Table 6 provides a summary of the program orientation of the sample agencies.

**Table 6**  
**Program Orientation**

<b>Program Orientation</b>	<b>Frequency</b>	<b>Percent</b>
Individual-serving	4	8
Business-serving	25	48
Community-serving	23	44
<b>Total Responses</b>	<b>52</b>	<b>100</b>

Individual-serving programs (8 percent) emphasize helping low-income individuals become economically self-sufficient. These programs provide assistance for preparing business plans, business start-up training, and microbusiness loans for opening up home businesses. These agencies fall under the rubric of human service organizations whose missions are to provide services for people in need and promote self-sufficiency and personal responsibility. They expanded their poverty alleviation and workforce development programs to include microenterprise training to provide clients with alternatives to traditional work.

Business-serving programs (48 percent) emphasize growing, sustaining, and expanding businesses. These agencies offer programs such as capital lending, business counseling, entrepreneurial training, procurement information, matching

services, and business networking. Types of agencies in this category include black chambers of commerce, minority trade associations, minority business councils, minority supplier councils, community loan funds, and business procurement outreach programs.

- Community-serving programs (44 percent) focus their efforts on revitalizing a specific place. The target is not the business per se, but the social, political, and economic vitality of the place in which the business is located. Agency examples include neighborhood-based Main Street Initiatives, neighborhood business improvement districts, neighborhood revitalization corporations, and community revitalization corporations.

**Profile of Clients Served**

Another goal of the survey was to establish whether or not the agencies target a specific group of clients. The majority of the agencies indicated that they target services and programs to minority and low-income groups. Tables 7 and 8 provide breakdowns of the clients served by the agencies participating in the survey.

**Table 7**

**Racial Breakdown of Target Clients**

<b>Proportion Black</b>	<b>Frequency</b>	<b>Percent</b>
Ninety Percent or More	6	11
Fifty to Eighty-Nine Percent	12	24
Ten to Forty-nine Percent	10	20
Less Than Ten Percent	0	0
Do Not Target Specific Racial Group	24	45
Total Responses	52	100

Eleven percent have a client base consisting almost exclusively of black

businesses. Twenty-four percent have a client base that is between fifty and ninety percent black businesses. Twenty percent have a client base that is between ten to forty-nine percent black businesses. Forty-five percent of the agencies target minorities or low income in general, and thus did not report a racial breakdown of their clients.

**Table 8**  
**Industrial Sector of Target Clients**

<b>Industrial Sector</b>	<b>Frequency</b>	<b>Percent</b>
Service-Sector Firms	9	17
Retail-Sector Firms	6	11
Construction-Sector Firms	4	8
Manufacturing-Sector Firms	2	4
No Specific Industrial Sector	31	60

The majority of the agencies reported that they do not target a specific type of firm or industrial sector. However, twenty percent of the agencies did indicate that they target start-up businesses. Seventeen percent of the agencies target service-sector firms, eleven percent target primarily retail-sector firms, eight percent target primarily construction-sector firms, and four percent target primarily manufacturing-sector firms.

**Business Development Obstacles**

The project also sought to ascertain the agency's perspective on the obstacles to small business development that contributed to the formation of their agencies. Many different responses were reported to the open-ended question, "What obstacles facing small businesses contributed to the formation of your organization?" The responses were grouped into nine broad categories. Table 9 provides a breakdown of the responses by category.

**Table 9**  
**Small Business Development Obstacles**

<b>Obstacles</b>	<b>Frequency</b>	<b>Percent</b>
Access to Capital	30	27
Managerial Experience and Education	22	20
Neighborhood Conditions and Misperceptions	14	13
Negative Perceptions of MBEs	11	10
Market Access	9	8
Access to Business Networks	7	7
Lack of Resources and Support Services	7	7
Access to Skilled Labor Force	4	4
National Economic Conditions	4	4
<b>Total Obstacles</b>	<b>108</b>	<b>100</b>

The most-cited small business development obstacle is access to capital (27 percent). Access to capital was signaled through such phrases as “insufficient funds to start a business,” “inability to obtain business loans,” “banks unwilling to lend in low-income communities” (some were very succinct—bank “redlining” of business loans), “inability to obtain financing,” “a gap exists between bankable and unbankable firms,” “lack of small dollar loans for those with little or poor credit history,” “difficulty for low-income women (and others) to obtain access to startup capital,” and “no peer lending model.”

