

Small Business Development Strategies

Practices to Promote Success among Low-Income Entrepreneurs

By Kevin McQueen and John Weiser, Brody Weiser Burns



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EXECUTIVE SUMMARY

This paper discusses practices that community economic development professionals have found effective in helping residents of low-income neighborhoods launch businesses. By way of background, many inner city economies show great vibrancy. The 100 fastest growing companies in underserved markets are growing at better than 50 percent per year. Many other businesses are also doing well. In 2005, 80 percent of inner city jobs were in small businesses.

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Yet starting a business anywhere is notoriously risky. More than half fail within the first four years. Significant hurdles, in particular, confront small businesses in inner cities:

- It can be hard to attract capital.
- Successfully managing a growing business requires a special set of skills that relatively few people possess.
- Businesses in these communities may have a hard time reaching mainstream markets.
- Even when businesses get off the ground, they sometimes do not hire many individuals from the immediate neighborhood, or they may not pay enough to support a family.

Because of the risks, organizations interested in increasing the income and assets of low-income people sometimes take a different approach, which might be called “connecting to mainstream employment.” Here, community groups help residents acquire marketable skills, take advantage of supportive services, and find transportation to jobs. But this approach can encounter challenges as well. When there are significant barriers to connecting to mainstream employment, small business development can be an attractive option.

CORE PRACTICES

Small business development programs have been most successful when they:

- *Maintain a focus on markets and customers. Products or services must offer a clear competitive advantage.*
- *Develop the workforce. Workforce training and/or human resources services are always needed.*
- *Forge innovative partnerships. Successful business development programs rarely provide all their services themselves; they work with partners—especially in the private sector.*

“Successful programs focus on markets and customers, develop the workforce, and forge innovative partnerships.”

CASE IN POINT: WAGES

An example of a successful support organization using the three core practices is Women’s Action to Gain Economic Security (WAGES). Established in 1995 and located in the Greater San Francisco Bay Area, WAGES is a nonprofit organization that promotes the economic well-being of Latina women. It created a small business assistance program to help immigrant women form housecleaning cooperatives that use environmentally sound products.

The cooperatively owned businesses are structured as limited liability companies, and their operating strategy supports democratic decision-making, equitable wages, and profit sharing by the women who clean homes. WAGES provides intensive support in the form of business consulting, management assistance, governance training, and skills development, beginning in the pre-startup phase and continuing after the enterprises are established. Four of these businesses are still in operation (though one reorganized from a coop-

erative model to a conventional business a few years after startup), employing more than 40 women at significantly higher wages than the local average for the janitorial field.

INSTITUTIONAL STRATEGIES TO ENCOURAGE ENTREPRENEURSHIP

Institutional strategies generally fall into one of the following six categories:

1. *Technical assistance* programs aim to enhance the management skills of current and would-be entrepreneurs and/or their employees.
2. Programs that *create access to markets* focus on developing links between small businesses and major markets.
3. Some organizations strive to *link entrepreneurs from socially excluded groups to broader business or social networks*.
4. *Cluster or sectoral development* involves enhancing the competitiveness of an industry or product in a specific market.
5. Some strategies use short- and long-term capital for *direct investments in business ventures or real estate projects* providing affordable space to businesses.
6. Some nonprofit organizations aim to *further their social missions* by providing employment and workforce development opportunities through the creation of business ventures.

GETTING STARTED

Even though organizations can pursue a wide range of strategies in supporting small business development, our research has found that they need to address a similar set of issues in getting started.

“...organizations... need to address a similar set of issues in getting started.”

- A. Determine whether to create a new program or form an alliance with an existing one.
- B. Understand metropolitan or regional economic trends.
- C. Identify each neighborhood’s competitive advantages.
- D. Strive to build trust with business owners, who must understand that business success requires patience and hard work.
- E. Demand accountability, that is, develop and enforce success measures and ways to detect impending problems.

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A nonprofit organization can increase jobs and income among community residents in many ways. Connecting residents to mainstream employment opportunities is often a key strategy, but there are communities in which this can be challenging. In these communities, small business development can be an important approach. All communities harbor would-be CEOs with dreams of running their own companies. Nonprofits that want to nurture those ambitions are learning how to identify the best prospects and support them – frequently in ways that are out of the ordinary.

“All communities harbor would-be CEOs with dreams of running their own companies.”

This paper discusses proven tools for working with would-be entrepreneurs and helping them get their businesses off the ground. If you currently work in the community economic development field, this paper will offer options for assisting new ventures and their owners. If you are new to the field, this paper provides an overview of how various small business development strategies address different challenges faced and objectives sought in promoting success among entrepreneurs and their businesses. If you are looking for specific steps on how to get started in the small business development field, this paper provides a list of resources that will help guide you to your goal.

Low-income neighborhoods can give rise to successful entrepreneurial ventures. With proper support, residents can seize the opportunity to capitalize on otherwise untapped skills and assets.

“... many individuals in the neighborhood have skills, experience, or some other asset that they could use to increase their income and assets if employed in a business.”

Many people have skills or experience they could use to increase their income and assets. Entire neighborhoods often have valuable assets that could attract businesses. For example, cuisine can be an asset that attracts restaurants or enables residents to open their own. These and other businesses typically prefer to hire employees familiar with the relevant cuisine and culture, giving an advantage to local residents. Moreover, many individuals in the neighborhood have skills, experience, or some other asset that they could use to increase their income and assets if employed in a business.

