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A case study: the role of technical assistance in minority small business development catalyzed by a community organization, with implications for urban adult education.

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A CASE STUDY: THE ROLE OF TECHNICAL
ASSISTANCE IN MINORITY SMALL BUSINESS
DEVELOPMENT CATALYZED BY A COMMUNITY
ORGANIZATION, WITH IMPLICATIONS FOR
URBAN ADULT EDUCATION

A Dissertation Presented

By

Thomas Brady

Submitted to the Graduate School of the
University of Massachusetts in partial fulfillment
of the requirements for the degree of

DOCTOR OF EDUCATION

April 1977

EDUCATION

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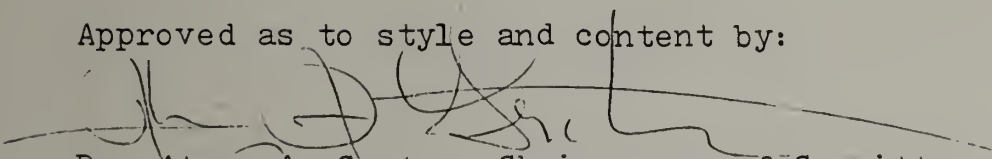
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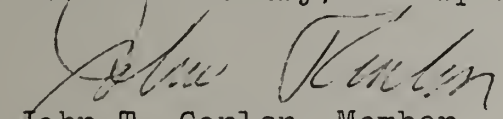
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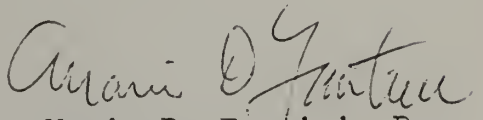
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Dedicated to the memory
of my father
the late, Thomas E. Brady

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A CASE STUDY: THE ROLE OF TECHNICAL ASSISTANCE
IN MINORITY SMALL BUSINESS DEVELOPMENT CATALYZED
BY A COMMUNITY ORGANIZATION, WITH IMPLICATIONS
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April 1977

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ABSTRACT

The revitalization of the nation's urban centers has been the concern of numerous institutions dramatically during the past decade. These institutions cover a spectrum of interests - the business community, the academic community, community service agencies, the Federal, state, local governments, and others. Through the many efforts centered around the economic development of these urban communities is an outgrowth of various projects and programs geared toward the development and support of small business and commerce. Because of the growing racial imbalances which are occurring in most of our major cities over the past several decades, many of the programs have been directed toward the racial minorities in these areas. Mainly through the efforts of

Federal, state and local governments because of the migration of business and commerce from the urban centers attempts are made to replace the lost businesses with new ones owned and operated by minority citizens who comprised most of the community's population.

Despite extensive efforts, though mostly uncoordinated, relatively slow progress has been realized in affecting any significant change in the economic well-being of our urban centers. The results of re-assessing and reviewing some of the representative examples of business development programs led to the conclusion that there are essentially three basic ingredients, when in balance, should insure a relatively higher degree of viability for success to the small entrepreneur, namely:

- (1) More and better education and training
- (2) The ability to gain access to adequate capital
- (3) The acquisition of certain skills needed for successful operation

The primary basis for the study was a program conducted for approximately four years by the National Urban League in five cities in different regions of the country. From this experience was drawn certain observations upon which a conceptual model for the development of an educational program was designed. This model is predicated upon a cooperative effort by institutions of higher education and community

service agencies to effectuate a permanent schema for a delivery system, which would provide the necessary input for success to the small entrepreneur.

The main ingredients of the delivery system depend upon the educational resources of the institution and the coordinating and outreach capabilities of the social service agency. The educational institution would provide for the planning, staffing, and curriculum design in the program model while the community agency's role would be that of a coordinator-liaison function, and could include in addition to this function the delivery of certain support services.

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C H A P T E R I

INTRODUCTION AND PROBLEM STATEMENT

The purpose of this study was to present the conceptualization and suggest a schema for implementation of an adult education program, designed to enhance the viability of small business enterprise in urban communities.

The growth of industrial power represents the beginning of our contemporary knowledge of the economic frontier of this nation. From the annals of the developmental process we learned that most enterprises in the early days of the industrial revolution in this country began as small businesses. John Chamberlain notes in his The Enterprising Americans, that the history of the development of the business enterprise did not emanate from a shallow contemporary pragmatism, but from first principles as defined by the centuries long before the settlement of this virgin continent, although much has been left to the individual and free association. Further, he states:

Out of this unsystematic system have come our cities, our skyscrapers, our industries, and the trade and the foreign investment that can help transform a world. In this transforming endeavor the American businessman stands in the front rank not because the pursuit of business is a sanctified end in itself but because it palpably makes the achievements of higher ends possible. The history of American business becomes in the broadest sense the history of a people--a people who, looking to government for the performance of certain indispensable functions, nevertheless has put its ultimate faith in its own creative energies. For such a people a new frontier, the real frontier, will always be open.¹

It is upon this premise that the writer has placed the greatest significance for the small business, the entrepreneur and the need to continue to lend importance to the maintenance of an environment where small enterprises can be created and can flourish. Since this is the total environment, it necessarily contains elements which are economic, social and political in nature. The treatment, therefore, will be broad in many areas and selectively specific in others where emphasis is deemed appropriate. It would be virtually impossible to deal with the subject matter otherwise.

The experiences upon which the investigation is predicated are represented by a target population which is principally black. Therefore, building upon the consideration of the socioeconomic characteristics of this group, the nature and environment will necessarily include the role

of several factors including the federal government in enterprise development as it is related to minority businessmen. Based upon the experimental trial and error process in the implementation of various programs engineered in the area of minority business development during the past several years, a conceptual model and its implications for adult education will emerge from the body of recommendations to be presented in the final chapter of this dissertation.

The role of urban institutions, colleges and universities and community agencies in the development and support of education and training programs in small business development has been given an increasing amount of attention in recent years. While the many programs and projects are varied and profuse, the delivery systems of a few deserve particular note. Particularly is this true of some of the earlier programs such as the Joint Council of Economic Education (JCEE) which is an independent, non-profit organization established in 1949 to encourage, coordinate and improve economic education taught in schools and colleges. However, their major emphasis was for improved curriculum and teaching methods in elementary and secondary schools, and later, at the college level. While major efforts were principally on economic education, the group disseminated educational materials on minority business

opportunities at the three levels. It currently provides potentially important communication linkages with many parts of the school establishment and has been instrumental in the development of experimental curricula.

The long term benefits to the solution of opportunity for business participation in the economic mainstream of American life depends in a large measure on youth, and in the case of minorities, this is particularly true. The young, potential entrepreneur or manager must be motivated to enter the business world and must be provided with an adequate education and training base to optimize all available opportunities. As an outgrowth of the recognition of this need, a group called Business History and Economic Life Program, Inc. (BHELP) was formed in the late 1960's in Massachusetts. The program was primarily geared to the classroom; however, it incorporated in its activities role playing, and a positive introduction to business by directly involving students in a problem solving environment familiar to them. Cases were developed which have extraordinary potential for use in adult education programs. These programs would be useful in the education and training of potential entrepreneurs and managers. In addition, the experiences would no doubt be useful in teacher training as well.

With the growth of community colleges in the United

States during the past decade, another phenomenon has come to light--the realization that an extraordinary percentage of their students are young adults. A number of these institutions have inaugurated programs geared to business education with particular concern for support for small business development.

Although numerous programs in business education and technical assistance to small businesses have proliferated, the writer has not discovered a widely-accepted format which could be universally implemented. Some colleges and universities such as the Atlanta University School of Business, Howard University's Institute of Minority Business Education (IMBE), the University of New Mexico's AIMBA Program, Texas A & M University, and others, have developed on-going programs geared to entrepreneurial support systems for small businesses. A brief capsule of representative programs is listed in Appendix A.

In addition to the types of programs already mentioned, a third type of program tried on a small scale is cooperative education. This program allows exposure and experience in the world of business coupled with formal instruction at the college level. Dozens of business schools have incorporated into the cooperative education concept a "management assistance" to community businesses. One of the primary advantages offered through

this additional idea is the opportunity for business students and faculty to work with minority business people and community development organizations by supplying technical assistance in a variety of management areas, such as accounting, finance and marketing. Thus, the student has an opportunity to enhance his classroom learning with "real world" experience. Also, more importantly, the school may thereby develop closer ties with the community.

Ways and means of making such programs integral and legitimate parts of the curriculum of schools of business and education can be devised. Possibly in addition to these two disciplines could be added other disciplines, over time. Especially the skills of communication, from our knowledge of contemporary thought in education, can be effectively applied to the delivery of assistance in the area of general business practices and theory.

The open university concept is another educational innovation where people can be matched with resources. It is essentially a transformation of the post-secondary educational institution from the traditional learning schema to a community-supportive, adaptable system. For example, the state of Maine established a model which is called the York County Community Colleges Services. This was the result of cooperative arrangements with seven educational institutions in the state. The enormous

obstacles presented by a host of administrative details were overcome in relatively short order and the instructional system will soon be in place. George P. Connick says that the model being tested in York County has shown that comprehensive post secondary education can be provided for citizens in a variety of degree programs, within reasonable commuting distance, at relatively low cost for the individual and the state, and without construction of new buildings or campuses. He further states that,

The original goals of this project were to demonstrate that post secondary education could be provided to those citizens, who, for whatever reasons, were unable to take advantage of the existing educational system. Although still new, the York County model seems to be working, and what works in York County may work elsewhere in Maine or any other state for that matter.²

Implications for Adult Education

A concise argument in support of the important correlation between education and economic success has been sufficiently documented by several authorities in the field. In addition, some of the world's most eminent economists have done considerable work on the relationship of education to economic growth and the importance of "human capital". Education is not being considered in the narrow definition of an acquisition of functional packets of specific skills, but rather as a process whereby innovation and creativity,

and the development of skills of a non-mechanistic nature are utilized. Besides, in light of technological advancement, it would seem the same measure of education and training on an on-going basis would be imperative if the small entrepreneur is to keep abreast with the state of the art. Samuel I. Doctors and Michael Balletire point out that fully 90 percent of business failures can be attributed to a lack of technical and management skills and expertise.³ To understand fully the role of education and training in business development, we must also concern our search with the past and the future of the overall national economy and how this target group of businessmen relate.

Notwithstanding, other variables such as age, quality of educational exposure, and general abilities also influence the earnings curve in establishing the significance of education to business success. Taubman and Wales suggest that their investigation indicates personal characteristics become involved and that, at best, certain assumptions preclude an absolute indicator.⁴ Thus, bias is introduced into the most exacting investigations. However, Taubman and Wales have demonstrated that there is sufficient proof that education positively affects the ability to earn income and consequently, that increased educational attainment is an asset.

Denison states in a study that during the period under

consideration (1929-1969) rising educational attainment was a major source of economic growth in this sector. It was responsible for nearly one-half of the entire contribution of labor to the 1929-69 growth rate and one-half of the labor contribution in 1948-69. Increased education per worker contributed 0.49 percentage points, some 15 percent of the total, to the growth rate in 1929-69 and almost the same amount, 0.50 points in 1948-69.

Educational background decisively conditions both the type of work an individual is able to perform and his proficiency in any particular occupation... A sharp upward shift in the educational background of American labor force has upgraded the skills and versatility of labor and contributed to the rise of the national income. It has enhanced the skills of individuals within what is conventionally called the occupation. A more educated work force--from top management down--also is better able to learn about and use the most efficient production practices.

However, it should be stated in Denison's third study on "growth accounting", he found that growth could be attributed to the sum of fluctuating changes - some negative, some positive - in a wide variety of determinants: level of education, pattern of working hours, amount of capital, allocation of resources, and advances of knowledge, to name just five. Nevertheless, direct measurement of such factors is extremely difficult and, particularly is this so within a longitudinal context.

However, the comparative advantage seems to be

realized by the enhancement of human capital, i.e., the economic investment in the man through education and is reasonable support for adult education in its broadest sense.