The second most-cited obstacle (20 percent) relates to managerial experience and education. This was signaled with phrases such as “lack of education,” “linguistic barriers,” “lack of knowledge about bonding, management, marketing,” “not having the savvy to make deals,” “lacking the skill and know-how to bid on projects,” “not knowing how to get one’s name out in community,” and “lack of financial literacy.”

The third obstacle cited relates to neighborhood conditions and misperceptions of

inner cities (13 percent). Phrases that signaled these issues include “high crime,” “poor image,” “deterioration of the neighborhood,” “loss of neighborhood jobs,” “located in low income area, no means to make business work,” “traditional financial institutions were reluctant to lend to small businesses in distressed communities,” and “cost of doing business in the neighborhood.”

The fourth obstacle cited relates to negative perceptions toward MBEs in general (10 percent). Negative perceptions were signaled through phrases and words such as “racism,” “racial discrimination,” “perception that MBEs are too small,” and “stereotypes.” Others simply alluded to the general perceptions that blacks have to work harder to prove themselves equal to others when competing for larger public and private contracts.

The fifth obstacle cited relates to market access (8 percent). This was signaled through phrases such as “poor access to markets,” “lack of knowledge about procurement opportunities and franchising,” and “lack of knowledge about purchasing practices.”

The sixth obstacle cited relates to access to business networks (7 percent). This was signaled with phrases such as “the good-old-boy networks,” “not knowing how to get the foot in the door,” and “not knowing how to present oneself” to mainstream clients.

The seventh obstacle cited relates to lack of resources and support services (7 percent). This was signaled with phrases such as “resources, human and financial, continues to be a major problem,” “lack of support services,” “access to services (governmental and financial),” “lack access to intensive training,” “lack of inexpensive

business training for emerging entrepreneurs in our community,” and “lack of knowledge about available services and how to access them.”

Other issues cited include access to skilled labor force (4 percent) and effects of national economic conditions on the local economy (4 percent).

### **Programs Available**

A list of business development programs and services typically available to small businesses was compiled from the business development literature review. The programs were grouped into the following categories:

- **Technical Assistance:** Services that focus primarily on information and referral, learning about the basics of entrepreneurship, and MBE certification processes.
- **Training Programs:** Services that emphasize education and training, such as start-up entrepreneurial training and e-commerce education.
- **Financial Assistance:** Services that facilitate access to capital such as micro-business loan programs, business packaging, and venture capital programs.
- **Entrepreneurial Assistance:** Services that assist businesses to expand their orientation to the mainstream economy.
- **Communication Services:** Services that emphasize exchange of business information.

For each program service, agencies were asked whether or not they offered the service. The following sections summarize the types of programs and services that these agencies make available to black businesses.

### **Technical Assistance**

Table 10 shows technical assistance services. The most frequently offered

technical assistance is business counseling (92 percent), followed by businesses seminars (85 percent), business plan preparation (78 percent), business start-up training (67 percent), and MBE certification assistance (59 percent).

**Table10**  
**Technical Assistance**

Technical Assistance	Frequency			Percent	
	Yes	No	Total	Yes	No
Business Counseling	47	4	51	92	8
Business Seminars	44	8	52	85	15
Business Plan Preparation	39	11	50	78	22
Business Start-up Training	34	17	51	67	33
MBE Certification	29	20	49	59	41

### Training Programs

Table 11 shows that the most frequently offered training programs are bookkeeping or accounting systems (54 percent), computer literacy (48 percent) tax planning (38 percent), and information or database management (36 percent). Web site design (22 percent) was less prevalent than other training programs.