Official data sources seldom shed much light on the requirements for an enterprise’s survival, mainly because a “small business” can be a one-person operation generating minuscule revenues. But they do reveal why small business development is of growing interest to nonprofits. The inner city economy is vibrant. Statistics collected by the Initiative for a Competitive Inner City and others provide a snapshot:

- **The 100 fastest-growing companies located in inner-city underserved markets in the United States recorded an average five-year growth rate of 716 percent as of 2005—a compound annual rate of 54 percent.**
- **America’s inner cities represent \$85 billion in retail spending per year, approximately 7 percent of U.S. retail spending, larger than the formal retail market in Mexico.**
- **The purchasing power of African Americans in the United States, if aggregated, would constitute an economy bigger than Canada’s.**

In 2005, Census data showed that 80 percent of inner city jobs were held with small businesses. Many were minority-owned. Between 1997 and 2002, the number of businesses owned by Hispanics increased by 31 percent, and the number owned by blacks increased by 45 percent.

But starting a small business is a risky proposition.

And yet, even with this vibrant backdrop, small businesses often fail, whether in low-income neighborhoods or elsewhere. According to a 2004 report by the Small Business Administration, 56 percent of small businesses fail within the first four years.

“According to a 2004 report by the Small Business Administration, 56 percent of small businesses fail within the first four years.”

Moreover, developing small businesses that create benefits for inner city residents can be challenging. There are a number of significant hurdles to overcome. It can be hard to attract capital for small business development in the inner city. Successfully managing a growing business requires a special set of skills that can be uncommon among the residents of a particular community. The businesses created in these communities may have a hard time reaching mainstream markets. And finally, even when the businesses are created successfully in inner city locations, they sometimes don’t hire many individuals from the immediate neighborhood, or they may not offer jobs that provide family-supporting wages.

Because of the risks, organizations interested in increasing the income and assets of low-income people often take an approach that might be called “connecting to mainstream employment.” In this approach community groups help residents acquire marketable skills, take advantage of supportive services, and find transportation to jobs. This approach often works well in cities with a strong employment base and in neighborhoods where most residents speak English well, have at least a high school degree, and have access to transportation.

But mainstream employment may simply be unrealistic if the obstacles are too formidable. For example, there may be:

1. **Barriers to employment. Transportation, language, legal, or racial barriers can keep residents from getting mainstream**

“Motivation to pursue a small business start-up may increase as viable alternatives decline.”

employment. A small business strategy can focus on developing businesses willing to hire residents in spite of the barriers, or whose location helps to overcome the barriers.

2. *Insufficient supportive services.* Residents may be held back from employment because they lack childcare. Attracting or starting small businesses offering such services not only provides jobs directly but can help other residents connect to mainstream employment.

Motivation to pursue a small business start-up may increase as viable alternatives decline. In one of the best-known examples, Kentucky Highlands Development Corp. turned to small business development because it was in a rural, depressed area with no significant employers. There was no way to connect to mainstream employment. If Kentucky Highlands wanted to help residents get jobs, it had to help create them.

Even though business development faces many hurdles, there is a growing body of experience about what works—and what doesn’t—in supporting the creation and growth of small business. This report provides that information in three areas:

1. *Core practices* - the key operating elements of successful small business development programs.
2. *Institutional strategies* - how organizations address the specific hurdles that are most important in their communities.
3. *Getting started* - critical issues to address if you are starting a program.

CORE PRACTICES FOR SMALL BUSINESS DEVELOPMENT

Three core practices are key to successful small business development.

Small business development programs have been found most likely to succeed in improving business growth and profitability when they follow certain core practices.¹

“Successful small business developers analyze their prospective market(s) and develop products or services that offer a clear competitive advantage.”

- *Maintain a focus on markets and customers.* Successful small business developers analyze their prospective market(s) and develop products or services that offer a clear competitive advantage. Developers embody their vision in business plans that articulate, among other things, the size and growth rate of the market, the purchasing practices of the customers, why customers will choose the new business over others, what financial resources are required to start and maintain the business, and where those resources will come from.

In general, nonprofits that have succeeded in supporting small businesses choose interventions designed to improve the business environment for all small businesses in a community. They also target specific businesses in important sectors with a few well-designed services, preferably those in high demand and with significant benefits for the community.

- *Develop the workforce.* Successful small business development inevitably requires some measure of workforce training and/or human resources services. Nonprofits seeking to grow small business include these activities among their investments.
- *Forge innovative partnerships.* Business start-ups require a

¹ “Good Practices in Business Services: Helping Small Businesses Grow and Create Jobs,” ShoreBank Advisory Services, July 2002.

host of services beyond what the staff of most small business development organizations can provide on their own. Similarly, successful business development programs rarely provide all their services themselves; they work with partners—especially those in the private sector—to achieve their goals.

CASE IN POINT: WAGES HELPS LATINA WOMEN GET HOUSECLEANING COOPERATIVES OFF THE GROUND.

“What we’re doing now is trying to focus on creating dignified jobs that will last. That means finding the right balance between developing learning opportunities for women and putting together a business that can be successful in the long term.” - WAGES’ executive director Hilary Abell

An example of a successful support organization using the three practices listed above is Women’s Action to Gain Economic Security (WAGES). Established in 1995 and located in the Greater San Francisco Bay Area, WAGES is a nonprofit organization that promotes the economic well-being of Latina women. It created a small business assistance program to help immigrant women form housecleaning cooperatives that use environmentally sound products.

WAGES targeted a highly profitable market, initially in California’s Silicon Valley and now expanding throughout the San Francisco Bay Area. By using cleaning products that are least harsh to the worker’s skin and lungs, they gave their cooperatives a competitive advantage in attracting and maintaining workers. They also added customer appeal to their companies in an ecologically aware market where no other provider was providing a similar environmentally-friendly cleaning services when WAGES started. And while more companies are now jumping in, this market is still far from mature or saturated.

“Recently arrived immigrant women in particular face significant barriers to obtaining mainstream, private sector jobs...”

The cooperatively owned businesses are structured as limited liability companies, and their operating strategy supports democratic decision-making, equitable wages, and profit sharing by the women who clean homes. WAGES provides intensive support to the cooperative businesses in the form of business consulting, management assistance, governance training, and skills development, beginning in the pre-startup phase and continuing after the enterprises are established.