An Historical Perspective

Beneath the surface, and beyond the public-image facade which has become so acceptable as a part of our society's view of the minority entrepreneur, the environment in which his business functions in the United States of America is at best a very difficult one. Despite extraordinary adversities the records show that as early as 1790, the Bureau of the Census recorded his significant involvement in business enterprise. R. G. Lloyd, in an article in the Negro Educational Review, and from which many excerpts follow, suggests that there is a distinct bias under which most minority entrepreneurial efforts are relegated usually behind the facade that data is not available. He also suggests that considerable bodies of data are available from the United States Government for well over a half century. Some examples of data included (1) the United States Bureau of the Census, Negro Population in the United States: 1790-1915 (1918), a useful resource in the area of identification of minority business enterprise activity although occupational divisions used by the Bureau have varied over

the years until 1900; (2) the Sixteenth Census of the United States, 1940, including a preliminary release entitled "Retail Trade, Retail Negro Proprietorship - The United States - 1939" August 29, 1941, provides much data on these business enterprises with the census population data being much more extensive relative to very small businesses; (3) United States Bureau of Census, Alba M. Edwards, "Social-Economic Grouping of the Gainful Workers of the United States, 1930" (1938) provides useful information of Blacks working in business; (4) United States Bureau of the Census, Negroes in the United States, 1920-1932 deals with the number of Negro entrepreneurs and white collar workers in selected trade and service industries as does (5) the Thirteenth Census of the United States, 1910, Population, Volume 4.⁶

Vishnu V. Oak, in, The Negro's Adventure in General Business, made use of data in at least five census reports: (1) Negro Population in the United States, 1790-1915, (2) Population - Occupations (1920); (3) Negroes in the United States (1920-1932); (4) Population, Volume 3; Labor Force, Part 1, U. S. Summary and (5) Census of Business, Volume 3, Service Establishments, 1939 to develop the following Table in his book published more than twenty-five years ago: (see Table No. 1 - next page)⁷

Attention will also be directed to such available information sources as the Annual Report(s) of the National

Table No. 6

STATISTICAL SUMMARY

Performance Measure	1969	1970	1971	1972	1973	1974	1975	Total
Clients Assisted	204	150	165	243	184	186	205	1,327
Businesses Assisted	46	60	n/a	75	94	123	158	556
Business Packages Approved	11	28	8	23	22	18	15	125
a. Number								
b. Dollar Amount	\$46,750	\$658,829	\$165,117	\$967,055	\$1,250,000	\$1,090,176	\$434,415	\$4,612,342
Contracts Generated (procurement)								
a. Number	n/a	n/a	25	61	51	56	140	333
b. Dollar Amount	n/a	n/a	\$435,000	\$2,377,037	\$1,104,638	\$1,126,671	\$6,453,041	\$11,496,387
Business Buyouts Secured	-0-	3	2	2	4	3	-0-	14
New Businesses Established	1	10	5	10	8	4	2	40
Businesses Expanded	5	14	-0-	10	6	28	73	136
Marketing Studies Completed	-0-	-0-	-0-	-0-	-0-	3	16	19
New Jobs Created	n/a	n/a	n/a	33	68	82	47	230
In-Kind Contributions								
a. Volunteer Hours Spent	n/a	n/a	n/a	2,097	1,290	1,559	1,534½	6,481
b. Estimated Dollar Value	n/a	n/a	n/a	\$31,455	\$19,356	\$23,385	\$30,690	\$104,886
Seminars/Training Courses Conducted & Attendance	(1)-100	(1)-28	(2)-185	(2)-175	(3)-386	(2)-225	(2)-90	(13)-1,189
Business Failures	3	7	1	3	3	-0-	2	19
a. Number								
b. Dollar Amount of Loans Written Off	\$2,950	\$63,000	\$10,000	\$73,000	\$58,000	\$-	\$90,000	\$296,950

Note: 3.4% failures

1.8% of businesses assisted failed over last four years of available records kept.

Negro Business League since 1901 (now known as the National Business League); The Negro Business Man (1929) by J. H. Harmon, A. G. Lindsay and Carter G. Woodson; The Negro as Capitalist: A Study of Banking and Business Among Negroes by Abram L. Harris (1936); The History of Negro Business Prior to 1860 (Masters Thesis at Howard University) by Tinsley Spraggins (1935); United States Department of Commerce Official Proceedings of the First and Second Conferences on The Negro in Business, April 18-19, 1941 and October 17-19, 1946, respectively; sections of The Negro Year Book: An Encyclopedia of the Negro beginning with the 1913 edition; The Negro in Business: A Report of a Social Study Made Under the Direction of Atlanta University by W. E. B. DuBois (1899); Minority-owned Business: 1969, a publication of the United States Department of Commerce, and a host of other documents and publications. A review of such data establishes without question the target group as a legitimate focus for consideration.

Object of the Study

With a good program design for adult education, the academic institution can make a decided difference in the promotion and development of the small business enterprise. Enough is now known through earlier trial and error experiences to provide the basis for the comprehensive design. Therefore an effective delivery system for its implementation

is a key factor to establishing a permanent program. Any conceptual model for a meaningful impact on the "system" must provide for the contingency factor of short-term and long-term objectives. The distinction is practical as well as conceptual. Also, it is necessary to distinguish between simply technical assistance and education. The latter might be associated with relatively short-term goals, but in the long run, one must consider the overall picture of the economic viability of urban communities.

The Task Force on Education and Training (a body commissioned to do a study on the subject by the Executive Office of U.S. Government during 1972) suggests that professionally trained, sensitive teachers are a key to successful education and training endeavors. In the short term education needs largely center on the fundamentals of the various business/management functional areas such as:

- Economics
- General management (policy formulation,
planning and operations)
- Personnel management
- Organizational behavior
- Marketing (sales, distribution and promotion)
- Bookkeeping and accounting
- Business law and taxation
- Finance
- Production (more generally, operations management)
- Written and oral expression

Therefore, based upon but not limited to the above-listed items, colleges, universities, and local business schools and other agencies can develop courses covering these

fundamental functional areas.

Beyond the functional aspects of operating a business enterprise is the complex area of motivation, leadership capabilities and the acquisition of various skills needed for successful operation. All of these factors can be included in a carefully integrated curricula package. Short courses as well as more lengthy courses could be provided to cover fundamentals of all the functional areas listed. Small business operation, after all, requires an understanding of the basic elements of all functional areas and the ways in which these functional areas interact to form a coherent whole. Basically, the curricula package would contain most of the recognized variables and a comparison would be made among those factors which show a high correlation with the failure of small business, minority or otherwise.

The focus of this study will relate almost exclusively to internal variables which impact the operation of a small business. That is, the considerations will be those which relate to the management practices such as accounting and bookkeeping practices, or the level of technological expertise available in the firms. No attempt will be made to deal extensively in external correlates. Factors such as the national economy, cost of capital, or the role of government and large corporations in small business markets will not be treated.

The Entrepreneur

The entrepreneur is the prime-mover in small business development. Despite the absence of glamour in the role and function of the small businessman, many Americans at some time in their lives dream of owning a business of their own entrepreneurship which still represents the "American dream" or "rags to riches".

The small businessmen have played a vital role throughout the economic history of this country and are likely to maintain it for many years to come. Although small entrepreneurs represent a powerful force in the continued economic growth of this nation, their image is poor and their development receives little attention, for the most part.

Some insight into the factors which appear to make a significant impact on the entrepreneur role will be helpful in understanding his or her needs in the scheme of things. First of all, E. F. Schumacher's treatise on the "ineconomy" of size, or the converse of the economy of scale, provides a substantial base for briefly understanding the importance of the entrepreneur. Schumacher indicates in his Small is Beautiful (Economics If People Mattered) that there is a

place for the entrepreneur in his socioeconomic schema. He states:

In any organization, large or small, there must be a certain clarity and orderliness; if things fall into disorder, nothing can be accomplished. Yet orderliness, as such, is static and lifeless, so there must also be plenty of elbowroom and scope for breaking through the established order, to do the thing never done before, never anticipated by the guardians of orderliness, the new, unpredicted and unpredictable outcome of a man's creative ideas. Therefore, any organization has to strive continuously for the orderliness of order and the disorderliness of creative freedom, and the specific danger inherent in large-scale organization is that its natural bias and tendency favors order, at the expense of creative freedom.... the man of creative freedom is the entrepreneur.⁹

It is the entrepreneur who creates and innovates and finds new solutions to old problems. He therefore needs all of the skills available to achieve these ends. It would seem a matter of self-interest that educational institutions as with other community institutions would have a stake in the survival of the entrepreneur, not in its purest sense but in the growth of the community and the improvement of the environment in which both have to exist.

How Community-based Organizations can help

Finally and most significant to this study is a consideration of the role community-based agencies and organizations such as local industry, trade and professional associations, community development organizations and similar groups. These groups represent a significant resource for

small business development. One fact stands out among many in reviewing the whole sphere of the interaction of people, groups and other community interests in the business economy of a community, that of the need for a comprehensive delivery system. At the crux of the problem is the fact that no real coordinating vehicle has successfully brought all of these resources together into a cohesive working whole. A community agency could effectively provide this liaison.

Notably, the Urban League, a social service agency, is in a unique position. It has a national network of more than one hundred affiliates including all of the major cities in the United States. It is an organization which could affectuate a coordinating vehicle for bringing the resources together in an organized way. Particularly is this true in activities such as communications and outreach in at least four areas, namely:

1. Disseminate information about business opportunities;
2. Publicize the availability of business and management training programs;
3. Serve as a liaison between the community and institutions in the community such as business and industry, trade and professional associations, secondary schools, colleges and universities;
4. Communicate the business ownership possibilities as a career choice to youth of the community.

The Problem Statement

All available studies indicate the primary reason for failure of small businesses (a failure rate exceeding 80 percent) and the failure of businesses generally in this country is due to a lack of management skills and professional know-how. This notion carries with it an implied concurrence of a similar lack of needed academic input, entrepreneurial acumen, and cultivated responses. A number of education and training programs have been demonstrated in minority enterprise education. In examples of small businesses an investigation should provide considerable insight into the subject.

The percent of the population who are native American, Black, Asian-American or of Spanish-speaking ancestry control only a tiny fraction of the productive resources of this country. According to the most recent survey of minority business ownership (1971), only 322,000 business enterprises were owned by minority group members, representing a total of approximately four percent of all U.S. enterprises.¹⁰ Gross sales for these 322,000 businesses totaled 10.6 billion dollars or about 0.7 percent of the total \$1,498 billion receipts figure for all U.S. businesses.¹¹ Thus the average minority business had sales of a bit less than \$33,000 while the average majority business firm had sales of almost \$182,000. The sales figure for all minority enterprises

amounted to sales of a single non-minority firm, such as General Electric, in 1972.

Characteristically, certain factors seem common to most minority-owned enterprises. Sixty-one percent of them are lacking capital assets. These businesses represent fully sixty-two percent of gross sales of minority business.¹² Significantly, no minority business is sufficiently large enough to be included in the Fortune listing of the 500 largest businesses in the United States. The largest minority firm, based on gross sales, is Motown Industries which was approximately 1/5 that of the smallest of the 500 largest domestic corporations (Varian Associates with \$204 million sales).¹³ As such, minority control of capital is only a fractional amount of their four percent of business ownership. One estimate has it that these businesses account for only about 0.3 percent of all business assets or about \$2.6 billion out of a total of U.S. business assets of \$859 billion in 1971.¹⁴

Considering the measure of the statistics for minority-owned or controlled financial institutions, an assessment can be made of an area which is normally the crux of economic development for a community-banks. Combined assets of all minority banks, and the combined assets of all minority-owned insurance companies is approximately \$2.6 billion, or less than 0.2 percent of the industry total

of \$1,607 billion.¹⁵

Financial obstacles to minority business development cover the spectrum of the business arena. Equity capital has generally not been available for business formation.

Thus, many businesses in the target population fail despite the existence of technical assistance resources. It is proposed that a delivery system which combines the specific knowledge and skills needed by the small minority entrepreneur with effective adult education, instructional practices and instructional formats is designed to deal effectively with this problem.

The primary vehicle for the delivery system will be the Business Development Centers in the network of Urban League affiliates throughout the nation. The selection of this mechanism is based on the following:

- 1) such a program was administered by the writer for more than four years through the instrumentality of technical assistance, education and training in the major business functional areas;
- 2) the NUL program served effectively approximately three thousand minority businessmen during the period;
- 3) should serve as a bellweather for the development of alternative delivery systems in support of small minority businesses through the use of institutions of higher learning.

The model will be a schema for utilizing the Urban League or similar agency as the community coordinator. The primary function will be to bring the businessman and the potential entrepreneur together with more effective technical assistance spurred by a good adult educational approach in small business development.

The Problem in Perspective

The dismal success-failure record of small business has long been a part of the literature. What has been lacking in many instances, however, is a thorough knowledge of the types of difficulties which produce failure and an insight into the motivations of failure-prone managers.

The long list of causes of failures can be placed under three basic headings: lack of management expertise, absence of motivational influences, and lack of adequate investment capital. Causes such as unfruitful substitution of long hours for effective planning, badly kept records, and inadequate controls are rectifiable if placed in the proper context and treated seriously. Many of the obstacles are the outgrowth of the small business manager's socio-cultural environment and are not simply a function of the profit motive.¹⁶

The sociocultural environment forces certain pressures and attitudes on the entrepreneur which impede his

acceptance of change. This reticence can be overcome if proper balance is given to the three basic factors which will serve as the basis for the suggested model in this document.

Generally, investment is an outgrowth of savings accumulated. The impoverished position of most minority communities has made this virtually impossible. In addition, even when equity capital is raised, members of minority groups have experienced considerable difficulty in attracting debt capital to augment it. Of course, bias stemming from preconceived as well as the real risks involved in minority loans has diminished the capacity of the equity base to draw in debt money. The debt financing made available has usually been short-term, often resulting in serious cash flow problems, owing to rapid amortization schedules and high interest rates.

Frequently, the owners and operators of business establishments are not sufficiently acquainted with factors such as the financial aspects of their own businesses and cannot interpret the accounting data relative to this data. Business owners also lack sufficient skill in other important areas of business management and administration such as purchasing, marketing, sales and proper planning. For many minority business owners, the lack of general and specific business information, management and administrative skills, proper attitudes and demeanor toward business enterprise,

present an almost insuperable obstacle to successful entrepreneurship.