**Table 11**  
**Training Programs**

Training Programs Available	Frequency			Percent	
	Yes	No	Total	Yes	No
Bookkeeping or Accounting Systems	27	23	50	54	46
Computer Literacy	24	26	50	48	52
Tax Planning	19	31	50	38	62
Information or Database Management	17	30	47	36	64
Web Site Design	11	38	49	22	78

### Financial Assistance

As shown in Table 12, financial assistance programs available include micro-

business loan and venture capital funds. Fifty percent of the respondents offer a micro-business loan program and 22 percent have available a venture capital fund.

**Table 12**

**Financial Assistance**

Financial Assistance Available	Frequency			Percent	
	Yes	No	Total	Yes	No
Micro-Business Loan Programs	25	25	50	50	50
Venture Capital Funds	11	38	49	22	78

**Entrepreneurial Assistance**

Table 13 shows that the most commonly offered entrepreneurial assistance is promotion and marketing assistance (78 percent), followed by business networking (74 percent), managerial training (59 percent), and business mentoring (57 percent). Advertising training (49 percent), leadership development (46 percent), e-commerce (44 percent), Internet for business (43 percent), and business incubator programs (27 percent) are available in less than half of the agencies who responded.

**Table 13**

**Entrepreneurial Assistance**

Entrepreneurial Assistance Available	Frequency			Percent	
	Yes	No	Total	Yes	No
Promotion and Marketing Assistance	40	11	51	78	22
Business Networking	36	13	49	74	26
Managerial Training	29	20	49	59	41
Business Mentoring	28	21	49	57	43
Advertising Training	24	25	49	49	51
Leadership Development	23	27	50	46	54
E-Commerce	22	28	50	44	56
Internet For Business	21	28	49	43	57
Business Incubator Programs	13	36	49	27	73

### Communication Services

As shown in Table 14, the most frequently offered communication service is business trade fairs (60 percent). Less than half provided other communication services such as newsletters (39 percent), electronic bulletin boards (19 percent), Internet hosting service (18 percent), and job fairs (15 percent).

**Table 14**

### Communication Services

Communication Services Available	Frequency			Percent	
	Yes	No	Total	Yes	No
Business Trade Fairs	30	20	50	60	40
Newsletter	20	31	51	39	61
Electronic Bulletin Boards	9	38	47	19	81
Internet Hosting Service	9	40	49	18	82
Job Fairs	7	40	47	15	85

### Extent Business Development Agencies Work with Other Agencies

When asked about program offerings, agencies were also asked whether available programs or services are offered independently, or if the agency works with other agencies in order to offer the programs. This question was asked to gain insight

on whether agencies themselves utilize peer networks to expand the scope of resources available to their clients. Table 15 provides a breakdown of the extent agencies work together to deliver programs and services.

**Table 15**

**Extent Business Development Agencies Work With Other Agencies**

Program or Service	Frequency			Percent	
	Yes	No	Total	Yes	No
Technical Assistance	42	2	44	96	4
Entrepreneurial Assistance	37	5	42	88	12
Training	24	4	28	86	14
Communications Services	22	8	30	73	11
Financial Assistance	21	9	30	70	30

Agencies work together most to provide technical assistance (96 percent), entrepreneurial assistance (88 percent) and training programs (86 percent). The agencies work together less often to provide communication services (73 percent) and financial assistance (70 percent).

Of particular interest for this project is communication services directed to the local business community. The survey looked at the degree to which agencies utilize communication services themselves to promote network-building activities among black businesses, or facilitate the connections between black businesses and mainstream institutions. Table 16 provides a breakdown of the extent that agencies work together in providing various communication services.

**Table 16**

**Extent Agencies Work Together for Communication Services**

Communication Service	Frequency			Percent	
	Yes	No	Total	Yes	No
Job Fairs	6	1	7	86	14
Trade Fairs	21	5	26	81	19
Newsletters	5	10	15	33	66
Internet Hosting	2	6	8	25	75
Electronic Bulletin Boards	1	7	8	13	87

Agencies work together most to provide job fairs (86 percent) and trade fairs (81 percent) and work together less to provide local business newsletters (33 percent), Internet hosting (25 percent), and electronic bulletin boards (13 percent).