WAGES’ approach. The Lower San Antonio neighborhood of Oakland, CA is typical of the areas where WAGES work. The 2000 Census showed that over 36,000 people live in the neighborhood. They have diverse backgrounds, with Asians and Pacific Islanders (42 percent), African Americans (24 percent), Latinos (23 percent), and Whites (8 percent) represented. The fastest growing segment has been Latino, which grew by 33 percent from 1990 to 2000. Population in the neighborhood as a whole grew by 8 percent.

The median household income in San Antonio was less than \$30,000 (as of 1999), while at the same time, the median household income in the broader community of Alameda County, was more than \$46,795. One of the factors contributing to this gap in income levels is education. About 40 percent of San Antonio residents ages 25 and over do not have a high school degree. Recently arrived immigrant women in particular face significant barriers to obtaining mainstream, private sector jobs, since many of them lack not only formal education but English language skills.

Mainstream employment opportunities exist, but many workers find themselves blocked. For example, construction offers a clear path to self-sufficiency, but workers need a GED and English language skills in order to qualify for most positions in the trade. Childcare and healthcare development strategies were tried in the neighborhood but met with limited success. Other sectors, such as the

“WAGES went through several key learning experiences before finding its niche.”

garment industry, which traditionally offered opportunities for immigrant women, are declining—and moving into some of these areas that are still viable would mean entering into competition with unionized workers.

To address this challenge, several community development professionals in the Greater San Francisco Bay Area created WAGES in 1995.

WAGES went through several key learning experiences before finding its niche. After five months of outreach and recruitment in 1995, WAGES began working with a multiethnic group of nine women. All spoke English, but the group was unable to agree on a business venture that satisfied everyone’s wishes, so they decided not to open a business together.

In January 1996 WAGES started over again with twelve Spanish-speaking immigrant women. This group divided in two because of disagreement over potential business ideas—one half favoring a party supply store, the other preferring a cleaning business. The party supply store obtained a \$35,000 start-up loan but closed after a year and a half of operations. The cleaning cooperative obtained a \$15,000 loan and flourished. Originally called Non-Toxic Professional Housecleaning, this cooperative re-organized as a conventional business in 2001.

Success stories. In 1999, WAGES created the eco-friendly cleaning cooperative Emma’s Eco-Clean. Based in Redwood City, CA, Emma’s Eco-Clean now operates independently of WAGES. With 17 current members plus a general manager, the business generates revenues of approximately \$60,000 per month. These earnings provide the members with competitive hourly wages of over \$13, plus paid health, dental, and vacation benefits.

“...annual incomes increased 40 percent within the first year, on average.”

After spinning off Emma’s Eco-Clean as an independent business, WAGES created another cooperative, Eco-Care in 2001. This business is based in Morgan Hill, CA, and provides services primarily in San Jose market. WAGES created Natural Home Cleaning Professionals (NHC), in Oakland, in 2003. NHC has grown to 16 members, who earn \$12.20 an hour, which is significantly better than the average hourly wage of \$7 for janitors in Alameda County. The business has approximately 130 regular clients who receive weekly, biweekly, or monthly service.

The cooperatives created by WAGES have had a positive effect on economic conditions on the neighborhoods from which the members of the cleaning businesses are recruited. Eighty individuals have completed the WAGES training program (see below) in six years, 42 are currently employed in a WAGES cooperative, including a new cooperative launched in the San Jose market. All of the member-owners had low incomes before joining the cooperatives, and while most continue to fall within HUD’s definition of low-income (even with two sources of household income) their annual incomes increased 40 percent within the first year, on average. With improved economic status, women are taking on new roles in their families, and they now find themselves on a more equal footing with their husbands. Several have purchased affordable homes through community development organizations.

What WAGES teaches. Assistance in building business skills is a prominent component of WAGES’ strategy. The organization offers potential cooperative members a pre-startup training program, which is organized in stages that vary in length and structure (based on the specific situation and WAGES’ current thinking and lessons learned), with an evaluation and celebration period at the conclusion of each. The curriculum includes business skills, such as finance, budgeting, loan application, market research, and decision

“In addition to pre-startup training, WAGES provides ongoing education...”

making, as well as group-building activities. Decision-making courses address how to set policies for pay rates and benefits, develop a mission statement, and settle on a business name. For the group-building activities, the prospective cooperative members engage in fundraising, host family picnics, and celebrate accomplishments. At the end of the training program, WAGES assists the members of a new cooperative with finalizing a three-year business plan, securing a loan from a community loan fund², and completing an LLC legal agreement.

In addition to pre-startup training, WAGES provides ongoing education of the following kinds:

- *New member education:* Regular workshops for cooperative members who were not part of a founding group, to promote democratic participation and business stability over time, and to learn the legal rights and responsibilities of worker-owners.
- *Developmental education:* Instruction in such areas as working in pairs, safety, preparing taxes, working with diverse partners, and environmental health, and referrals to community courses, such as tutoring in English.
- *One-to-one and committee education:* Annual reviews by each cooperative of individual and collective educational goals, addressing staffing, promotions, and finance as well as setting priorities for the coming year.

Why WAGES works. WAGES' strategy meets all three success factors for effective small business development that were identified above.

² Lenders for Community Development in San Jose, CA has provided financing for the WAGES cooperatives.

1. A focus on the market and the customers

Housecleaning is a growing market. WAGES cooperatives work in areas that are particularly attractive: 200,000 or more households with incomes of at least \$100,000, ample parking, and nonprofit organizations that can be local partners.

There are sufficient potential customers who can afford cleaning services, and WAGES has positioned itself ahead of the curve in the use of eco-friendly products. Moreover, the competitive strengths of the WAGES cooperatives are drawn from a lower cost structure (as a worker-owned business, the cooperatives pay for health insurance instead of workers' compensation) and stronger worker loyalty and retention (profit-sharing; voice in management and governance; subsidized training).

