

# The Business of Color: Strengthening the Regional Economy

By Roger A. Clay, Jr.

There is growing consensus that a region's economic development is tied to the economic well-being of all of the region's cities and neighborhoods. Policymakers are increasingly recognizing that maldistribution of resources and opportunities and an ill-prepared workforce are barriers to a thriving, competitive regional economy.

Inequality affects not only neighborhoods, cities, and regions, but also the United States economy as a whole. The significance of this is highlighted by a recent World Economic Forum report. Its annual survey of over 11,000 business leaders in 125 countries revealed that the U.S. fell from first place in 2005 to sixth place in 2006 in the economic Global Competitiveness Index. For the U.S. to remain a leader in the global economy, its metropolitan regions must strengthen and maintain their competitiveness.

As this article discusses, businesses owned by people of color, often called minority business enterprises (MBEs), are an important facet of a region's competitiveness due to their impact in terms of jobs, diversity, tax revenue, and the services and goods they provide to communities of color. Likewise, the development and support of MBEs is a key component of efforts to redistribute resources and wealth.

Not only are MBEs important to regions but they also have great growth potential. For example, while the business ownership rate among blacks is less than half the national average, the number of black businesses is increasing at a much faster rate—a 45 percent increase between 1997 and 2002—than the overall 10 percent business growth rate. Significantly, total sales revenue for black-owned businesses also increased at a faster pace than total sales of white-owned businesses.

A new strategy in regional economic development is to combine efforts to develop and strengthen MBEs with a regional industry analysis. A study of MBEs and the regional economy can identify

strengths and areas of growth potential by industry sector, local area strategies, and emerging opportunities for MBEs. This research-based strategy can be combined with best-practice finance mechanisms, small business development services, networking, and policy initiatives to make MBEs a vital regional asset.

## MBE Development - Critical Link in Regional Economies

There are multiple reasons why MBEs are an important factor in strengthening the regional economy and enhancing regional equity.

First, MBEs have more direct knowledge of the market demands of communities of color, which allows them to provide these communities with better access to a targeted range of goods and services. MBEs, especially in services and retail, are more likely to serve a customer base of communities of color than are corporate- or white-owned businesses. MBEs are poised to help meet the market demand of the growing non-white populations. This growing demand is demonstrated by the fact that the non-white population is now a majority of the population—and therefore consumers—in California, Hawaii, New Mexico, and Texas, and is expected to be a majority nationwide by 2050.

Second, MBEs are a source of jobs. Among MBEs with employees, four of every six have an employee base that is at least half persons of color, compared to only one of six white-owned firms. This is an important fact since the unemployment rate of non-white workers is often twice that of whites—exacerbating the concentration of poverty.

Third, MBEs can help link the larger economy to communities of color. MBEs, including franchises and distributorships, serve as a gateway for other businesses to tap into the non-white consumer market. MBEs also attract tourist and local visitor dollars to communities of color through the creation of ethnic and cultural destinations, with dining, entertainment, cultural, and recreational components.

Fourth, MBEs are a source of income and wealth. The revenue from business ownership is the primary source of household income for many MBE owners. MBEs are also an important means for the transfer of inter-generational wealth.

Fifth, MBEs are a source of tax and fee revenue, especially important for those cities

or local governments struggling to maintain their tax base. This may include revenue generated by business license fees, user fees, sales tax, property tax, and local income tax.

Sixth, owners of MBEs usually live in and are involved in communities of color, and are a source of referral, capital, and leadership. They are an economic and social bridge to the larger community, and their businesses can be a channel to bring in resources and help reverse the trend of disinvestment in many impoverished neighborhoods.

Finally, regions and corporations that have diverse suppliers (MBEs) and workforces have a competitive advantage in the global economy, especially when dealing with Asia, Africa, and Latin America. As suppliers to large corporations and public agencies, MBEs strengthen the global competitiveness of those firms and agencies, and, by extension, of the regions where those firms are located.

## Challenges

Despite their potential, MBEs face significant challenges, including:

- limited access to capital and debt financing;
- limited personal or family assets to utilize for business start-up;
- inadequate business development support;
- lack of effective networking opportunities;
- more public safety problems and debilitated public infrastructure;
- higher rates of taxation because of a lower tax base in many cities where MBEs are located;
- a hostile legal environment due to attacks on affirmative action;
- discriminatory private or public business practices in certain regions or industries; and
- lack of crucial knowledge of regional economic trends.