**Joint Activities to Encourage Businesses to Work Together**

In contrast, a list of activities that mainstream businesses commonly work together on was compiled from the literature review. The activities include joint marketing and advertising, public procurement matching services, joint construction projects, joint purchasing, joint production, joint office activities, private-sector supplier matching, and joint employee training. Agencies were asked which of these joint activities they encouraged businesses to work on together. Table 17 provides a breakdown of the joint activities the agencies encourage.

**Table 17**

**Joint Activities to Encourage Businesses to Work Together**

Joint Activities	Frequency			Percent	
	Yes	No	Total	Yes	No
Joint Marketing and Advertising	25	12	37	67	32
Public Procurement Matching Service	21	16	37	57	43
Joint Construction	20	18	38	52	47
Joint Purchasing	16	20	36	44	56
Joint Production	15	21	36	42	58
Joint Office Activities	14	21	35	40	60
Private-Sector Supplier Matching Service	14	21	35	40	60
Joint Employee Training	8	27	35	23	77

The joint business activities that the agencies most encourage include joint marketing and advertising (67 percent), public procurement matching service (57 percent), and joint construction (52 percent). Joint activities that the agencies encourage less include joint purchasing (44 percent), joint production (42 percent), joint office activities (40 percent), private-sector supplier matching service (40 percent), and joint employee training (23 percent).

**Importance of Making Connections within the Black Business Community**

A major interest of the study is the importance that agencies place on building relations among black businesses themselves. To address this issue, the agencies were asked, "How much importance does your organization place on making connections within the African-American business community?" Table 18 provides a breakdown of the responses regarding the importance placed on making connections within the black business community.

**Table 18**

**Encouraging Connections Within the Black Business Community**

Importance of Connections	Frequency				Percent			
	Individual	Business	Community	Total	Individual	Business	Community	Total
Very Important	1	19	12	32	25	76	52	62
Important	0	6	8	14	0	24	35	27
Somewhat Important	1	0	1	2	25	0	4	3
Not Important	0	0	0	0	0	0	0	0
Not Applicable	2	0	2	4	50	0	9	8
Total Responses	4	25	23	52	100	100	100	100

Sixty-two percent of the agencies indicated that making connections within the black business community is very important, another 27 percent indicated that it is important, 3 percent indicated that it is somewhat important, and 8 percent said it is not applicable.

The overall orientation of the agency influences the importance that the agency places on making connections within the black business community. Seventy-six percent of the business-oriented agencies, for example, indicated that making connections within the black business community is very important and another 24 percent indicated that it is important. Whereas 52 percent of the community-oriented agencies indicated that making connections within the business community is very important, and 35 percent indicated it is important, 4 percent indicated it is somewhat important, and 9 percent indicated is not applicable to them.

**Importance of Connections between MBEs and Broader Community**

Another major interest of this research is the importance that business development agencies place on connections between MBEs and the broader community. To address this interest, the agencies were asked, “How much importance

does your organization place on building connections between the M/WBE business community and the broader business community?" Table 19 provides a breakdown of the agency responses to this question.

**Table 19**

**Making Connections Between MBEs and the Broader Community**

Importance of Connections	Frequency				Percent			
	Individual	Business	Community	Total	Individual	Business	Community	Total
Very Important	1	17	7	30	25	71	30	58
Important	1	7	10	14	25	29	43	27
Somewhat Important	1	0	4	5	25	0	17	9
Not Important	0	0	1	1	0	0	4	2
Not Applicable	1	1	1	3	25	0	4	6
Total Responses	4	25	23	52	100	100	100	100

Fifty-eight percent of the agencies indicated that making connections between MBEs and the broader community is very important and another 27 percent indicated it is important. Nine percent of the agencies indicated that is somewhat important.

Again, program orientation influences the extent that the agencies place importance on making connections between MBEs and the broader community. Seventy-one percent of the business-oriented agencies indicated that making connections to the broader community is very important and 29 percent indicated that it is important. Thirty percent of the community-oriented agencies indicated that making connections between MBEs and the broader community is very important, 43 percent indicated it is important, 17 percent indicated it is somewhat important, four percent indicated it is not important, and 4 percent did not respond to the question.