2. Integrated workforce development strategies

WAGES experimented with other business sectors before selecting one—housecleaning—that offered an easy transition for someone wishing to move from self-employment into a stronger organization. WAGES has principally focused on immigrant Latina housecleaners as the workforce for the cooperatives. Since many of these women already worked in housecleaning field, it is easier to the coop members to build on those existing skills. Moreover, in addition to displaying a greater cooperative ethos, WAGES found this population group had similar values and life experiences, which enabled the women to work together in close partnership.

“WAGES must address many of these challenges within the business model of the cooperatives, by forming relationships with partnering organizations...”

WAGES' economic development strategy is somewhat encumbered by the systemic social issues involved in trying to improve the lives of poor people. As a result, WAGES must address many of these challenges within the business model of the cooperatives, by forming relationships with partnering organizations that addressed economic and social challenges, such as childcare, transportation,

spousal abuse, etc. Additionally, WAGES offers the cooperative members the following assistance:

- A stipend to help recruit and retain more people throughout the training
- Using front-line cooperative member-owners to recruit and train new members
- A program called “Peer Leadership” designed specifically to increase confidence and experience of member-owners, through opportunities to make presentations on eco-friendly cleaning techniques and prospects for advancing to field supervisor positions
- Ongoing training for all member-owners via biweekly meetings

3. Innovative partnerships

As soon as WAGES began working with more than one cooperative, it realized the potential for creating efficiencies in several areas, including:

- **Marketing:** While each cooperative has a distinct name and promotional materials, WAGES uses its network to market all of the cooperatives through its network of religious organizations, service agencies, foundations, and environmental contacts.
- **Accounting:** WAGES has identified an accounting service familiar with the LLC structure which provides assistance to the cooperatives.
- **Purchasing:** WAGES-associated cooperatives have begun contemplating jointly purchasing insurance and/or developing a joint website.

Continuing challenges. Cooperative ventures like the ones created by WAGES make use of untapped talents in a neighborhood by allow-

ing low-income individuals with limited resources (lack of capital reserves or social networks) to start and own businesses. WAGES' business development model is most successful in industry sectors where the need for unskilled or semi-skilled, non-unionized workers is significant. With this lower education and language proficiency threshold, WAGES can help set individuals on the path of financial independence.

“WAGES’ business development model is most successful in industry sectors where the need for unskilled or semi-skilled, non-unionized workers is significant.”

The growth of WAGES' current cooperatives is limited by its ability to recruit and train sufficient numbers of prospective members with the right motivation and background. Specifically, the social-support component of WAGES' strategy requires prospective cooperative members to have a stable living situation and at least a third grade education. Ideally, WAGES would like member-owners to leave their personal problems at the door. However, WAGES does help prospects making financial education a part of the initial member orientation and by referring them to local partners in the Casey Foundation's Family Economic Success approach that provide accounting and tax preparation services and IDAs.

WAGES' cooperative development strategy is also limited by its complicated nature. Specifically, its process for starting and growing businesses is high-impact and high-cost, and requires a relatively high investment of resources for the benefit of a relatively small number of people. Because business managers are hard to find, WAGES must remain integrally involved with each startup cooperative for long periods of time, which places further limits on the organization's growth. WAGES could create new cleaning businesses more rapidly, but only at the cost of the cooperative governance structure: a shorter development timetable wouldn't allow sufficient time to teach the members the skills and aptitudes necessary to be effective cooperative business owners. Models of worker control or ownership other than cooperatives might allow WAGES to grow businesses more quickly.

The challenges described above are surmountable, and cooperatives represent a time-tested approach for creating wealth and opportunity among low-income people and strengthening the communities in which they live. This strategy fits squarely within the concept of an “Ownership Society” for which the Bush Administration has been advocating since 2004. In this light, as renowned economist and historian Gar Alperovitz observed, cooperatives like ones created by WAGES are an excellent means for helping to create “an America in which every citizen feels they have a true stake in their community.”³

INSTITUTIONAL STRATEGIES TO ENCOURAGE ENTREPRENEURSHIP.

Successful small business development requires overcoming many hurdles. The specific hurdles that are most critical to overcome vary from community to community. Nonprofits that successfully encourage entrepreneurship often adopt an institutional strategy that focuses on overcoming one or more particular barriers. While there are many specific institutional strategies, they may be grouped into the following six approaches:

1. Technical assistance
2. Access to markets
3. Links to social networks
4. Cluster or sector development
5. Capital investment
6. Social ventures

“Nonprofits that successfully encourage entrepreneurship often adopt an institutional strategy that focuses on overcoming one or more particular barriers.”

For each of these strategies, the core practices described earlier can be thought of as the “engine inside” that helps to power the strategies. No matter which strategy the institution is employing, its ability to help entrepreneurs to succeed will depend critically on how well it implements the core practices described earlier: maintaining a focus on markets and customers, developing their work-

³ “The Wealth of Neighborhoods”, Democracy Journal, Summer 2006

forces, and forging innovative partnerships.

This section will describe each of the six strategies, and provide several case studies illustrating them.

1. Technical assistance and training

Organizations that offer technical assistance and training programs to small businesses aim to enhance the management skills of current and would-be entrepreneurs and/or their employees. The goals and delivery mechanisms for the technical assistance and training programs vary with the business skills targeted. For technical assistance, the staff of a small business development organization or consultants they hire will typically provide direct advice and hands-on support to business owners. Conversely, rather than offering a one-on-one experience, small business development organizations usually provide training programs to a group of students or through virtual, self-directed courses. Yet, technical assistance and training programs share a similar objective: to help business owners and/or their employees acquire various skills that may include those needed:

“Organizations that offer technical assistance and training programs to small businesses aim to enhance the management skills of current and would-be entrepreneurs and/or their employees.”