In order for the United States to remain a competitive leader in the world market, it is essential that we address these challenges and ensure that our regional economies are

more inclusive and equitable. A stronger MBE community and a more diverse business sector will strengthen regional economies.

## Recommendations

There are many effective strategies for the growth and promotion of MBEs, including public and private financing options, small business development services and networking opportunities, support of trade associations and chambers of commerce, supplier diversification, and public policies to affirmatively utilize MBEs or local small businesses. However, one approach that will enhance all of these strategies is to utilize the same type of sector or cluster analysis that has been used effectively in economic and workforce development efforts as a framework for MBE development strategies.

### MBE Industry Sector Analysis

An industry sector analysis identifies the industries that hold the most promise for MBEs to succeed. Based on interviews with key stakeholders and data analysis of the sales, credit rating, location, and industry concentration of local MBEs, compared to MBEs nationally, this kind of analysis identifies: strengths of MBEs within a region by industry sector; growing industry sectors; geographic growth trends; planned public and private investments; industries that link into regional corporate supply chains; and industries with the most potential to provide good jobs.

The National Economic Development and Law Center (NEDLC) and the Kirwan Institute for the Study of Race and Ethnicity have conducted this type of sector analysis for the City of Cleveland and Cuyahoga County in order to help the Cleveland Foundation reformulate its strategic plan to support the growth of MBEs and the regional economy. Among many findings, the study of the Cleveland area determined that small- and medium-sized MBEs had a more difficult time accessing capital and securing effective business networking opportunities compared to similar size white-owned businesses, even though they had credit ratings that were, on average, equal.

The type of recommendations that MBE industry analysis can provide include:

- Identifying the core strengths by industry sector of the MBE community. These are the sectors best suited for strategies to

help grow mid-sized MBEs into large-size firms. In Cleveland, this included the construction, wholesale trade, and professional services sectors.

- Identifying emerging opportunities by industry sector in each region. These are the sectors best suited for strategies to help grow new or small MBEs into mid-sized firms. In Cleveland, this included the financial services, health services, and local transportation and trucking sectors.
- Identifying location-specific growth trends among MBEs by industry sector to help financial institutions, community foundations, local governments, or community-based organizations more effectively target neighborhood or local area efforts to support MBEs.

### Other Strategies for MBE Development

In addition to industry sector analysis, there are a number of other strategies that promote the growth and development of MBEs, as well as regional equity and economic growth:

- Increasing resources for targeted small business development, both to any small business that locates in distressed inner cities or inner suburbs and to any MBE wherever it locates within the region. Small business development support includes:
  - networking opportunities, such as business matchmaker events, luncheons, or trade fairs;
  - contract “look-aheads,” workshops, and seminars;
  - individualized and customized business assistance; and
  - mentor-protégé programs.
- Providing MBEs with facilitated access to diverse sources of financial resources, including capital from mainstream banks, credit unions, community development financial institutions, angel investors, and public agencies.
- Diversifying the suppliers to a region’s businesses, public agencies, and nonprofit organizations by:
  - linking private and public supplier diversification efforts;

- encouraging both the private and public sector to set goals for diverse supplier contracts and highlighting those that go beyond their goals;
  - creating transparent public contracting processes; and
  - assisting MBEs in becoming certified by private or public agencies.
- Creating a fiscal and tax environment that allows MBEs to compete on equal footing by sharing tax revenue or public costs across a region.
  - Ensuring equitable distribution of a region’s public resources and infrastructure so that MBEs and businesses located in distressed municipalities or neighborhoods benefit from the same quality of infrastructure as wealthier suburbs. This includes adequate and high quality streets and highways; public transit, rail, and airports; fire protection and public safety; hospitals and health care system; and workforce, job training, and education systems.

## Conclusion

MBEs cannot address their challenges alone. An inclusive regional economy in which MBEs are full participants will require multiple, but coordinated, actions by the private, philanthropic, and public sectors. Policies and programs will have to be comprehensive and linked to other systems, including education, workforce development, and financial systems. The key to success will be leaders who understand that promoting and supporting the development and strengthening of MBEs not only helps the owners of those businesses and their communities, but is essential to regional economic competitiveness and ultimately this country’s economic well-being. We all benefit. □

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