**Organizational Stability**

Organizational stability has been cited in the literature as a measure of an

agency’s capacity for building social capital.<sup>47</sup> The measures for organizational stability utilized in this study are organizational longevity, a comparison of the current size of the agency budget to five years ago, and effectiveness of staff retention.

A common measure of organizational stability is how long an agency has been in existence. Table 20 provides a breakdown of the organizational longevity by the decade that the agency was established.

**Table 20**  
**Organizational History**

<b>Decade Established</b>	<b>Frequency</b>	<b>Percent</b>
Prior to 1980	14	28
1980 to 1990	15	29
1990 to 1995	11	20
1996 to 2001	12	23
<b>Total Responses</b>	<b>52</b>	<b>100</b>

Twenty-eight percent of the agencies have been in existence for more than 20 years. Another 29 percent were established after 1980 and prior to 1990. Twenty percent were established after 1990 and prior to 1996. Twenty-three percent of the agencies were established after 1996.

The ability to plan from one year to the next depends on funding stability. To assess funding stability, the agencies were asked, “How does the current size of your organization, in terms of its budget, compare to five years ago?” Table 21 provides a breakdown of current agency budgets compared to five years ago.

**Table 21**  
**Budget Comparison to Five Years Ago**

<b>Budget Comparison</b>	<b>Frequency</b>	<b>Percent</b>
About 50 percent larger	14	30
Between 10 to 50 percent larger	10	21
About the same	9	19
Between 10 to 50 percent smaller	7	15
Between 50 percent smaller or more	1	2
Question not applicable, did not exist five years ago	6	13
<b>Total Responses</b>	<b>47</b>	<b>100</b>

Thirty percent indicated that their budgets are 50 percent larger or more. Twenty-one percent indicated that their budgets are between 10 and 50 percent larger. Nineteen percent indicated that their budgets are about the same. Fifteen percent indicated that their budgets are between 10 to 50 percent smaller. Two percent indicated that their budgets are between 50 percent or more smaller. Thirteen percent indicated that the question was not applicable, because they did not exist five years ago.

Staff retention is also key to delivering program services and building trust in the field of community development. To address staff retention, the agencies were asked, “How effective is your organization in retaining staff?” Table 22 provides a breakdown of the agency’s effectiveness with regard to staff retention.

**Table 22**  
**Effectiveness of Staff Retention**

<b>Staff Retention Effectiveness</b>	<b>Frequency</b>	<b>Percent</b>
Very Effective	24	51
Effective	19	40
Ineffective	4	9
<b>Total Responses</b>	<b>47</b>	<b>100</b>

Fifty-one percent of the agencies indicated that their organization is very effective at retaining staff members, 40 percent indicated that their organization is effective, and 9 percent indicated that their organization is ineffective.

Reasons given for effectiveness can be categorized as supportive work environment (75 percent), committed staff (20 percent), and good compensation and benefits (20 percent).

Phrases signaling supportive work environments included “enjoy work,” “good work environment,” “teamwork,” “job satisfaction,” “good training,” “treat employees fairly,” “careful selection in hiring process,” “solid leadership,” “small office enables cross training,” and “lack of office politics.” Phrases signaling committed staff include “committed staff,” “dedicated employees,” and “staff loyalty.” Just one phrase signaled “good compensation and benefits;” one agency qualified this statement with a comment that it was possible because their “stable funding sources makes it possible to offer good salary and benefit packages.”

The major reason given for ineffective staff retention is inability to offer competitive salary and benefit packages. One agency responded that it is a challenge to keep employees because of budget cuts; yet their agency does not have difficulty in attracting employees, because they offer professionals the opportunity to learn the ropes, network with firms, and get connections to banks and larger accounting firms.