- In specific types of businesses (e.g., manufacturing or retailing)
- By specific classes of entrepreneurs (e.g., minorities or women)
- At various levels in organizations (e.g., executive or entry level)
- To perform specific functions (e.g., marketing or accounting)

A wide variety of organizations provide technical assistance and training programs for small businesses, including centers affiliated with the Small Business Administration and nonprofit organizations such as the Service Corps of Retired Executives (SCORE). Community colleges and universities provide training in business skills as

part of their core curricula and through internship and community outreach programs. Microenterprise development programs typically include technical assistance and training in business skills among their services. Organizations focused on minority entrepreneurs also provide training.

Example 1: Southeastern Community College Small Business Center

The Center, funded through the North Carolina Community College System, provides training, education, and support to the owners (or potential owners) and employees of small businesses. The Center is home to:

- **The Rural Entrepreneurship through Action Learning (REAL) program, which gives hands-on training to adult students**
- **A Business Development Center, a small business incubator housing several small entrepreneurial enterprises and a venture capital company**
- **A Microenterprise Loan Program**

Most recently, the Center became a pilot demonstration site for the national Assets for Independent Demonstration program, which offers IDAs, financial literacy training, and financial counseling.

Example 2: The Enterprise Center

The Enterprise Center (TEC) is a 15-year-old, Philadelphia-based nonprofit organization established to accelerate minority ownership of businesses. It originally started as a business incubator, providing technical assistance to small business owners whose enterprises were physically located in TEC's then state-of-the-art facility. Due to changes in information and telecommunications technologies, TEC's initial "place-based" business development strategy evolved into a "virtual" one, and the number of businesses it served expanded from 30 to 130.

Today TEC uses an "outpatient" approach, offering a "coaching strategy" to its clients. It assembles a team of professional advisors—attorneys, accountants, technology experts, marketing consultants, and experienced executives—who assess the strengths and weaknesses of the entrepreneur, his/her revenue model, and the overall organizational structure of the enterprise. The incubator facility is now used for face-to-face meetings between these advisors and their entrepreneur clients.

Example 3: GARMENT 2000

GARMENT 2000 started in the mid-1980s as a consortium of San Francisco Bay Area apparel-sector stakeholders, including manufacturers and workers. It was an industrial revitalization effort aimed at strengthening the competitiveness of the sector with a three-part strategy: workforce development to improve workers' skills, knowledge, and abilities; workplace development to improve companies' processes and productivity; and demonstration and simulation to provide new production, management, and communication technologies in the manufacturing process. It was housed on a campus of the City College of San Francisco (CCSF), which hosted training

activities and demonstrations at its state-of-the-art “Teaching Factory.” Over 20 years GARMENT 2000 provided training to more than 3,000 participants from 300 local apparel companies, mostly women who had recently migrated from China.

With the advent of NAFTA and the impact of globalization, apparel manufacturing jobs in this country gradually disappeared. The original mission of GARMENT 2000 no longer met the needs of the sector. The program evolved into a design studio for startup and small apparel companies. In addition, building on its experience with GARMENT 2000, CCSF created the San Francisco Center for Applied Competitive Technologies, which provides similar supportive services to stakeholders in the manufacturing and biotechnology sectors.

“Programs that create access to markets focus on developing links between small businesses and major markets.”

2. Access to markets

Programs that create access to markets focus on developing links between small businesses and major markets. Such programs typically aim to help a specific type of business: those in certain neighborhoods or sections of cities, operating in specific industries, or owned and controlled by certain types of entrepreneurs.

Example 1: The National Minority Supplier Development Council (NMSDC)

NMSDC is a membership organization created by major purchasing companies to help meet their needs for reliable, easy access to high-quality, minority-owned firms. By providing a direct link between corporate America and minority-owned businesses, this organization has created a clear channel through which small companies gain access to mainstream economic markets. At its core, NMSDC manages this process by certifying minority business enterprises, maintaining a database of certified businesses, and referring corporate buyers of minority suppliers capable of providing quality

goods and services at competitive prices. The NMSDC Network includes a national office in New York and 39 regional councils across the country. These councils certify more than 15,000 minority-owned businesses and match them with NMSDC's 3,500 corporate members (which include most of America's largest companies as well as universities, hospitals, and other buying institutions).

Example 2: West Central Initiative (WCI)

Started in 1986, WCI is based in rural Minnesota, a region that depends on a highly volatile agricultural economy. The traditional economic structure of the region changed as the number of farms shrank through consolidations and the number of people employed in farming rapidly declined. WCI decided to build a manufacturing economy in its region in order to create wealth, rather than redistributing it through social services or attracting it through tourism. It initially focused on training workers for specific physical technologies, but soon realized that to be competitive in a global marketplace, local manufacturers needed to restructure how they did business.

The strategy it developed combines workforce training with business reengineering. WCI now serves a variety of roles, acting at times as a community foundation and at times a community development organization, offering grants, development financing, and technical assistance. Companies emerge from WCI's business development program more adept in the use of productivity-enhancing technologies, and thus better able to compete in the global economy and provide stable employment.

For example, by providing grants and other supports WCI helped a system-controls manufacturer shift its production process from a batching model (where it built inventories to fill anticipated orders)

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to a just-in-time delivery system employing “lean technology” (eliminating waste and improving the flow and assembly of materials). As a result, the company no longer has to grow or shrink its workforce abruptly in response to changes in production orders.

3. Links to social networks

Some organizations strive to link entrepreneurs from socially excluded groups to broader business/social networks. Many small business owners from minority backgrounds lack access to social networks and mentors enjoyed by those from the mainstream. Social networking or mentoring efforts typically link such entrepreneurs with individuals or groups of business owners who can provide advice and access to certain markets.