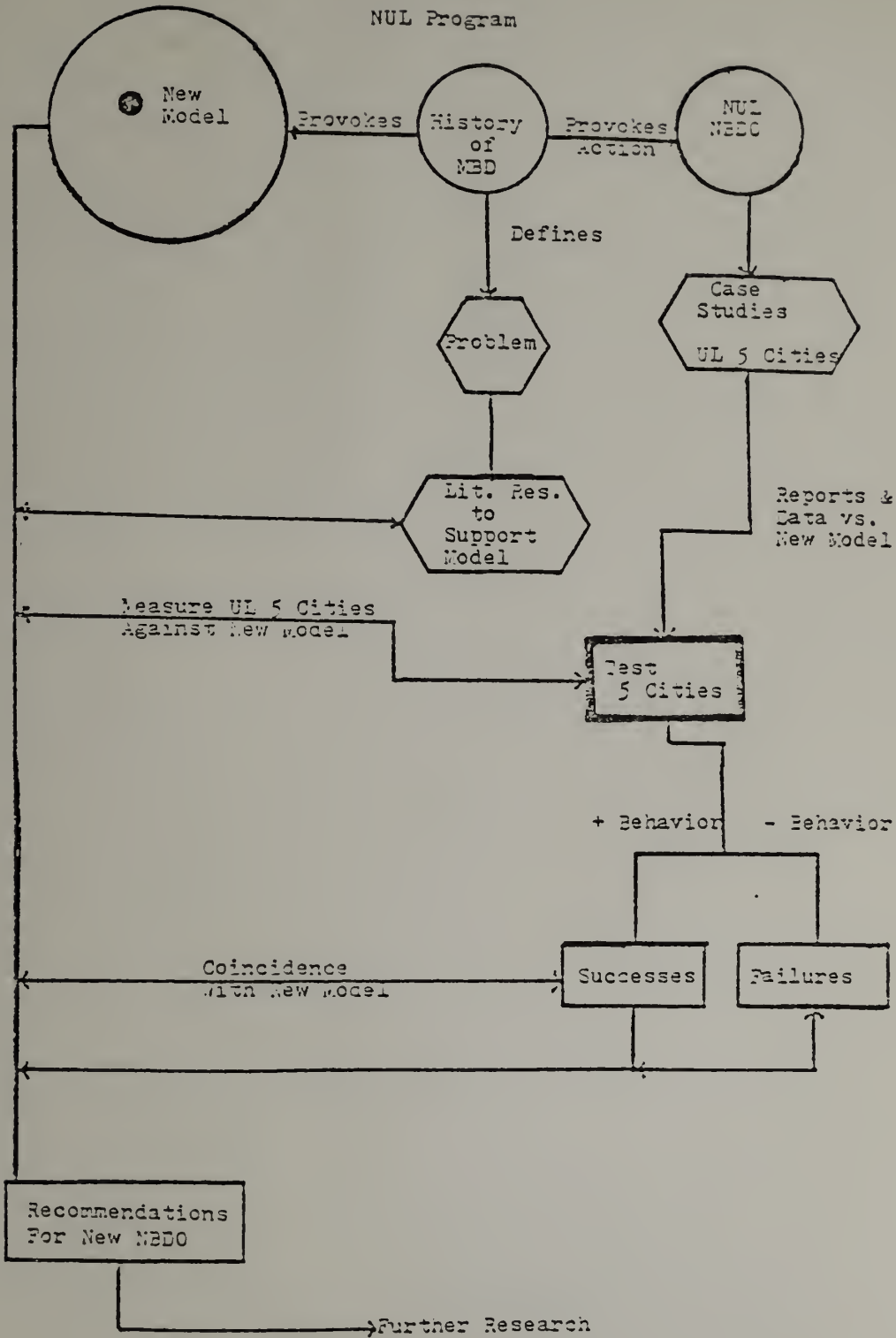
Moreover, it becomes evident that an attack on a single factor of imbalance sans consideration of other equally as influential factors generated the unacceptable results of past efforts. Obviously, a more comprehensive approach is necessary. This idea can be divided into three major categories for purposes of a systems treatment:

- (1) training in the traditional business techniques, as well as encouraging innovation;
- (2) the development of a behavioral business of "for profit" attitude;
- (3) the availability of venture capital.

These three elements in balance will assure a relatively high probability of success. Particularly is this possible where sufficient flexibility is built into the schema to allow for certain necessary adjustments in the process, over time.

The problem, then, is one of the identification of the principle categories, then establishing a balanced model. This will be accomplished primarily by selectively extrapolating those factors from extensive investigations which have been recorded, melding them into a compatible model, and finally testing the model. This is graphically illustrated by the following diagram: (see next page)

EVOLUTION
NUL Program



The circle comes full round. The small business manager must first overcome resistance of preconceived ideas and the reluctance to accept new habits, techniques and attitudes. He will have to acquire the motivation to achieve success, and finally, be self-motivated to perform adequately.

The principle change agent will be established educational institutions with a resolution to promote continuing education and training for adults. This base will provide the substance for the educational and training phase of the model.

All pertinent available sources of information have been searched: ERIC, North Carolina Science and Technology Research Center, Harvard Business Review, the Conference Board, the Bibliography of Minority Business Enterprise, Office of Minority Business Enterprise, Department of Commerce, Report of the Presidential Task Force on Education and Training for Minority Business Enterprise, and other sources, in addition to the reports and supporting data of the four-year program of the National Urban League.

The total treatment will be based on small businesses as defined by the generally accepted notion that a small business is one which employs 100 or fewer workers with a gross income of less than \$5,000,000 per annum.

The experiences gained in search of possible answers

to the low level of results in small business development programs serve as a valid basis to begin. Chapter II will delineate the parameters of the search of the literature, and provide the programmatic results and observations drawn from five Urban League communities which served as the testing ground for much of the actual experience-oriented information used in the study. These five cities are Indianapolis, Indiana; Jacksonville, Florida; Columbia, South Carolina; Milwaukee, Wisconsin; and Tulsa, Oklahoma.

The outer boundaries of programmatic results will be proscribed by and limited to the three major components of the model, and therefore, will use successes and failures, positive and negative behavior within that context.

The actual activities such as training and certain technical assistance, however, took on several shades of coloration dictated by the characteristics of the communities in which activities took place. In some cases, emphasis was placed on different aspects of business development among the indigenous groups, depending largely upon the perceived needs at the time. Certain other related activities will be examined where there is a direct correlation with reports and supporting data used in determining the configuration of the suggested model.

On the basis of the observations made of business development programs over approximately four years, an

assessment will provide the basis for the suggested model. Documentation of cases with some related observations are presented later in the document.

Several significant factors will be revealed in a review of the cases. Among them are:

- (1) the entrepreneurs without exception received individualized assistance;
- (2) all were given the advantage of formalized instruction tailored to the perceived needs at the time;
- (3) although some basic academic techniques were employed, management skills and training fitted naturally into the practices of an operating business enterprise;
- (4) exposure to the education and training before the fact would have been considerably more effective.

The above factors will be taken into account and a possible schema will be proposed for the implementation of a program with the effective utilization of institutions of higher learning for the adult education input.

In Chapter II the literature search will review significant thought in adult education in terms of how and in what manner the desired skills and competencies may be transmitted to the target population. The balance of the search is devoted to a review of programs/problems in minority group entrepreneurial development.

C H A P T E R II

REVIEW OF ADULT EDUCATIONAL THOUGHT, PROGRAMS
RELATING TO ADULT BUSINESS EDUCATION AND OTHER
SIGNIFICANT FACTORS

Introduction

The case of the program model design is based on relevant educational thought as it can be effectively applied to adult business education. For the benefit of the cases to follow, this chapter will include an exploration of certain significant factors which impact the environment of the small business. Those factors are the accommodation for size, problems relating to financing the small business, entrepreneurship and achievement motivation.

In addition, there have been numerous pilot projects sponsored by federal, state and local governments, community-based agencies, educational institutions, trade and professional associations and similar organizations. These projects have included technical assistance, delivery systems, education and training programs, research and demonstration projects, and related kinds of activities. Obviously, all of these efforts cannot be cited in this document. Rather, the writer has selected representative information apropos to the study, fully realizing that the references do not include a number of similar and perhaps equally noteworthy works

in the field.

The literature review will explore basically two bodies of literature, namely: (1) adult education literature which provides insights into the development of alternative delivery systems for those businessmen; and (2) literature which examines some of the problems specifically relevant to small minority entrepreneurs. The intent is to rank the developmental needs of the small minority entrepreneur and correlate these needs with adult education practices and concepts which are appropriate.

The review of the documentation and literature on the subjects of primary interest include relevant adult education as it might impact the availability of a business education program, business skills and capital to the small entrepreneur, packaging small businesses for capitalization, attracting the participation of investors, training in functional skills, motivational considerations in the creation of an entrepreneurial class among minority group leadership, work-experience training programs, and the environment in which the study was made.

ADULT EDUCATION

To realize the implications for adult education, an incisive look will be made as it relates to the business context and the body of information which follows. The term "adult education" is intended to proscribe the broadest process by which men and women continue

learning after their formal schooling is ended. This education can take many forms. But whatever methods used, or form it may take, the purposes of adult education are in a large measure those of higher education in general. And at the least, there is strong compatibility for both. The adult education program is not an additional objective of the college; it is one of the means by which the college can achieve its general objectives. Such a program can extend even beyond the campus and the classroom. Grattan expressed it in stronger terms. He said:

the continuing education of the adult population is carried on by many agencies, some as a deliberate aim, by others as a by-product not always recognized as education. But the colleges and universities are the best equipped of all the agencies, from a standpoint of resources to undertake the major part of the job. Education on a near adult level is their business, and they have, in some instances at least, the necessary teachers and facilities.¹

However, Knowles notes that the methodology of adult education should necessarily be different from the basic traditional academic techniques. One significant reason why is because adult education must be fitted in content, methods and aims of the adult student - a seasoned decision maker with a wealth of experiences to his credit. He or she is not conscript, but by choice has elected to pursue further education. Knowles also suggests that greater use can be made of the experiences of the adult learner by such methods

as role playing, group discussion, case method, book-based discussion, the unstructured group method, and various combinations of methods in workshops, conferences, and institutes.² Implied in this observation is increasing evidence of the need for the emergence of specialized training for adult educational practitioners. Luke and Ulmer suggest that perhaps the two areas of greatest challenge to the adult education practitioner in extending their range of teaching skills are:

- (1) helping create meaningful experiences through which the student may develop insights and awareness (as differentiated from acquiring facts);
- (2) in providing the adult student with frequent opportunities to practice.³

They also suggest ample planning to provide as many different opportunities for skill practice and insight development as time, talent, and imagination will permit as a likely solution to the dilemma.

If institutions of higher learning are to play a meaningful role in the development of adult education, at least three factors are essential at the outset: (1) a workable plan; (2) qualified adult education practitioners; (3) a willingness to exercise flexibility.

Miller identified at least six conditions to be considered significant in any adult education program design, namely:

- (1) The student must be adequately motivated to change behavior. (In other words, there are a number of identifiable psychological forces available to encourage the student to change in relevant ways.)
- (2) The student must be aware of the inadequacy of his present behavior. (There is a natural resistance to change organized, habitual behavior.)
- (3) The student must have a clear picture of the behavior which he is required to adopt. (The range of pedagogical techniques may involve demonstration, role playing, case analysis, lectures or controlled group discussion, or a combination of several.)
- (4) The student must have opportunities to practice the appropriate behavior. (One problem of the adult learner's limited time, thus some ingenuity would have to be exercised by the adult educator to overcome this obstacle.)
- (5) The student must get reinforcement of the correct behavior. (There should be continuous feedback to make possible reinforcement.)
- (6) The student must have available a sequence of appropriate materials. (Of particular regard should be the needs of the adult student.)⁴

Brunner, et al, added to the chain of requisites by suggesting that in planning and policy there should be well-defined goals aligned with attainable achievement on the individual scale as well as the broader spectrum. Thus they relate motivation to education in achieving educational goals.⁵

While the factors enumerated above are not uncharacteristic of other levels of academic planning, they appear to have particular significance in planning adult education programs.

The second factor essential in developing an effective program is the availability of qualified adult education practitioners. Axford, in his discussion identifying the adult educator, suggests certain qualities which are imperative to success as a teacher and administrator. Among these are:

- (1) humaneness (possess empathy, understanding, concern, warmth, and a rapport with people);
- (2) able to recognize needs by a community consciousness;
- (3) a capacity to organize, to be a catalyst in bringing together specialized knowledge and expertise to use on social problems that need solutions;
- (4) must possess flexibility - be able to adjust to needs of the learners;
- (5) must be the creator and sharer of ideas;

- (6) a person with a sound philosophy of adult education, to the extent that he becomes a promoter;
- (7) should have competence in an academic area and a commitment₆ to the value of learning throughout life.

Generally, it would appear that commitment and dedication are essential to the adult education practitioner. Although the prescription for what qualities constitute a good teacher may be multifarious, the basic ingredients are recognizable under most circumstances. In the evolutionary milieu of teacher development, there is considerable room for more research on the effective adult education practitioner. Miller points out some of the pitfalls of inadequate teaching skills and how they may impact an adult teaching program. He suggests that such "methodological dissonance" (Miller's term) can perhaps be overcome through the use of certain training devices.⁷ For example, training devices may take such forms as have been already alluded to, rather than programmed instruction.