### **Classification of Network-Building for Black Business Development**

This project sought to develop a classification of network-building for black business development. From the review of the program missions and responses to the

minority business development survey, the following classification was developed:

- **Entrepreneurial Capacity Capital.** This involves teaching individuals the basic business acumen and life skills in an effort to assist them become economically sufficient and independent. The emphasis is placed on not only teaching individuals the basic skills, but on motivating clients to seek mentoring and counseling to increase their clients' chances to repay loans and become self-sufficient.
- **Community Capital.** This comes from residents, businesses, and local institutions working together to improve the social, political, and economic climate of a particular place. Building social relations between local businesses and the community is viewed as more important than making connections outside of the community. The emphasis is on incubating and nurturing small businesses in place to create wealth and employment opportunities. This form of capital is inclusive of the community, and agencies often make an effort to protect the community from outside forces, such as land speculation.
- **Minority Networking Capital.** This capital comes from collaborative efforts to create forums or associations that assist minority entrepreneurs from any industry to enhance their business climate as a group. There is an emphasis placed on building the intracommunity links within the minority business community and the intercommunity links to mainstream educational, governmental, nonprofit, and established business institutions. A major objective is the elimination of discriminatory practices toward minority businesses. These organizations work to help minority entrepreneurs learn about each other through business forums, luncheons, golf tournaments, after-hour networking events, and trade shows. These agencies may serve minority groups in general, or they may target a specific ethnic group, e.g., Black

or African-American Business Councils or Minority Business Councils.

- **Minority Niche Capital.** Minority niche capital comes from cooperative relations and the trust built among minority businesses within an industrial sector and mainstream suppliers, prime contractors, financing and bonding institutions, and procurement officers or representatives of large institutional authorities. The agency serves as the broker between minority firms and larger established firms and institutions. Through their acquired knowledge of the minority firm and the trust of representatives from the mainstream institutions, these agencies broker deals and expand the range of opportunities for minority firms. Most agencies that engage in promoting minority niche capital target minority firms in a specific industrial sector, not a specific ethnic group.

## Summary of Findings

The programs available to black businesses are geared toward the specific issues and concerns facing minority entrepreneurs within a metropolitan area. These issues and concerns are quite similar to the challenges identified in the literature for small business development, such as access to capital, managerial training and education, insufficient resources and support services, and access to markets. Challenges that were not mentioned in the literature review as important, but were identified as important by the agencies participating in the minority business development survey, include the condition of the neighborhoods in which minority entrepreneurs operate and the presence of negative stereotypes and perceptions of MBEs generally.

The types of programs and services that these agencies have developed to overcome these challenges place greater emphasis on services for starting and maintaining a business rather than on expanding a business. Technical assistance programs emphasize business counseling services, business seminars, business plan preparation, business start-up training, and MBE certification. Training programs emphasize skills needed to manage and operate a business. Funding for business start-up is available through microbusiness loan programs.

However, programs are available as well for business expansion. Entrepreneurial assistance for promotion and marketing, business networking, managerial training, and business mentoring are offered by a majority of the agencies. Funding for business expansion is available through microbusiness loan programs and

venture capital funds.

Even though results indicate that agencies participating in the minority business development survey rank both intracommunity and intercommunity network-building activities as important, the data suggest that the emphasis is on **generic networking** assistance rather than on **industry-specific assistance**. In other words, the emphasis is on getting together to discuss issues and concerns that black entrepreneurs in general face, such as overcoming the negative stereotypes of black business owners, learning how to interface with the corporate elite, and trying to gain access to nonlocal market opportunities. **This is a very significant point, but your explanation is not clear. It seems that you are saying that business programs deal with the general problems facing businesses of colour rather than identifying clusters of business, such as those in health care industries, and discussing the problems specific to those clusters and formulating strategies to help those companies develop market-based relations with majority-owned companies within the business cluster. You need to stress the implications of such shortcomings. General networking without regard to specific clustering is not likely to be helpful. Also, the lack of attention to this type of work might explain why more efforts are not made at helping businesses identify the most important areas of development. Your work should help us understand why Buffalo businesses of colour perform so poorly in comparison to other businesses of colour nationally. In other words, pull out more from this analysis.**

Nevertheless, according to the survey, network-building efforts are more prevalent than indicated in the ethnic business literature. Network-building efforts are geared toward the specific needs of specific clients. Four broad models of network-

building capital appear to be functioning:

- Entrepreneurial capacity capital comes from assisting individuals to take efforts themselves to become economically sufficient and independent. These efforts are more typical of human service agencies engaged in poverty alleviation strategies in low-income communities. This needed to be stated more clearly. What exactly do you mean by helping individuals become economically sufficient and independent.
- Community capital comes from organizing various stakeholders within a community. Efforts are directed toward nurturing small businesses to help create wealth and employment opportunities within a particular place. These efforts are becoming more prevalent among agencies whose purpose is to reverse neighborhood decline and poverty. Less emphasis is placed on building linkages to the broader metropolitan region. This is also not clear. I understand what you are saying, but it is not clear what the relations is between “organizing various stakeholders within a community” and nurturing small businesses...
- Minority networking capital comes from efforts to level the playing field for minority entrepreneurs. The emphasis is on building intracommunity relations among black businesses and intercommunity relations to established mainstream businesses and institutions. Programs target not only networking events, but also focus on building the managerial skills and know-how necessary to take advantage of networking opportunities. Again, I think you can say this clearer. For example, in the highlighted area, you may have two different ideas operating. At one level, it sounds like you are saying that efforts are made to develop relations among black businesses across the region and to establish relations between black businesses and mainstream businesses

and “institutions.” What do you mean by institutions? Are you talking about majority business organizations?

- Minority niche capital comes from cooperative efforts targeted to strengthen relations within a particular industrial sector. The agencies function as an intermediary to assist smaller firms to acquire the skills and sophisticated relationships necessary to partner with established mainstream businesses. These efforts have been limited primarily to construction firms involved in large public works projects.

### Implications of Findings

The review of the literature and the analysis of the minority business development surveys suggest that critical elements are in place to strengthen network-building efforts for black business development:

- There is active collaboration among agencies to provide programs and services to black businesses.
- Agencies recognize the importance of building relations within the business community and making connections to outside mainstream institutions.
- Models of intermediary institutions are emerging that have the potential to be replicated elsewhere. ~~(Are these the models mentioned above and are these mo~~

The survey data suggest that more attention needs to be given to promoting black business development in the context of a specific industry. The majority of the sample agencies sponsor networking activities and events for businesses to come together and learn about each other. These networking events often lead to businesses making contacts for future business opportunities, but they do not provide the opportunity for informal tacit learning about an industry or market niche. Make clearer

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and provide an example. Rather than cite the successful entity, I would provide more concrete examples of business clusters where such relations do not exist and give an example of how it might work theoretically. Whereas the agencies targeting specialized services for the construction trades have become quite successful in gaining the trust of minority contractors, established mainstream businesses and contractors, and large public authorities. The Regional Alliance of Smaller Contractors has been the most cited program in the business development literature, but other successful efforts exist in Houston and Atlanta. Through the experience that these agencies have gained by working with MBE contractors and public authorities, they have determined which contractors (e.g., electricians) have a proven track record and the experience to do a particular project, and which prime contractors need the services of smaller contractors.

The potential for replicating this type of business support model to other industry niches and ethnic communities has not fully been explored. Rauch proposes such a model for retail trade in New York City. The literature review found precedents of the Rauch ethnic retail trade model, in village pushcart vendors in immigrant communities, but this type of model was not found to be common in majority black neighborhoods, according to the literature review and minority business development survey. The focus of the Rauch model was on organizing blacks that operate in an existing market niche in New York City. More attention needs to be given to the decision regarding when to focus on organizing around an existing niche market, versus integrating minorities who have an established industry presence into existing niches within the inner city. The Rauch model represents the latter. Unlike the construction trade case, the Rauch model is not widely replicated, but a small-scale version of this model is

exemplified by the pushcarts vendor program found in Roxbury and Dorchester, Massachusetts. The pushcarts vendor model illustrates the applicability of the Rauch model of community-capital building in distressed neighborhoods, especially efforts focused on revitalizing inner-city shopping districts.

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<sup>28</sup> See Mark Granovetter, "The Economic Sociology of Firms and Entrepreneurs," in Alejandro Portes, ed. *The Economic Sociology of Immigration* (New York: Russell Sage Foundation, 1995), 128--165; Rauch, 7--8.

<sup>29</sup> See Butler, 227--281; Shipp, 79--95.

<sup>30</sup> Rauch, 21.

<sup>31</sup> Rauch, 8.

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