Chambers of commerce are the most recognizable providers of social networking opportunities for all businesses. More targeted alternatives have emerged in recent years, such as Runners Club, Springboard Enterprises, and CEO Councils. These programs usually combine community building, mentoring, and direct training and/or technical assistance for would-be entrepreneurs.

Example 1: Springboard Enterprises

Springboard Enterprises is a national not-for-profit organization that promotes women’s entrepreneurial development through alliances, partnerships, and direct programming. Its activities include targeted education and coaching, strategic connections with investors, community-building efforts, and venture capital forums that showcase women entrepreneurs.

Example 2: MicroMentor

The nonprofit MicroMentor was formed in 2001 to help entrepre-

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neurs grow their businesses through mentoring relationships with experienced business professionals. MicroMentor connects traditionally underserved entrepreneurs—women, minorities, recent immigrants, the poor, and the disabled—with volunteer professionals who provide advice and in-depth, industry-specific assistance. MicroMentor initially worked in partnership with four nonprofit microenterprise development organizations in California, to refine its business model and identify its first wave of clients. It later formed relationships with community development organizations, small business associations, and for-profit corporations interested in the microenterprise market.

4. Cluster or sector development

Cluster or sectoral development involves enhancing the competitiveness of an industry or product in a specific market. A prime example of a cluster is the winemaking industry in Northern California. The most obvious elements of this cluster are the vineyards that grow grapes, process them into wine, and then bottle and sell the wine. But many other entities are also involved: suppliers, regulators, and distributors—an industry *infrastructure*. Cluster development strategies aim to boost whole industries by investing in and strengthening this infrastructure.

Example 1: Workforce Innovations Networks (WINS)

WINS is a collaborative effort of the U.S. Chamber of Commerce, the National Association of Manufacturers, and Jobs for the Future. It was established to support partnerships between workforce development organizations and employer associations that help improve the competitiveness of local businesses. National and statewide industry associations often engage in similar projects.

Example 2: HandMade in America

HandMade in America was launched in 1994 to develop a new economy for the mountains of western North Carolina, a region encompassing 12,000 square miles and 23 counties. It is using a cluster development approach to replace the region's traditional economic bases of manufacturing, tobacco, and timbering with a place-based economy focused on local crafts.

The crafts sector was chosen because of its strong legacy in North Carolina, a heritage that offered a significant competitive advantage over other regions in the United States. The area was already home to four crafts schools with national and international recognition, a community college offering a degree program in the crafts trade, and several operating craft guilds. Additionally, an economic impact study confirmed that crafts contributed approximately \$120 million to the region's economy. Craft production activities require very little infrastructure, have a low risk of technological obsolescence, and cannot be outsourced. HandMade's approach injects this regional heritage into all elements of the economy, including education, housing construction, employment training, and business development.

Example 3: Regional Economic Development (RED) Group

The RED Group is a public-private consortium in Minnesota consisting of business groups, foundations, education systems, public-sector agencies, nonprofits, and two foundations: the McKnight Foundation and the Blandin Foundation. It does not manage or implement any specific economic development initiatives, but serves as a venue for sharing information and ideas among partners.

Most importantly, the RED Group champions initiatives led by community foundations and community development organizations, organized around economic clusters that reflect the specific strengths

or competitive advantages of a given area: biosciences, health care, financial services, information technology, manufacturing, or renewable energy. It seeds these initiatives at the grassroots with some funding, and then advocates on their behalf with government agencies, education systems, and the private and nonprofit sectors.

The RED Group's approach is still in its infancy. It has found some early success in the bioscience-sector work of its partner the Southern Minnesota Initiative Foundation. Building on southern Minnesota's strengths in the agricultural, medical, technology, materials, and research industries, the foundation has created a "Bioscience Marketplace" to connect stakeholders with information, technical assistance, and capital. It anticipates that this approach will produce stronger businesses of all sizes.

"Some strategies use short- and long-term capital for direct investments in business ventures or real estate projects providing affordable space to businesses."

5. Capital investment

Some strategies use short- and long-term capital for direct investments in business ventures or real estate projects providing affordable space to businesses. This capital may come from a variety of sources, including public and quasi-public economic development agencies, commercial banks, and nonprofit intermediaries such as community development financial institutions (CDFIs). CDFIs well known for providing debt and equity to small businesses include The Reinvestment Fund, Coastal Enterprises, and ShoreBank.

Capital for business investment comes in a wide variety of forms. Debt capital includes working capital, equipment financing, accounts-receivable financing, purchase-order financing, equipment leasing, and mortgages for plant construction and improvement. Equity capital includes common stock, preferred stock, and deeply subordinated debt.

Real estate projects include commercial development, such as shop-

ping centers, specialty spaces like ethnic and farmers' markets, downtown development, and transit-related development. Harlem Center, a mixed-use development with retail commercial space and an office tower (developed by the Abyssinian Development Corporation in New York), is a prime example. Real estate projects may also include industrial development, especially of spaces such as business incubators, which combine low-cost space with additional services—an example of which can be found at the West Philadelphia Enterprise Center.

Example: Cascadia Revolving Fund

Cascadia Revolving Fund was created nearly 20 years ago by a group of Seattle residents concerned about the impact of bank mergers on the local control of capital and the eventual loss of their local banks' traditional homegrown identity. They created a nonprofit loan fund to serve borrowers typically overlooked or underserved by conventional lenders: environmental companies, worker-owned businesses, consumer cooperatives, and minority and women entrepreneurs.

With an initial capitalization of around \$4 million, Cascadia focused on small loans (approximately \$25,000 on average) to low-income individuals mostly in rural areas of Washington State. Today it has offices in Seattle, Portland, and central Oregon, and its total capitalization exceeds \$14 million. It has moved away from micro-lending and broadened the range of borrowers it serves to include businesses created by new immigrants, nonprofit organizations, childcare providers, and companies that provide family-wage jobs.

6. Social ventures

In recent years, nonprofit organizations across the country have awakened to the possibility of furthering their social missions by providing employment and workforce development opportunities through the creation of business ventures that earn income.