The third factor essential to an effective adult education program is the element of flexibility. An unwillingness to create, implement, evaluate, and revise the on-going operation without adverse interruption can mean much to the development of the program. Several factors could be considered in building flexibility into an adult education program, summarized by the following:

- (1) the school must display a readiness to work with organized groups in the community;
- (2) must be certain that there is broad involvement of the community in building the program;
- (3) qualified in-service training for the practitioners and all who have responsibilities in the program;
- (4) there should be continuous evaluation;
- (5) there must be a willingness to explore the use of various but appropriate materials;
- (6) the school should build in flexibility in scheduling of time, nature and length of class period, etc., adjusting as much as possible to the needs of the participants;
- (7) while one-to-one contact may not always be possible, the group size should always remain relatively small;
- (8) provide for continuous research.

Brunner and others seem to agree with the basic tenants stated above.⁸

In practical terms, innovative ways will have to be found for creating new and more appropriate formats for adult learning, applying techniques for making large groups more active in learning, and finding new uses for all the known educational instructional tools and devising others. The small business enterprise provides a natural laboratory for exercising extraordinary concepts in business education.

Experiences have shown that simply awareness of good business practices is not enough. The small businessman had to be taught through some acceptable means to implement these

practices. To do so might involve attitudinal training, one-to-one consultation, and a longitudinal schema for assistance. Hollingsworth and Hand agree with this view and indicate the need for developmental guidelines for successful entrepreneurship among small businessmen.⁹

The idea that a different format and design could be more effective is indicated by the various programs which have been tried. Nelson suggests in his assessment of an in-service teacher education program operated at the University of Illinois, that there is a need to develop curricula designed expressly to teach small business ownership/management as perhaps a first step in the development of an education program for small businesses.¹⁰ He feels that concepts of small business ownership and operation may be better taught by education practitioners once they fully understand the problems frequently encountered by small businesses. Therefore, it seems logical that a systematic planning approach to education and training is necessary and essential in defining the role of the academic institution. Thomas and Rullo identified eight steps in a training program for supervisory and operating personnel in a small company (i.e., 5 or less employees). Capsulated, they are:

- (1) assessment of the educational needs
- (2) set the goals for the management education program
- (3) determine the short and long run objectives

- (4) identify alternative means of reaching these objectives
- (5) choose the most practical methods
- (6) how to implement the plan
- (7) a system of evaluation
- (8) flexibility based on feedback from each step.¹¹

The significance of education and training to the successful operation for a small entrepreneur is already established. However, some of the remedies offered are certainly open to scrutiny and suggests that too much emphasis is placed on opportunity and money and not enough on the owner's qualifications through education and training or experience to run his (her) business. As a solution, Land recommends a vehicle to assist the entrepreneur to internalize the managerial skills for developing a viable business. If indeed, the failure rate of small businesses is due to a lack of education in entrepreneurial and management skills, Land's observations may be valid.¹²

It is clear that management education for minority entrepreneurs is a decided urban community need. Education and training have been identified as reasonable vehicles for achieving a solution to this need. Therefore, consideration of the academic institution is a natural consequence. The notion is that a new and different educational approach is apparently necessary. Some writers on the subject have even

suggested that business schools cannot provide such an approach and that there are other avenues at our disposal which might more effectively accomplish this purpose.

Uterman, in an article for the Journal of General Management raises this issue and suggests that new and experimental methods of teaching entrepreneurship are needed.¹³

The literature in this chapter clearly indicates that education and technical assistance programs for adult business education must possess certain basic characteristics. The program should:

- (1) be predicated upon the perceived needs of the community;
- (2) have flexibility in materials, scheduling, etc.;
- (3) student grouping should be relatively small for effectiveness;
- (4) have a cadre of qualified adult education practitioners.

While the above factors are not all-inclusive, they are certainly among the most significant. However, the measure of the success of adult business education programs will rely heavily upon the evaluation process and what kinds of changes may be determined as a result of such a process, once a program is implemented.

For clarity, a brief review of business development programs conducted by community organizations will be helpful. Most of the programs to be cited were not narrowly

defined as education programs, however, business education and/or training were elements in all of them.

PROGRAMS RELATING TO ADULT BUSINESS EDUCATION

(Participation by Community Organizations.) A review of the participation by community organizations will use the Urban League program as a basis for discussion. (Organizational chart - Appendix D). A very good reason for utilizing such organizations in the community for support is to take advantage of all available resources in producing the desired results. Among the resources to be utilized in efforts in business education development and technical assistance are various related programs conducted by these community groups.

Assistance provided by the private sector is multifaceted. It may involve the schools, volunteer businessmen, private foundations, professional and trade associations, and the chambers of commerce and others. Representatives of most of these groups have been involved, to a considerable extent, in contributing resources to the development of entrepreneurs within the community.

A distinction should be made between community support and community control before proceeding. By community support is meant the optimal use of resources within the local environment in which the small entrepreneur has to

function. No attempt to treat the subject of community control of business development by community participation in the actual business operation is intended. This field represents a broad area of problems based on the currently available accounts of such efforts to date. Rather, the primary concern here is the identification of useful resources within the community, and within this particular parameter the usefulness of a strong community-based organization with the capability of coordinating and directing these resources to the advantage of the small business owner. It is acknowledged by most proponents active in the field of community economic development, (Hetherington, 1973) (Faux, 1973) that community participation introduces factors such as social investment, local organization, and bring with them extraordinary bureaucratic constraints.¹⁴ Obviously, such factors do not deliver any advantages to the entrepreneur who must control his business. Therefore we shall confine the discussion to community organizational support.

The National Urban League, as a typical example of a community group, has a network comprised of four regional offices and more than one hundred affiliate urban leagues in the major cities across the nation. The existence of such a network suggests that the minority businessmen can have at their disposal a national storehouse of information,

contacts and expertise in their development efforts. This is especially significant when factors such as the intimate corporate contact this agency enjoys, the level of the Urban League presence in every major city, and a number of lesser cities throughout the nation; its relationship with federal, state, and municipal governments, and the wealth of expertise gained over the experience of the years in community activities. More importantly, it will have a national system for the coordination of all significant efforts in this area since very basic to the whole Urban League movement is economic stability of the indigenous communities where concentrations of minority citizens live. As nearly as can be determined, currently there is no such community group effectively engaged in this kind of activity. Other private non-profit organizations include such groups as the Interracial Council for Business Opportunity (ICBO), with units in approximately eight major cities; Dallas Alliance for Minority Enterprise (DAME); Colorado Economic Development Association (CEDA); Roxbury Institute of Business Management in Boston. All of these local organizations generally provide some technical assistance and/or training in management and related to either potential entrepreneurs or existing small businessmen in their communities. At least one half dozen private foundations have also provided support primarily through community agencies such as those mentioned

for some form of training or education in business development. Still other organizations scattered across the country and funded principally by the U.S. Department of Commerce provide assistance to small businesses. Among these are the National Business League, National Puerto Rican Forum, and the National Economic Development Association (NEDA). With the exception of NEDA which has 201 area offices, these organizations operate in relatively few cities, however.

A basic part of operating a business is to actively pursue knowledge of the state of the art in the industry. One means of accomplishing this is by active participation in the particular trade or professional association. A number of such associations have provided management assistance, developed training materials or otherwise participated in providing a working knowledge to certain minority small businessmen in some cities. Two of the most effective organizations in these activities are the National Shoe Retailers of America and Menswear Retailers of America.

In many communities, major business and industrial firms have initiated or participated in programs in support of minority business, particularly in the areas of business education and training at the higher education level. In some instances participation has been in the form of scholarship aid for business degrees at various educational institutions or support of business school consortia which are

engaged in particular efforts in minority business development.

Since the cost of programs is a major deterrent to academic institutions participation particularly post-secondary schools, innovative methods have been developed for soliciting financial support for such programs. A direct outgrowth of this kind of activity are three principal consortia consisting of twenty-one participating schools. These groups are:

Consortium for Graduate Study in Management (CGSM)

Indiana University (Bloomington)
 University of Rochester
 University of Southern California
 Washington University (St. Louis)
 University of Wisconsin

Council for Opportunity in Graduate Management Education (COGME)

University of California
 Carnegie-Mellon Institute
 Columbia University
 Cornell University
 University of Chicago
 Dartmouth College
 Harvard University
 Massachusetts Institute of Technology
 University of Pennsylvania
 Stanford University

Accelerated Business Leadership Education (ABLE)

Boston University
 Syracuse University
 University of Massachusetts
 Atlanta University
 Howard University
 New York University

A number of these schools are involved in the independent development of specialized business management

curricula geared to the minority entrepreneur and his(her) peculiar problems. The emphasis, however, appears to have been centered on generating a pool of middle management types. Some of the more daring of these students have entered the ranks of small business, either by joining or establishing their own. Of particular implication for this document, moreover, is the involvement of the various educational institutions in voluntary efforts to develop the area of small business curricula where faculty and student teams are attempting to relate to the local small business.

A program of some consequence has been supported for several years by corporations, primarily those headquartered in and around New York City. This program is an executive exchange program designed to strengthen the teaching of business at predominantly black colleges and universities. The Black Executive Exchange Program (BEEP) is a project developed by the National Urban League in which the institutions offer courses for credit taught by black corporate executives. The participation of the corporations is primarily through underwriting the cost of the exchange.

Finally, at the secondary level of education, business and industrial firms have participated in programs designed to provide students with practical exposure to the world of business and commerce. Junior Achievement, cooperative education, and the Executive High School Internship Program are

examples of such projects. These activities are by no means universal, and in more recent years, represent a steadily diminishing involvement by business and industry. However, no survey of community resources would be complete without including these programs. No doubt there are many other programs scattered throughout the country, but those listed are representative.¹⁵

The remaining community organizations which have been or are presently involved to some degree in minority business development include several church demoninations, a few majority banks, and to a lesser extent several national insurance companies.

There is little doubt that many things are being attempted, and many people have gotten involved. What this points up to the writer more than any other factor is that there is little coordination of efforts, and there is no overall guiding schema for what is being done now and what will be done in future. These concerns will be dealt with once the Urban League experiences are reviewed and some assessment is made of what has been done.

It should be restated here that the review of programs and certain factors which will influence the design of the model was an attempt to establish the climate in which the study was made. To do so necessitated a treatment across several disciplines although focusing on a central

figure. This central figure is the small entrepreneur, his environment, and the factors impacting that environment.

The adult education component for the model has been identified and defined. Other variants to the schema for producing successful small businesses and knowledgeable entrepreneurs is that which relates more directly to the business sector - the accommodation for size, the acquisition of investment capital, and the entrepreneurial function. These factors will be treated next.

OTHER SIGNIFICANT FACTORS

Problems of Size. To fully comprehend the intricacies of establishing and maintaining a small business, it is necessary to cast aside the thesis of the large business enterprise--that the principles of management are applicable in all companies, regardless of size. Unfortunately, the generally accepted principles of management are indeed based mainly on the experience of large companies. Hence, business administration is primarily a description of methods that have worked in large concerns and has for the most part neglected the needs of small companies. Of course, it is recognized that even when adequately financed and managed, small businesses operate under handicaps in an economy in which big firms play key roles.

What must be taken into account is the decided difference between large and small companies as it relates to their inherent strengths and weaknesses, and advantages and disadvantages attributable to size. For example, a study performed by Cohn and Lindberg for the American Management

Association produced the following:

Table No. 2

Limitations Imposed by Small Size, According to
Presidents of Small Companies

<u>Limitations</u>	<u>Number of Mentions</u>	<u>Percent</u>
Making financing more difficult	63	23
Limits ability to develop new products	54	20
Makes it hard to attract specialist personnel	47	17
Limits ability to benefit from planning	43	16
Imposes restrictions on marketing	34	12
Limits risk-taking ability	<u>34</u>	<u>12</u>
Total	<u>275</u>	<u>100</u>

Table No. 3

Areas in Which Large Businesses have Competitive
Superiority Over Small Businesses

<u>Area</u>	<u>Small Company Presidents</u>	<u>Percent</u>	<u>Large Company Presidents</u>	<u>Percent</u>
Sales Coverage	45	20	77	21
Advertising	45	20	77	21
Pricing	42	18	22	6
Engineering/design	32	14	67	18
Distribution	31	14	78	21
Financing	9	4	8	2
Service	7	3	32	9
Other	<u>17</u>	<u>7</u>	<u>8</u>	<u>2</u>
Total	<u>228</u>	<u>100</u>	<u>369</u>	<u>100</u>

Financing the Small Business. In addition, Cohn and Lindberg cited other factors. It appears that managerial excellence is an imperative to cope with the smallest odds; the small business entrepreneur must "wear several hats," and can afford less to be a specialist than his large counterpart; and, growth, when it becomes a self-contained objective, exposes the small company to extraordinary hazards, i.e., increases of sales volume many times adversely impact costs and thus strangle growth.¹⁶ While these factors do not represent the extent of differences in small and large companies, they appear to be some of the most significant cited.

Another finding in the Cohn-Lindberg study was the fact of the importance of capitalization to the small neophyte enterprise. From the matrix, nearly 25 percent of their small businessman sample indicated that financing was a primary problem.¹⁷ There is, first, the difficulty encountered in finding sources of funds. Considerable debate has been given to the reasons why these circumstances prevail. Of course, in the case of the minority prospective entrepreneur, many believe that the primary reason is racial discrimination. In their judgment banks tend to characterize all minority loan applicants as high risk, and are unwilling to judge each individual's proposal on its particular merit. There is considerable

documentation to support this view. However, our experiences have shown while there remains some indication of such attitudes, there are frequently other mitigating factors. Often the applicant is hampered by a limited accumulation of personal assets to pledge as collateral, inadequate personal funds to offer as equity investment, lack of contacts to open doors, and little or no business experience to lend credibility to his proposed venture. The net effect of these conditions as they impacted on successful attempts at establishing businesses are indicated below:

Table No. 4

Absolute and Relative Numbers of Business Enterprise Units
for the Total Population, Minority Population and Various
Minority Groups - 1969

	<u>Population</u> ¹	<u>Absolute Number of Businesses</u>	<u>Relative Number of Businesses</u>
U.S. Total	203,211,926	12,010,000	0.0591
Minorities (Total)	34,535,553	321,958	0.0093
Blacks	22,580,289	163,073	0.0072
Spanish-Speaking ²	9,072,602	100,212	0.0110
Other Minorities ³	2,882,662	58,673	0.0205

1. As of April 1970

2. The Spanish-Speaking minorities are identified here as persons of Spanish origin. It appears to conform to the compilation of the Minority Business Enterprise Data.

3. Includes native Americans, Chinese, Japanese, Filipinos, and "other races". Native Americans account for 27.5% of this total.

Source: U.S. Commerce Dept., Bureau of the Census 1970

Source: U.S. Bureau of the Census, Census of the Population: 1970, Vol. 1, Characteristics of the Population, Part 1, United States Summary Section 1, U.S. Government Printing Office, Washington, D.C.; U.S. Bureau of the Census, Minority-Owned Businesses; 1969, MB-1, U.S. Government Printing Office, Washington, D.C., 1971; U.S. Bureau of the Census, Statistical Abstract of the United States: 1973 (94th Edition), U.S. Government Printing Office, Washington, D.C. 1973¹⁸

Many times money lenders tend to gauge the entrepreneur's commitment by the size of the businessman's investment in the proposed venture, and the beginning status of the financial health of such a venture. Although there is no such thing as an absolutely correct or proper balance of debt and equity in a business, it is a standard practice to use certain business ratios as guidelines. (See Appendix B for extracts from Dun & Bradstreet guide for business ratios)

Besides, most financial institutions have required that ventures to which they make loans be capitalized with at least 25 percent equity, and not too infrequently with 50 percent or more. If the sample businesses are contrasted with this requirement, it is evident that no extraordinary unreasonableness is necessarily inherent in the lender's efforts to reduce risk on their loans by attempting to build in assurances that the money is protected. For this reason it is often difficult for the small businessman to start with adequate initial financing, even if he is able to obtain considerable equity capital. What must be noted at this point,

is that it is virtually impossible to overcome initial capital inadequacies. Any neophyte business venture which has little equity investment, as compared with debt, can expect a reluctant lender.

If a loan is granted, the lender will want to impose restrictions and conditions in an effort to protect its money. It naturally follows that in addition, the lending agency will be expected to try to influence the borrower's business operation if it becomes concerned about the financial health of that operation. The point is, it is much more likely to be the case with minority-owned under-financed ventures.

Generally, "The small businessman must keep in mind that if a growing company cannot obtain the funds it needs when it needs them, the company is usually forced to halt its growth."¹⁹

Conventionally, the literature relating to business finance has emphasized the traditional concepts. But, the management of working capital and the acquisition of funds are precluded by adequate initial capitalization. And to dispel the notion that good financial management only relates to large firms, Weston and Brigham maintain that the principles of business finance are just as applicable to the small firm as to the large. The basic ideas are fundamentally the same, even though there are the different

factual considerations in their application.²⁰

It is significant, however, that a large corporation can generate capital at a much better rate than a small firm. First of all, it will be relatively more difficult to find a willing source for the small venture, and secondly, the small firm will probably have to pay a higher rate of interest on the money. Bear in mind, the primary importance of the relative availability of necessary capital directly impacts the extent to which the borrower can maintain an adequate working capital level, buy additional assets, or incur additional debt. Such factors directly impact the firm's ability to grow and severely limit the parameters for sound management. Theodore Cross presents a convincing argument when he states that, "All normal markets for front-end risk capital are excluded by the tariffs of risks and unprofitability"...as an obstacle for the minority potential entrepreneur to developing and sustaining a viable commercial enterprise.²¹ He further suggests a number of exogenous means external to the small business are essential to promoting and helping small target population enterprises to survive.

With due consideration to other relevant variables, the general lack of capital is one of the most widespread complaints of the small business; and minority businesses, in particular, often feel that they have been denied access to capital because of race. Wilson and Davis contend that, "the

present division of the economy along racial lines is the result of both intentional and unintentional institutional racism."²² This statement was made in an effort to explain the inequities and gross disparity between the dominant races in America. Additionally, the general economic circumstances surrounding large segments of minorities mitigated against the accumulation of savings--which is considered to be the well-spring of investment. A natural consequence is a commensurate inability to attract debt financing to augment the capital accumulation. According to Cross, "The total failure to build savings and convert it into risk capital is surely one of the defects of the ghetto economy."²³ Gunnar Myrdal described it as cumulative causation, and that the dynamics of the problem is social and interdependent. He identifies three main factors: (1) economic level; (2) standard of intelligence or knowledge acquisition, and (3) discrimination.²⁴ Historically, the general commercial environment indicates some validity for the minority small businessman's complaint.

Of the four principal ways of acquiring more financing for the small enterprise once the initial capitalization is realized, additional loans are the most difficult to obtain. Trade credit (purchasing merchandise, supplies, and equipment on credit extended by suppliers), business profits, and equity financing (selling part of the ownership by taking a

partner or selling stock), respectively, are usually somewhat less difficult to accomplish. Yet, in the final analysis, a solution must be found for this dilemma. The idea of developing minority financial intermediaries has been debated for some time as a partial solution to the unavailability of capital among minority prospective entrepreneurs.

The impact of minority financial intermediaries can be capsulated by a representative opinion of Dr. Edward D. Irons, professor of banking and finance at Atlanta University and a highly knowledgeable authority on black financial institutions in the United States. In a paper presented to a 1972 symposium, he stated that black financial institutions, while not presently offering venture capital, mortgage banking, or savings and insurance to the minority business community in a magnitude sufficient for their needs, they definitely represent an eventual and critical catalyst for fostering minority enterprise and,

should concentrate on value-added type industries or other significant investment outlets which represent either rapid growth industries or necessary-type industries, i.e., the production and distribution of food, clothing and shelter. ²⁵

The observations by Dr. Irons were based upon his extensive activities in this area of interest over a number of years. Bear in mind that most minority controlled financial intermediaries are fledgling or relatively small

themselves, especially in comparison to the large majority financial institution population. However, for purposes of the study, it is sufficient to indicate the environment in which the small business, principally minority enterprises, have functioned.

The Public Sector Financing Resources. Thus far, what has been related are circumstances identified with the private financial marketplace. For nearly a decade a national policy emphasizing concern for the viability of small business concerns has been pursued by national, state and local legislative bodies. Products of this increased attention are a number of documents and commentary in the form of agency reports (Departments of Commerce, Labor, etc.), U.S. Senate committee reports and reports issued by various local and state governments. These reports are generally compatible in their findings and recommendations. In this study the principal references will lean toward the information afforded by the federal agencies inasmuch as these efforts normally represent a reflection of what has been done and the status of activities in the municipal and state environments. Since a more reliable compilation of data and other information has been refined considerably in more recent years, it would appear that the accounts represented by the reports of the federal government agencies will serve a very useful purpose in determining the relative status of

the small business climate as it relates to finance and capitalization at this time.

The overriding premise for the policies promoted by the national legislative bodies relating to support of small enterprise, and specifically among minorities (i.e., Blacks, Americans of Spanish descent, Asians and Native Americans) in this country is best delineated by this passage extracted from a Report of the Committee on Small Business, House of Representatives in the 94th Congress:

Our national policy clearly expresses the importance of an economic system which is predicated upon the vitality of small business concerns. For this reason, Congress has not assumed the role of a neutral observer of our economic system but has mandated that the Federal Government vigorously pursue a course of advocacy for small business. Free enterprise is, indeed, dependent upon such a commitment. Yet, we view this commitment as meaningless and our policy empty unless all members of our society can have equal access to and enjoy the benefits inherent in the mainstream of the American business system. We must pledge ourselves to the ideal of assuring that effective remedial action will be taken to guarantee opportunities for full economic participation to those members of our society who have traditionally encountered impediments or obstacles to entering the mainstream of business resulting from discrimination or similar circumstances.

... It is, of course, hoped that some day remedial programs will be unnecessary and that all people will have the same economic opportunities. However, until that time remedial action must be considered as a necessary and proper accommodation for our nation's socially or economically disadvantaged person. Equal treatment of unequals is the greatest inequity of all The vitality of our economic system is based upon the well-being of all small business and not just a select few. A balance must be struck and equity must be the keynote. ²⁶

With these statements as background, a brief recapitulation will provide an adequate review of public sector support particularly in matters of scope, effectiveness, and diversity of activities.

Historically, the Congress of the United States has been a supporter of small businesses through such agencies as the Federal Trade Commission, Interstate Commerce Commission, and in more recent years by departments of cabinet rank such as the Departments of Health, Education and Welfare; Commerce; Housing and Urban Development, and other entities of government to a lesser degree. In time, this concern for the viability of small business firms led to the establishment of an independent agency of the Federal Government charged with the responsibility to aid, counsel, assist, and protect insofar as is possible, the interest of small business in this country. In fact, current efforts with minority enterprise probably had their beginning in 1964 with the Small Business Administration (SBA) "6x6" pilot program with loans of up to \$6,000 for up to six years. The program was later modified which resulted in expanded efforts in support of minority enterprise. And, more recently, under Executive Order 11625 (dated October 12, 1971) the Office of Minority Business Enterprise (OMBE) was established within the Department of Commerce to aid and coordinate the federal effort to establish minority owned businesses. Briefly, this was an

attempt to clarify the authority of the Secretary of Commerce in the following areas:

- (a) to implement federal policy in support of the minority business enterprise program;
- (b) provide additional technical and management assistance to disadvantaged businesses;
- (c) to assist in demonstration projects; and
- (d) to coordinate the participation of all federal departments and agencies in an increased minority enterprise effort.

The SBA programs upon which the Office of Management and Budget (OMB) study has focused are the economic opportunity loan program, the Minority Enterprise Small Business Investment Company (MESBIC) programs, the 8(a) procurement program, and its management and technical assistance support program.

The programs currently promoted by the federal government through its present administrative schema in conjunction with the SBA are the following:

[The Economic Opportunity Loan Program (EOL).] The EOL Program was initiated as a result of Title IV of the Economic Opportunity Act of 1964 as was initially administered by the Office of Economic Opportunity (OEO) and later transferred to the Small Business Administration. Essentially, the program was to make possible loans on terms and maturities

to small businesses in regions with high proportions of unemployment. The particular emphasis was on a target population denied assistance or the opportunity to obtain adequate business financing through normal lending channels on reasonable terms. In 1974, the program approved 46,109 EOL loans representing approximately \$683.4 million. In the same year, 6,290 loans for \$109 million were actually made. The average size of EOL loans was \$19,318.²⁷ Since the program's beginning, a number of recommendations have been made as a result of studies and evaluation of the program to improve the program's effectiveness. Some of the changes recommended have since been instituted and it is generally believed that one of its major obstacles to date is access to adequate information as to impact of the efforts being made.

[Minority Enterprise Small Business Investment Company (MESBIC) Program.] The MESBIC Program was established by the Small Business Investment Act Amendment of 1972. These privately owned, privately managed venture capital corporations were designed to provide the following basic services:

- (1) To provide venture capital by purchasing an equity interest in the business;
- (2) To provide long-term capital by lending funds to the business (which must be at least 50 percent owned by socially or economically

- disadvantages entrepreneurs);
- (3) To guarantee loans made by third parties to the business; and
 - (4) To provide general management and technical assistance to the businesses assisted.

Since the first MESBIC was established in 1969, approximately 80 such units with \$40 million in private capital and \$42 million in federal funds have been invested in them. SBA estimates that as of the end of 1975 at least 1,500 minority small businesses have received direct loans and/or financial assistance through the MESBIC program.²⁸ This program also had certain problems created by limitations of the legislation authorizing its function. Among them were its restricted leverage possibilities (e.g., undercapitalization), inadequate resources for administrative costs, and a lack of clearly defined policies and guidelines for eligibility of applicants.

[SBA 8(a) Contract Program.] This is a program through which minority businesses are assisted in obtaining non-competitive negotiated contracts from various government agencies. Section 8(a) of the Small Business Act of 1953 originally was designed to promote procurement contracts with federal agencies through subcontracts for goods and services from small businesses. The idea is predicated upon the promotion of at least two major outcomes:

(1) participation in federal contracts by small businesses; and (2) that the small business should become self-sufficient and competitive in the process. There is also a provision for large prime procurement contractors to sub-contract to smaller minority contractors as a specific requirement for successfully bidding a contract with the federal government.