Example: La Mujer Obrera / El Puente Community Development Corporation

La Mujer Obrera (The Woman Worker) was founded nearly 24 years ago to improve the standard of living of low-income immigrant women workers and their families in El Paso, TX. Initially, La Mujer Obrera focused on advocacy and community-organizing efforts as a means of building public awareness of and support for Spanish-speaking women garment workers adversely affected by globalization trends in the U.S. economy. Over time, its strategy shifted to removing real impediments to workforce reentry and community-based economic development. These efforts led to the launching of four social ventures:

“... nonprofit organizations across the country have awakened to the possibility of furthering their social missions by providing employment and workforce development opportunities through the creation of business ventures that earn income.”

- *Cafe Mayapán* restaurant specializes in traditional Mexican and indigenous food, and gives displaced workers the skills to go into professional catering and the restaurant business.
- *Diseños Mayapán* specializes in industrial sewing, with products that include school uniforms, scrubs, aprons, and bags for restaurants, clinics, and hospitals.
- *Mercado Mayapán* teaches entrepreneurial skills to low-income residents and provides high-quality retail space to new retailers for whom traditional commercial space is not accessible. In addition, these micro-entrepreneurs have access to technical assistance and other services through the organization's Community Enterprise Center.

- *Rayito de Sol* provides childcare services to local residents, trains local residents for jobs in childcare, and provides entrepreneurship training for owners of home-based daycare centers.

Through these businesses La Mujer Obrera has created 60 jobs, trained and facilitated employment for more than 150 residents with limited English proficiency, and generated over \$1.75 million in earned revenues. In 1998, La Mujer Obrera launched El Puente Community Development Corporation to provide new sources of social, educational, and economic opportunity for the El Paso area, through enterprise development, bilingual on-the-job training, and access to technology.

GETTING STARTED

“Starting a program from scratch assures complete control over the design and focus. But it also is expensive and time-consuming.”

Even though organizations can pursue a wide range of strategies in supporting small business development, our research has found that they need to address a similar set of issues in getting started. This section describes five key tasks in the start-up phase for a wide range of organizations, and will use the case studies discussed above to illustrate some of the choices that can be made in accomplishing these tasks.

A. Determine whether to create a new program or form an alliance with an existing one

Starting a program from scratch assures complete control over the design and focus. But it also is expensive and time-consuming. Partnering with an existing organization is often much less expensive and enables the startup to happen much more rapidly. But it can mean having to struggle over the focus of the program and its clientele.

It is important to understand the motives and interests of potential partners. West Central Initiative formed an alliance with Minnesota Technologies, a manufacturing extension program, to serve as its intermediary in helping client companies identify the appropriate workforce training programs. West Central Initiative chose Minnesota Technologies over other potential providers because it did not offer training itself and therefore had no fiscal stake in the client's decisions. This ensured that it could serve as a neutral broker.

Taking on a partner can involve making difficult judgments about the true capabilities of the potential partnering organization. Micro-Mentor learned about this the hard way. Originally it launched its social networking strategy in collaboration with four other organizations, only to discover that several of its partners lacked the financial and organizational capabilities to integrate a new technology

“In order to understand why the market has failed in a neighborhood, one must understand how metropolitan and regional trends and have affected it.”

tool fully into their existing programs. This issue is also pertinent to potential microenterprise customers, who must be prepared to incorporate into their current operating systems the assistance provided by a small business development organization.

B. Understand metropolitan or regional economic trends

Neighborhoods are parts of much larger metropolitan or regional economic systems. In order to understand why the market has failed in a neighborhood, one must understand how metropolitan and regional trends and have affected it. Understanding these trends also helps describe the range of potential interventions.

For example, HandMade in America found that manufacturing had declined significantly in North Carolina and South Carolina and that tourism was growing rapidly. Many individuals were losing well-paying jobs in factories, and the jobs available in tourism were seasonal and did not pay as well. These trends were eroding family incomes and causing high levels of seasonal unemployment. In response, HandMade in America and other economic development organizations looked for ways to make tourism jobs better paying and less seasonal, improve the competitiveness of local manufacturing, and attract new industries.

C. Identify each neighborhood’s competitive advantages

Within a region’s range of possibilities for creating growth, one should examine each neighborhood’s competitive advantages to determine which options might work well there.

For example, HandMade in America used a GIS mapping system to quantify potential revenue-generating opportunities in rural North Carolina. One of the key success factors in attracting information

technology businesses is the ability to attract a dense enough cluster that the network of employees, educational institutions, financiers, and entrepreneurs becomes self-sustaining. This is very difficult to do in a rural setting, and so was not pursued by HandMade in America. Conversely, rural areas in North Carolina had a very rich tradition of craft and culture.

In addition to the range of industry sectors, one should also analyze the size of the market and the scale that enterprises will need to achieve in order to operate effectively within it. A small business development effort must be ready to help businesses grow to meet their market's potential.

For example, WAGES wrestles with the challenge of uncovering business opportunities that can provide at least 30 to 50 jobs. Similarly, The Enterprise Center confronts the challenge of helping entrepreneurs create businesses that can generate at least \$2 million in annual revenues and employ no fewer than 20 people. To foster enterprises with such potential, The Enterprise Center starts with a view of a successful entrepreneur as an owner of a mature business, and then puts together a plan to enable their entrepreneur to achieve that objective: the educational level required, professional advisors needed, networks to belong to, etc.

“All of the activities described in this paper involve interpersonal relationships built on trust and honest communications.”

D. Strive to build trust

All of the activities described in this paper involve interpersonal relationships built on trust and honest communications. Managing the expectations of the business owners is an important aspect of these relationships. Development programs must help their clients understand that change does not occur immediately: making use of programs' assistance and advice requires both patience and hard work. Moreover, effective small business development strategies often involve the creation of communities of practice, where those seek-

ing expertise can find those who possess it. Even in the cleaning enterprises created by WAGES (which combine self-employment with cooperative ownership) peer support and group leadership-development opportunities are crucial aspects of the businesses' success. The viability of these cooperatives does not rely upon a sole entrepreneur, but on a group process.

In a similar example, The Enterprise Center recognizes that even when someone lacks the necessary entrepreneurial talent to create a business, the organization can try to connect that person to an existing business and encourage him or her to become a part of a management team.

Lastly, in order for a small business development initiative to be effective, trust must exist among organizations working together in this field. A cohesive relationship is essential to successfully working towards a common goal of building stronger businesses. Also, in terms of individual entrepreneurs or workers, it's important to build trust between them and the support organization, and between the support organization and the individuals' families or personal supporters. With the WAGES participants, for example, family meetings are always held for new members and their spouses/families/friends, because their support makes a significant difference for the participant/entrepreneur's success. Conversely, an unsupportive wife/husband/partner can make an entrepreneur's life very difficult!

E. Create a culture of accountability

Develop success measures, ways to detect impending problems, and an approach to measuring businesses' progress. Impose performance requirements, including requirements that entrepreneurs take responsibility for their own professional development. For example,

“... it is important to recognize that there are differences between a culture that provides social services well, and one that creates successful businesses.”

entrepreneurs may reasonably be expected to stay on top of their fields and become active members of their local business or professional associations. Be open—share these measures and yardsticks with the small businesses. Be prepared for failure.

In thinking through organizational culture issues, it is important to recognize that there are differences between a culture that provides social services well, and one that creates successful businesses. The accountability that drives business, and the way in which decisions are made, is different than that which drives social service agencies. Social service agencies have broad accountability to a range of stakeholders, while small businesses tend to focus more narrowly on just those who are customers, investors, and employees. Most social service providers and/or community organizers sincerely want to help improve the economic lives and standards of local neighborhood residents. Yet without an experienced partner from the business development field, neighborhood organizations will undoubtedly face challenges arising from the different needs and perspectives of business managers and those of nonprofit staff members. For example, social service providers or community organizing groups are often put off by the higher salaries paid to experienced business managers. Moreover, those entering the small business development field should be clear about their goals for undertaking these activities, and make sure there is a “fit” with the organization’s long-term/strategic plan. Specifically, in thinking about accountability and decision making, there should be a conscious recognition of the required shift away from broader inclusiveness in decision making, and towards a more narrow focus on creating strategies and adopting practices that result in profitable and sustainable business ventures.

RESOURCES AND CONTACTS

There are many places where one can find information on starting a small business:

For general information about programs and resources for small businesses:

- **U.S. Small Business Administration** (www.sba.gov)
- **Opportunity Finance Network** (www.opportunityfinance.net)

For information about microenterprises and the organizations that support their development:

- **Association for Enterprise Opportunity** (www.microenterpriseworks.org)
- **Corporation for Enterprise Development** (www.cfed.org)
- **Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD)** (www.fieldus.org)

For information about organizing worker-owned cooperatives:

- **National Cooperative Business Association** (www.ncba.coop)
- **National Cooperative Bank Development Corporation** (www.ncbdc.coop)

Provided below is the contact information for organizations listed throughout this paper:

Cascadia Revolving Fund, 1901 NW Market St Seattle, WA 98107-3912 (206) 447-9226 www.cascadiafund.org

The Enterprise Center, 4548 Market Street, Philadelphia, PA 19139 (215) 895-4000 www.theenterprisecenter.com

GARMENT 2000 (now the Evans Campus Design Studio), San Francisco Center for Applied Competitive Technology, 1400 Evans Avenue, San Francisco, CA 94124 (415) 550-4440 www.cloud.ccsf.cc.ca.us/Resources/SFCACT/design_studio.html

HandMade in America, P.O. Box 2089, Asheville, NC 28802 (828) 252-0121 www.handmadeinamerica.org

Initiative for a Competitive Inner City (ICIC), 727 Atlantic Avenue, Ste 600, Boston, MA 02111 (617) 292-2363 www.icic.org

La Mujer Obrera / El Puente Community Development Corporation, 2000 Texas Avenue, El Paso, TX 79901 (915) 533-9710 www.mujerobrera.org

MicroMentor, c/o Mercy Corps, 1730 Rhode Island Ave NW # 809 Washington, DC 20036 (202) 463-7383 www.micromentor.org

The National Minority Supplier Development Council (NMSDC), 1040 Avenue of the Americas, Second Floor New York, New York 10018 Telephone: (212) 944-2430 www.nmsdcus.org

Regional Economic Development (RED) Group, c/o Blandin Foundation, 100 North Pokegama Avenue, Grand Rapids, MN 55744 (218) 326-0523 www.redgrouponline.org

Service Corp for Retired Executives (SCORE), 409 3rd Street, SW, 6th Floor, Washington, DC 20024 (800) 634-0245 www.score.org

Southeastern Community College Small Business Center, 4564 Chadbourn Highway, PO Box 151, Whiteville, NC 28472 (910) 642-7141, ext. 419 www.sccnc.edu/sbc.htm

Springboard Enterprises, 2100 Foxhall Road, NW Washington, DC 20007 (202) 242-6282 www.springboardenterprises.org

WAGES-Women's Action to Gain Economic Security, 2647 International Blvd. #205, Oakland, CA 94601 (510) 532-5465 www.wagescooperatives.org

West Central Initiative (WCI), 1000 Western Avenue, Fergus Falls, MN 56537 (218) 739-2239 www.wcif.org

Workforce Innovations Networks (WINS), c/o Institute for a Competitive Workforce, U.S. Chamber of Commerce, 1615 H St NW Washington DC 20062-2000 (202) 463-5997 www.uschamber.com/icw/strategies/wins



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