[Management and Technical Assistance Support Program.]

The management assistance programs are varied and usually represent the particular needs of a region. This assistance is in the form of training courses, pre-business workshops, conferences, clinics, foreign trade counseling, management publications and films on a number of subjects related to establishing and developing a business, counseling services by the Service Corps of Retired Executives (SCORE) and Active Corps of Executives (ACE); agreements with professional associations; the contracting of management consulting firms under the Agency's "406" program (such as The National Association of Accountants, Society for Advanced Management, and others); and the university-based Small Business Institutes.²⁹

A summary of the most recent available information on five years of federal government resources committed to the support of minority business between 1969 and 1974 is represented by the Table No. 5 on the following page.

In aggregate the sums represented in the

Summary of Federal Funds Obligated to Minority Business Development Fiscal Years 1969-1974

Category	Fiscal Year 1969	Fiscal Year 1970	Fiscal Year 1971	Fiscal Year 1972	Fiscal Year 1973	Fiscal Year 1974	Cumulative Totals
Financial grants, loans guaranteed by Federal Agencies	\$200,000,000	\$315,236,045	\$434,019,716	\$472,617,473	\$670,185,569	\$585,157,168	\$2,677,215,971
8(a) Procurement by Federal Agencies	8,884,141	21,814,292	67,770,506	142,319,905	207,954,732	272,141,414	725,893,373
Direct and Subcontract Procurement by Federal Agencies	3,792,365	8,220,042	77,863,045	242,254,264	523,516,566	429,224,781	1,284,871,063
Total	\$212,856,506	\$345,270,379	\$579,653,267	\$857,191,642	\$1,401,656,862	\$1,286,523,363	\$4,687,980,407

Source: Interagency Report on the Federal Minority Business Development Programs Executive Office of the President, Office of Management and Budget March 1976, p. 21

preceding matrix seem significant enough. The magnitude of dollars exceed any previous efforts by the federal government in support of small businesses, and particularly is this true of the target population of this study. Consider, also that in the category of financial grants and loans, etcetera, included are all monies, whether direct or indirect as in the case of funds appropriated for programs such as the Economic Development Administration Funds, and funds normally observed in other agency appropriations. This is the case in certain governmental departments as HEW, HUD, Labor, and OEO.

The copious nature of the information from a multitude of sources including the Bureau of Census, Internal Revenue Service, and various other agencies public and private, would indicate that there is considerable room for refinement. To accurately state and assess the many-faceted status of the small business in this country will require all of the efforts now utilized as well as a better understanding of the business population. The development of numerical indicators has proven to be extremely difficult because of the absence of universally accepted standards for size, definition, and interpretation. Therefore, all data presented here should be received within this context. However, the parameters proscribed are useful to the purposes for which they are being used. It is sufficient to state that the various

efforts made by the public sector (i.e., local, state and national governments), while not representing a panacea in themselves, are significant factors in influencing what happens to small businesses in the present and future economic development in this society. The success, profitability, or failure of individual small firms will be impacted by the possession of the many types of resources available to them. Obviously, prominent among these resources are financial, and therefore a determination of the status of this factor deserves more than passing attention. Since, during the period observations were made and recorded, the economic characteristics of the environment in which the businesses have functioned have contained occurrences of both inflation and depressed economic activity (recession), some indication of the influences of this state of affairs must be indicated. To do so will place the facts and recommendations in the proper context.

Entrepreneurship and Management

Entrepreneurship is a risky and failure-prone undertaking at best. Perhaps one of the most essential ingredients for business success is an entrepreneur with the will, determination and acumen to become successful. Success in business is a time-honored process involving hard work, risk-taking, money, a good product (or service), a bit of luck, and above all else a commitment to succeed. Much has

been written, much experimentation, and no small measure of speculation, regarding the entrepreneurial factor in the business enterprise. For it is via the entrepreneur that the business enterprise is injected with the lifeblood of good management, ". . .that will give full scope to individual strength and responsibility, and at the same time give common direction of vision and effort . . .".³⁰

This idea is compatible with Robert Katz and his three basic developable skills approach to identifying the most desirable characteristics for an effective administrative process, and he defines them as:

Technical Skill, which. . .implies an understanding of, and proficiency in, a specific kind of activity, particularly one involving methods, processes, procedures, or techniques.... Technical skills involved specialized knowledge, analytical ability within that specialty, and facility in the use of the tools and techniques of the specific discipline.³¹

Human Skill . . .is the executive's ability to work effectively as a group member and to build cooperative effort within the team he leads Human Skill is primarily concerned with working with people . . .

Conceptual Skill involves the ability to see the enterprise as a whole; it includes recognizing how the various functions of the organization depend on one another, and how changes in any one part affect all the others; and it extends to visualizing the relationship of the individual business to the industry, the community, and the political, social, and economic forces of the nation as a whole. . .³²

A number of authorities in the area of small business management seem to agree that small firms should focus on

achieving managerial excellence.

THE ENTREPRENEURIAL FUNCTION

Wilford White, in an issue of The Advanced Management Journal during the early stages of increased attention to small business development, stated that it was his observation that far more information about different aspects of business as an institution has dealt with an aggregate of management functions or policies, procedures, and areas in organizational dynamics. His primary complaint was that relatively little attention is given to the free enterprise "people", except obliquely. Since any small business is usually simply an extension of its owner, the entrepreneur is his own marketer, personnel manager, planner and "Jack-of-all trades". Thus, Dr. White maintains that growth and profitability depend upon the personal characteristics of the owners.³³

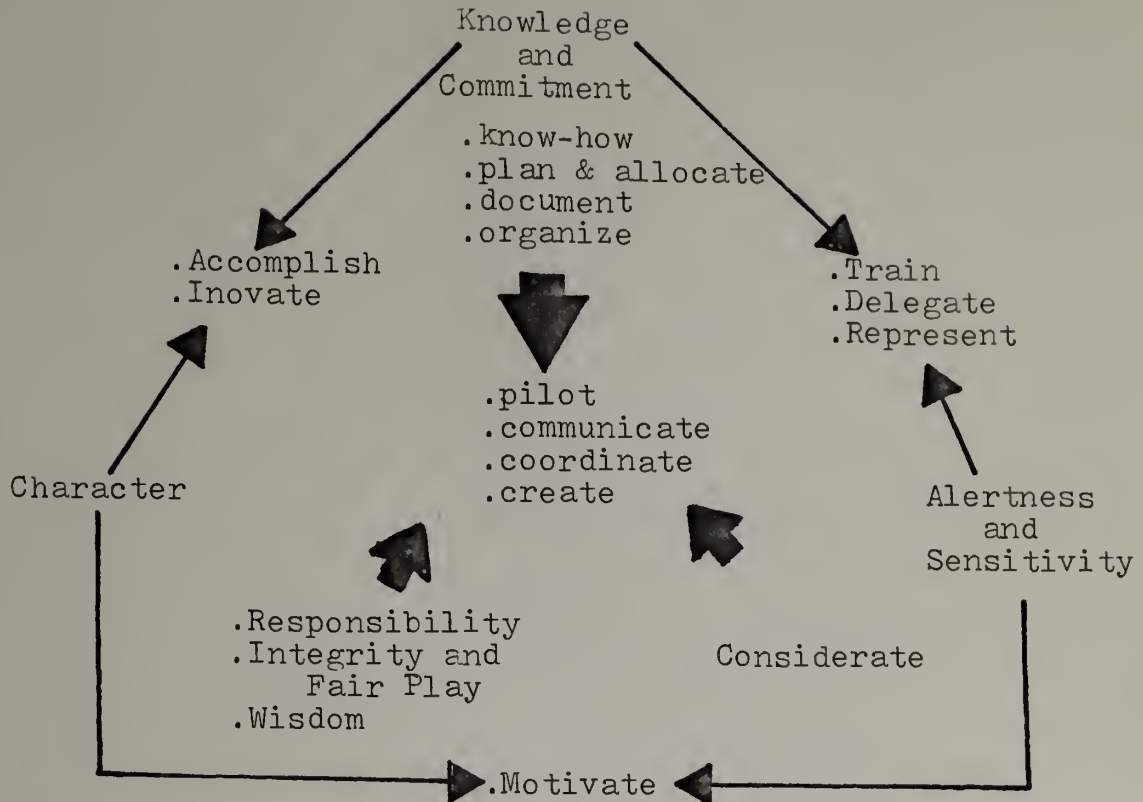
In addition to exercising imagination in performing these diverse functions, the small businessman must assess the practical nature of available assistance as it plays a prominent role in the success or failure of his venture. Indeed, if we were to list factors which appear to directly influence the welfare of the small enterprise in its early

stages, included would be the availability of investment capital, the prominence of business expertise and acumen, the quality of assistance, a good relationship with the lending source, and the entrepreneur as a personality factor.

John H. Johnson, founder and President of the Johnson Publishing Company, in an article for the New York Times, seemed to agree with the notion that the entrepreneur is a most important link in the chain of developing a business. Mr. Johnson states, "He (the entrepreneur) is the key factor in the production of wealth (relating to black economic development). It is the brainpower of the entrepreneur who directs the utilization of all of the factors of production for the purpose of making a profit.³⁴

Small companies are admonished not to economize excessively on management staff and not make a fetish of keeping organization in its most simple form; they can often benefit from structural arrangements and other innovations which may be beneficial. Note that small companies have been used synonymously in the entrepreneurial construct. In this context it is a logical appurtenance.

Graphically, the entrepreneur can be summarized in this way....he must possess these basic characteristics and perform effectively in the following manner, as shown in the following diagram.

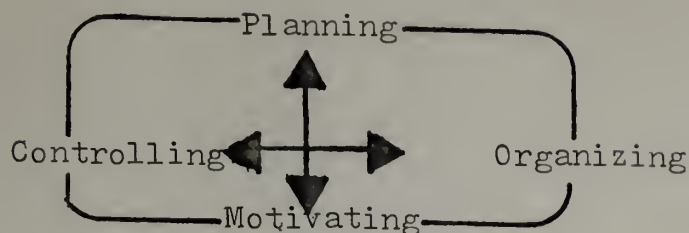


A behavioral approach is assumed primarily because of the inherent need of the leader-manager (entrepreneur) to effectively secure cooperation and understanding with others (i.e., the development of human skills). Elton Mayo recognized this problem when he investigated the "consequences for society by the inbalance between the development of technical and social skills."³⁵

Hersey and Blanchard attempted to show the inter-relationship of the composite manager functions, but differentiated among them by suggesting that in practice they exist unevenly in the process of management. The following illustration showing the spacial relationship, but with no

36

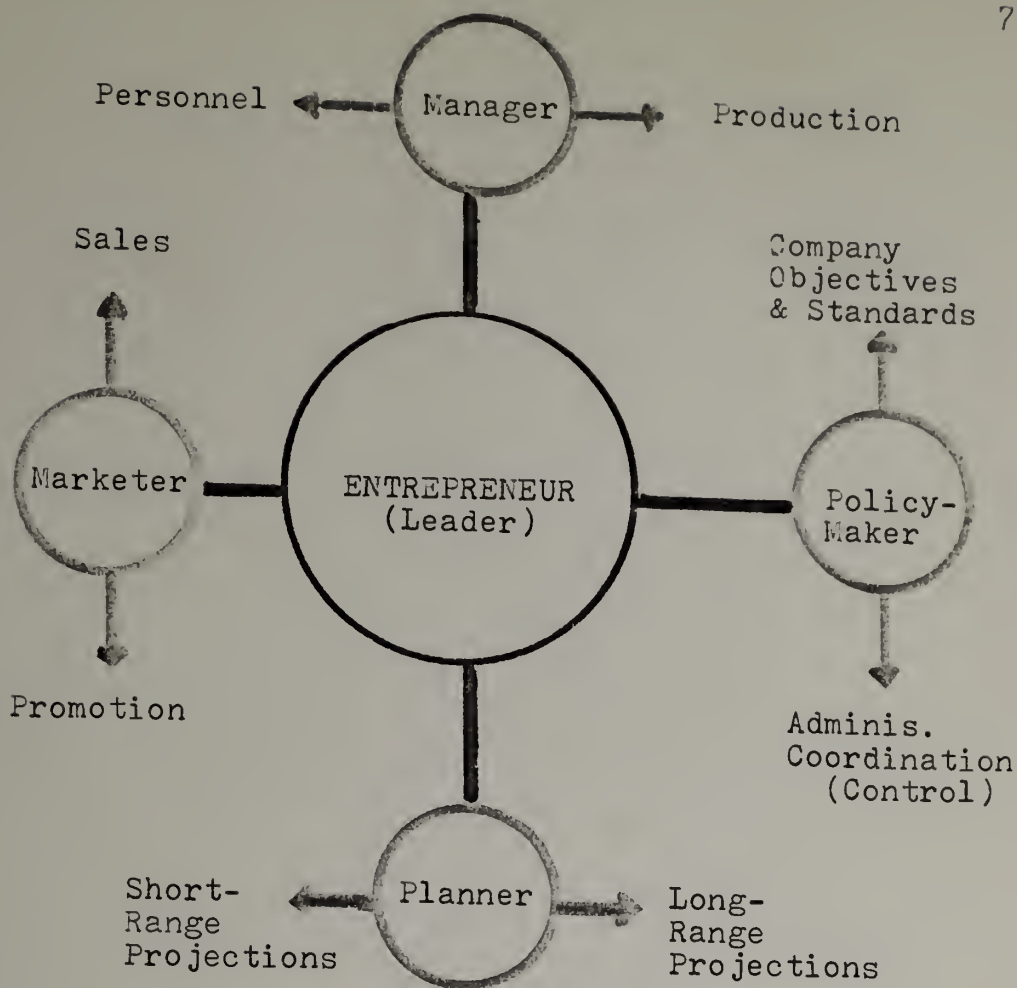
intensity of degree of significance:



However, for purposes of this document the writer takes one exception to their definition of management. Since we are treating the entrepreneur as a single entity possessing characteristics of both the manager and the leader, a distinction will not be made between the two. The idea which Hersey and Blanchard expressed, in essence, is that leadership is a broader concept than management and is merely a special kind of leadership within the context of our emphasis here.³⁷

Graphically, the leader-manager's role can be illustrated in this way:

(see following page)



Indeed, the entrepreneur is the manager, marketer, planner, and policymaker. Moreover, individual leadership must fit the task and the environment. Intelligence, self-confidence, sociability, persistence, initiative, and dominance are key personal attributes. Excellent treatment of this topic is provided by B. vonHaller Gilmer, et al, in "Executive Leadership and Development".³⁸

Of course, no one is absolutely certain of all the qualities the entrepreneur must possess to insure success. Most agree that in addition to attributes already listed, impacting the entrepreneurial personality are factors such

as a willingness to alter attitudes as he becomes more knowledgeable, which implies a desire for continuous learning, personal growth, and motivation. Here, however, it is sufficient to state that there is a significant body of knowledge establishing the complex nature of the entrepreneur as the mainspring of the small business enterprise. Moreover, effective management as well as astute entrepreneurship are two of the prime requisites for insuring a high probability of success in a small business operation. Further background can be gained by reviewing several noteworthy works on the extraordinary characteristics of the environment of typical examples in the target population. For supporting views see Kinzer and Sagarin, 1950; Brimmer, 1968; Doctors and Lockwood, 1972; Hersey and Blanchard, 1972.³⁹ The attempt has been to meld an acceptable description of leadership with the needs of the entrepreneur. Within this context, thought need not be limited to the target group because what has been discussed are generally factors which would affect the entrepreneur/leader despite any peculiarities which may exist in the environment.

To be able to produce or identify the individual upon whom this discussion has been focused obviously requires broader treatment than a simple statement of characteristics. Over the years numerous efforts have been made to develop and more clearly define the businessman the the psychological

correlates effecting success. These studies have been made for many purposes. Among them were attempts to measure the need achievement level of the small businessman as a criterion for business success, to generate a conceptual framework of larger studies, and in the case of McClelland and Associates, to demonstrate that, in fact, high need-achievement (n-ach.) can be developed and motive acquisition cultivated within this societal grouping. Therefore, it seems apropos to review significant literature in the area of achievement motivation in studies performed with small entrepreneurs. It should be stated, however, that many of the findings are compatible with existing thought relating to the general field of entrepreneurship.

Of Motivation, Achievement and the Business Regime.

What can be said of the broad spectrum of motivation? Within the context expressed thus far, we are dealing with a perception of self in the milieu of the industrial or business scenario. Therefore, to explore the ramifications of motivation and its relationship to the business process is to suggest a reliance upon learned responses as well as those which may be considered instinctive or innate. If this premise is acceptable, then goal-setting and perceived values are indigenous, certainly as these two factors relate to need satisfaction. Obviously, the motivational process will have as its ingredients such factors as goal achievement and need satisfaction.

Of the motivational aspects of need satisfaction, for the entrepreneur there may be several vectors we will refer to as causation--such as a desire to make money (a social motive enjoys more importance in the culture of the target population than anywhere else imaginable). Consider, even in the majority society, the worth of men is frequently measured by the amount of money earned or his net worth.

Other factors also may be present in varying degrees. There may be a desire to dominate or control. This, too, may be a need satisfaction, although the possible outgrowth is the recognition of the significance of the attempt to control the environment in which the satisfying endeavor is pursued. Russell and Black in their Human Behavior in Business stated that:

....most businessmen attempt to control the behavior of people, even to the extent of encouraging them to take action which they actively resist....one with a strong desire to dominate will be much more interested in changing the opinions, attitudes, and behavior of others than someone with a minimum desire to dominate.⁴⁰

Such individuals are regarded as natural leaders and are usually awarded a special place at the head of the line.

Raven, Malloy and Corcoran did a pilot study on the measure of need-achievement among small businessmen. The primary focus of the study was the generally accepted theoretical framework relating to business success. A sample of 170 small businessmen were interviewed and tested

regarding career aspirations and three factors prominent as typical of the group. The factors identified were the following, but not necessarily in this order:

1. Concern with social development--i.e., the desire to make a contribution to the general good, the welfare of the community, country and generally to help people...
2. Stated need for achievement, i.e., successfully performed a job, unusual accomplishment, learning new skills, and to be creative...
3. Concern with control over others (need power) represented by a desire to influence and actions of people, particularly in a work context.⁴¹

Raven and his associates make the point that there is some overlapping between community concern and the stated need factors and observed that people high in n-achievement and businessmen are indeed concerned with community well-being. This is in agreement with McClelland's work, The Achieving Society, based on businessmen's attitudes.⁴²

Another fact of consequence can be drawn from the Raven study -- the self-image as this factor impacts the businessmen's experiences and that these felt needs could be a starting point when introducing educational programs to businessmen. This takes on added significance when viewed within the context of this document.

A considerable body of the literature exploring the topic of leadership motivation has devoted abundant discourse on desire (self-perceived need) to compete and win. Closely

related to the dominance motive is a learned desire for healthy aggressiveness and rivalry. The desire to compete and win can be an extremely strong factor in the development of a successful business leader. It is apparent that some measure of aggressiveness is not only necessary, but desirable if the highly competitive world of business is the primary arena of activity.

It is suspected that intricately associated with the desire to compete and win is the motive of self-actualization, which could be considered the epitomy of the hierarchy of needs. (Note Maslow, 1954; McGregor, 1966; and Bernard, 1938.)⁴³ What implications present themselves at this point? Among the most significant factors to be identified are growth and development. However, without expanding extensively into observations in these areas, it can be said that generally self-actualization implies an increasing or expanding ability of an individual to be creative, more self-directing, self-knowing, a person who moves toward becoming everything of which he is humanly capable.

Perhaps one of the most knowledgeable and active proponents of the development of the literature on achievement motivation is Dr. David C. McClelland, who has been active in the field of achievement motivation for a number of years. His strongest argument seems to relate to the fact that in the instances where efforts have been made to revitalize

depressed areas of our country as well as under-developed countries overseas and stimulate economic growth in these regions, most concern was focused on increasing opportunities. McClelland maintains that this is not enough and that it is necessary to move in and increase the aspirations for achievement. His work for the most part was centered around experiments confirming the feasibility of achievement motivation training. Dr. McClelland is Professor of Psychology and Chairman of the Department of Social Relations at Harvard University.

Dr. McClelland's primary thesis is that motivation can be learned. He demonstrated the importance of high n-achievement for entrepreneurial behavior and explored numerous ramifications of some theoretical notions about directing motive acquisition and strategies for educational application. In his paper on the theory of motive acquisition in which he dealt with motive change, McClelland established twelve propositions dealing with the methodology for bringing about motive change.⁴⁴ (Listed in Appendix C)

These propositions represent the basis for a training design utilized by McBer, Litwin, and others in a program schema for leadership training. Elder's longitudinal analysis on occupational level, achievement motivation and social mobility introduced still broader aspects of the achievement motive. Class differences and parental influence

were two of the primary factors tested. His results suggest that the motivational significance of occupational level varies across individuals and socio-cultural environments. But what is even more important is to recognize that the influence of these factors is present. Thus, in any training or educational design, consideration should be given to certain exogenous variables; definitely is this true in the context of socialization, level of ambition and the entrepreneur's perceived needs. And, distinctly, within the business organization, the creative leader is responsible for the functional coordination of the whole, representing the interdependence of all activities. "A good leader must be prepared to alter his own approach in order to make all parts work harmoniously and effectively together." ⁴⁵

Vroom and others have done considerable work on aspects of effective leadership based primarily upon methods of leadership styles as they relate to behavioral and situational characteristics.⁴⁶ No attempt is made here to go into this area extensively, but it is important that some acknowledgement is given the general spectrum of leadership as it impacts entrepreneurial behavior.

Principally, we have identified the primary thought related directly or indirectly to the development and training of the enterpriser. Here we have restricted treatment to the small entrepreneur. The target population is

comprised for the most part of small minority businessmen.

In most of the literature dealing with the subject, particularly in the works of McClelland and colleagues, interwoven into the matrix is the societal environment in which these businessmen exist. Additionally, much of the recent work done was induced as a result of concern for the ethnic inequities mentioned earlier, and the increased attention in recent years to the search for solutions to the urban plight in our major cities. Consequently, much of the activity has centered around community economic development as applied to areas heavily populated by minorities, principally blacks, Chicanos and native Americans. Understandably, since community economic development depends heavily upon the attraction, accumulation and distribution of resources within these enclaves, business development appears to play a prominent role and is an acceptable vehicle for these purposes. Within the community are various forces working toward finding solutions to the community's economic problems. For many years a part of this structure has been social service agencies, educational institutions religious organizations and others.

It is not by chance that the entrepreneur emerges as the cynosure of this study. He represents a key factor in the development of our industrial society as we know it. Richard S. Morse, founder of the National Research Corporation stated it

this way; "It's people who make things go. The key to success (business) is the entrepreneur, and particularly his ability to judge the market at the right time and later to manage a business."⁴⁷

Chapter III will relate the Urban League experience via case study representing its activities in the business development. By most historical accounts, this agency has concentrated its activities primarily as the conduit for the delivery of social services and as an advocate for the poor.⁴⁸ But in 1968 under the leadership of Whitney Young, the League launched a "New Thrust" program geared to building economic institutions through the development of black-owned businesses, cooperatives, consumer unions and franchises. But beyond that, it should establish rather convincingly the kind of role which can be played by a community organization in what should not be exclusively a community concept. For Young understood the dynamics of economic viability and felt that this condition is predicated upon a capacity to exploit economic opportunity and apply economic sanctions. Therefore, as a meaningful community agency, the Urban League was directed into creating a program of economic development.⁴⁹

The experiences recited in Chapter III will not only point up some of the weaknesses of the program, but more importantly, will indicate, in a measure, the direction further development should take. The cases contain most of

the elements which have been introduced into the programmatic idea. Although not necessarily in the order of their significance or to the ultimate extent to which they could have been effectively used. While the education and/or training exposure were not the leading edge of the P/A program, both represented intrinsic elements of the program design.

C H A P T E R III

CASE STUDIES

OVERVIEW

Beyond the thesis that an intricate component in successfully establishing and running a business is the quality of entrepreneurial "juices," is the fact that businesses of different sizes are compelled to conduct their operations in different ways. This condition can be attributed to a number of factors including the degree of understanding of management techniques by the small businessman, the level of sophistication of research and development, personalities involved or cultural patterns. Note that any of these factors or combination of these factors are controllable. That is, they can be influenced through some appropriate mechanism. Basic to the premise put forth by this study, the formal educational institution as well as para-educational vehicles such as the business development centers can be used effectively in enhancing the viability of the small enterprise.

Important to the process of developing a national approach to cultivating relatively smaller enterprises is a recognition that, to date, a principal part of our knowledge of acceptable principles of management is based mainly on

the experience of large companies. It is naturally assumed that big producers of goods or services handle their affairs in the best way for all businesses. Hence, business administration is primarily a description of the methods that have worked in large concerns with little regard for the multitude of businesses at the other end of the spectrum.

There is substantial evidence that a modified set of rules will have to be devised for the small firms, if any relevance for the smaller firm is to be realized. This is particularly true where technology and competition force these small firms into the arena with large firms. And, since the lifeblood of our industrial development is the business enterprise, the importance of a better understanding is not merely useful but essential to the continued economic development of our society.

Background for Cases Cited

The dimensions of difficulties encountered in starting a small business make extraordinary demands on the energies of the minority entrepreneur. The following examples demonstrably indicate the significance of managerial assistance to the handicapped small businessman. In addition, technical assistance has played a meaningful role in determining the outcome of many efforts in support of economic

development of the businesses in urban communities throughout the nation.

In the forefront of our economic development effort is a concern for the accumulation of investment capital. Government funding has heretofore been a major source of financial support for enterprise development in many of our urban communities. The substantial risks which attend this type of investment and the predominant role which social objectives play in community development suggest that the solution to the economic ills of a large segment of our society will not be resolved by simplistic and shallow assessments, but by relatively more complex solutions. Undoubtedly such solutions will require considerable planning and forethought if any meaningful results are to be expected.

Minority owned and managed businesses are the keystone in any serious attempt to foster urban community development. Although this is not to imply that the emphasis on small business is not an end in itself but a vehicle for fostering more significant and meaningful economic development within these communities. To rely solely on such a solution overlooks the realities of the economic system. As we will see from the cases cited, most of the basic elements were present for what we have perceived to be a predictable outcome.

Technical Assistance

It is probably inappropriate to attempt to argue that any one approach is superior to any other, or that a certain combination is the most preferable or desirable in a program. However, what will be demonstrated are characteristics of several strategies. In some cases the primary vehicle was consultation, along with direct involvement within the business operations. This was accomplished through staff, corporate help, and university programs in which business students and faculty served as consultants.

There are, however, serious pitfalls in this kind of effort. Basically there has to be established a rapport with the community at large and the existing business community as well. The cases will indicate both of these elements. In addition, the volatile nature of small business and the difficulties in developing and maintaining adequate systems for monitoring the results are critical to any effective program.

Finally, the symbolic impact of a series of success stories of small businessmen and proof that there need not be debilitating failures speaks more than adequately for the continued concern and development.

Utilizing Indianapolis, Indiana as the source of typical examples for small businesses assisted, certain facts are revealing. The precise period covered is

Table No. 1

Number of Negroes Engaged in
Various Business Enterprises: 1890-1940

Type of Business	1890 ¹	1900 ¹	1910 ¹	1920 ²	1930 ³	1940 ⁴
Agents & Salesmen	2,288	4,904	9,054	8,293	25,534	24,571
Barbers & Hairdressers	17,480	19,942	22,534	31,352 ⁵	34,263 ⁵	28,229 ⁵
Bankers, Brokers, Bank Clerks	114	82	241	142	269	907 ⁶
Hotel Keepers	420	481	973	1,020	1,064	1,000 ⁸
Journalists	134	210	220	2,517	367 ⁷	376
Photographers	190	247	404	608	545	122 ⁹
Restaurant Keepers	2,157	3,993	6,369	7,511	10,543	11,263
Retail Merchants	6,646	9,095	13,924	23,526	28,213	17,422 ⁸
Saloon Keepers	932	890	1,663	96		100 ⁸
Undertakers	231	453	953	1,558	2,946	3,415
Wholesale Merchants	535	148	257	67	130	70 ⁸
Grand Total	<u>31,127</u>	<u>40,445</u>	<u>56,592</u>	<u>74,424</u>	<u>107,872</u>	<u>87,475</u>

- Sources:
1. U.S. Bureau of the Census, Negro Pop. in the U.S.: 1790-1915 pp. 526-527
 2. U.S. Bureau of the Census, 1970, Vol. 4: "Population - Occupations"
 3. U.S. Bureau of the Census, Negroes in the U.S. 1920-1932, pp. 310-327
 4. U.S. Bureau of the Census, 1940, "Population", Vol. 3: Labor Force, Part 1: U.S. Summary, pp. 88-90 and Census of Business, Vol. 3, Service Establishments: 1939
 5. Include manicurists
 6. Include Real Estate and Insurance proprietors, managers and officials
 7. Include reporters
 8. Oak's estimate, keeping in mind that the nation was still going through a long period of depression and that, while hotel keepers suffered most during this period, the 1920 figures might be regarded as a good basis for this estimate.
 9. Only photographers who had regular studios were included in this figure. Figures for prior years include all those who called themselves photographers even when they had nothing but makeshift studios in the home.

represented by the years of 1969 - 1976. In proportion to the number of businesses assisted since the inception of the program, (556), and the business failures during the same period, (19), six successes which are currently receiving assistance of some sort from the U. L. Business Development Center, and one failure which has occurred during the past two years, comprise the seven case studies utilized in this context. The failures represent 1.8 percent of all businesses assisted between 1972 and 1975 inclusive. See Table No. 6 for a statistical summary extracted from the records of the Indianapolis Center.

Little statistical significance is placed on the quantitative information regarding the case studies. However, it is apparent that for the period covered, the failure rate is far below the national average for such businesses. (During this period the national average hovered around 80 percent.)

The summary deserves some observations which seem to stand out as factors influencing the overall operations of the Indianapolis Business Development Center, for example. Among them is the level of volunteer assistance which augmented the BDC staff efforts. Other records of the BDC indicate an average of approximately 800 hours monthly or 30 percent of the time spent in direct assistance to businesses. This compares with an average of 230 hours per quarter of

volunteer assistance. Also, as staff capabilities were expanded there was a commensurate reduction in the reliance on volunteer assistance. Steady progress in staff expertise is indicated by the lines entitled "businesses assisted, contracts generated", and other lines where there is a marked increase at some particular point during the 1972-1975 period.

The Case Characteristics

The principal types of businesses assisted were new, that is, the center staff began work initially with the idea and its feasibility; the buy-out, e.g., the buying and restructuring of an existing business; and, business expansions -- where an entrepreneur wishes to expand his going enterprise. All of the businesses cited have received from two to five years of assistance from the Business Development Center. The range of selection was deliberately designed to include several different kinds of enterprises. The following indicates the selection:

Cement Contractor
 Package Store (liquor)
 Machine Shop (small tool)
 Janitorial Service and Supply
 Wholesale Industrial Supply
 Ready-Mix Concrete

Convalescent Center (Nursing Home)

With few exceptions, which will be appropriately noted, the Center (hereafter simply referred to as the BDC),

packaged the business loan and assisted in obtaining the necessary financing. In the majority of cases Small Business Administration (SBA) guarantees were utilized in obtaining the bank loans. In every case the financing was debt financing. In addition, the BDC usually completed a feasibility study in the process. Therefore, it can be assumed that all of these businesses had potential viability at the time in which they were established. All have operated from 2 to 3 years and except for the failures, give indications through profits and growth that they will be successful in the long run. The names of individuals and businesses have been changed to protect the confidence of the entrepreneurs, but the pertinent information, although capsulated, has not been altered.

These cases on the Urban League involvement in small business development are intended to point out at least three major observations: (1) the demonstration of the usefulness of this type of program; (2) to indicate some direction for a better design for this kind of activity, particularly where community agencies are involved; and (3) to show a relationship between the technical assistance given and other institutions in the community such as colleges and universities, economic development groups, and professional or trade associations. Of special concern are the implications for existing adult business education curriculums and should

do much toward replacing false notions and conjecture with facts about the minority small-business experience.

The Cases

Case 1. Built Right Tool Company, Inc.

Early in January 1970, in a medium-sized midwestern city, a large national manufacturer headquartered there decided to respond to its need for a show of greater social responsibility and community concern. Through cooperation with and the assistance from the U.L. Business Development Center, which was at that time engaged in a community awareness campaign, the company was prepared to set up a machine tool company, complete with financing and provide whatever technical management assistance needed to make it viable. In addition, the parent company would provide a set-aside to insure the new company's viability. All that was remaining was to find a competent minority entrepreneur to take over the management.

The Entrepreneur

John Slade was a highly viable, very active but stable family man in his mid-forties who took his community welfare seriously - with the local boy scout troop, church and other community groups. Judging from the manner in which he had developed to this point of high motivation, he seemed a natural for some sort of self-directed enterprise. Starting

out, he attended a nearby well known university and studied to become an Air Transportation Engineer. He then worked for nearly ten years in engineering with a large diversified company. The exposure apparently suited him well to turn a corner in pursuit of greater independence because he then worked for five more years as an account executive for a stock brokerage firm. What is implied throughout is that Slade had an apparent facility with people and probably was a very good salesman. When presented with the opportunity to be his own "boss" he jumped at the chance.

Business Formation

Although several significant considerations in establishing a new venture were satisfied by the unusual origin of this project, remaining were other factors to be resolved. Mr. Slade was accepted as the most promising candidate but a business package had to be completed. The parent company had virtually made all of the necessary provisions for the initial needs of a business venture - the capital, management expertise, accounting and price and quality control. Through the help of the BDC all necessary pro-forma statements and projections were added to the package, and the first year's operation was packaged principally as a turn-key. An acceptable stock arrangement was agreed upon and Mr. Slade was launched into a new

business. Provision was made for the six employees as well to undergo a period of orientation and training. Meanwhile Mr. Slade was given technical assistance in price and quality control.

The First Year

For the first months of operation everything proceeded according to plan. With a captive market and guaranteed assistance in the most difficult areas of operation, Mr. Slade was a star pupil. He concentrated on the factors that mattered and began to develop into an excellent manager. Meanwhile, the Business Development Center was exploring the possibilities of assisting Mr. Slade in gaining independence from the built-in market. The BDC assessed the circumstances and proceeded to spend considerable time in procuring contracts for additional work. Their primary tool was the use of a marketing analysis of that region for Mr. Slade's products. Also with the aid of the business school of a nearby university did a quality control analysis and set up a schema for unit financing.

The Classic Business Operation

The story of the company's operation since the first year is primarily one of steady growth, with relatively few difficulties, all of which were overcome with comparative ease. With the periodic monitoring by the BDC working

capital was kept within projections, income and accounts receivables had exceeded considerably the original projections.

Marketing - The marketing analysis proved to have been the right decision and over a very short time span this machine and tool company was gaining extraordinary respectability in the business community. It was becoming quite well known for its adherence to time commitments, and most of all, the quality of its products.

The Enterprise - As could be expected Mr. Slade was a model to be emulated. In the following two years after the initial year of operating the business he participated in the training classes sponsored by the BDC. All businesses which the BDC assists were strongly encouraged to take advantage of these sessions. In addition to these training classes, Mr. Slade also attended several seminars sponsored by the trade association and others. He gained valuable knowledge of basic measurement procedures in areas such as planning, directing and coordination. The amazing fact is that Slade found enough time to engage in all of these activities. Obviously his family relationship was taxed. It also follows that his community activities diminished noticeably. However, there seemed to be present enough of the ingredients in the proper proportions to make Mr. Slade a winner.

John Slade grossed \$280,900 by the end of the third year, which happens to be the last year in the original projections. For the remaining years sales and profits were the following:

<u>Year</u>	<u>Gross Receipts</u>	<u>Net after taxes</u>
1974	\$379,500	\$11,370
*1975	\$240,900	\$ 7,256
**1976	\$454,000 (projected)	\$13,620

* Since the BDC had monitored very closely the operation, it was determined that this period was effected noticeably by the state of the general economy and no direct reflection on Slade's operation.

** The monthly gross (the monitoring period) is averaging approximately \$40,000 as compared with \$22,000 the previous year.

While the income has not yet reached the level of Mr. Slade's former income, he feels that the venture was one of the best things which he has ever experienced. In the long run he hopes to develop a broader marketing base and a sales force. For the moment, the BDC is packaging an expansion loan of \$140,000 to increase his capacity and work force.

Three cases involving machine and tool shops have been selected because of the contrasts among them. The entrepreneur, structure of the business, as well as the type of assistance provided by the BDC are sufficiently different.

Case 2. Superior Machine & Tool Company

Ralph Smith, a gregarious high school letterman decided to marry directly after high school. Then he had to do the obvious - get a job to support his new family. This he did in a machine shop. Before too much time had passed Smith had established himself as an alert, quick learner, and natural leader in the shop. He became the shop foreman and remained for about fifteen years.

Mr. Smith's tenure accomplished significant things for him - an opportunity to adequately provide for his family, the chance to save several thousand dollars, and, gain a good knowledge of managing a machine shop. He learned the industry fairly well, became familiar with the bidding process for jobbing, and whetted his appetite for establishing his own business.

Business Startup and Expectations

Unfortunately, Ralph Smith lacked knowledge of the financial matters relating to the shop which he ran and had little exposure to making the kinds of decisions which were necessary on the accounting side of the ledger. Nevertheless through his own ingenuity he found a suitable location, acquired the basic machinery and set about hiring employees.

Smith was astute enough to understand that he would have to secure commitments for jobs before he could begin

incurring expenses or determine the outer limits of his production. This he did through the very good knowledge of bidding for jobs he had acquired earlier. Being the self-starter he was, an extraordinary amount of salesmanship surfaced. The result was to bag a large client who gave him a large enough order on a continuing basis to consume the entire capacity of the shop.

The Operation

The initial good fortune led Smith to make several almost fatal management errors. He hired personnel, including a manager, on the anticipation of continued, extensive business from his sole client and, based on his plan to spend his time primarily as a salesman, made unrealistic projections for future business. He bought several pieces of equipment (which were not needed at that time), and the expenses began to considerably exceed his ability to meet them. Ralph Smith was becoming increasingly frustrated with each new experience, when he learned of the possibility of assistance of some sort which was being offered by the Urban League. He contacted the Buford Urban League and was referred to the BDC housed at another location.

The Technical Assistance

Once Mr. Smith sat down with one of the BDC developers he realized how desperate his situation really was. He had

no financing expertise or knowledge of acceptable business ratios in his trade. Because of a general lack of business know-how, his projections were not realistic, to say nothing of working capital. He had kept the shop afloat for nearly two years under these pressures.

When all of the facts were known, if Smith was to be salvaged, the developer determined that the center could use its presence to generate contracts for the shop and thus make use of the equipment while more concrete measures materialized. This was done. Then to regain control of Smith's entire financial dilemma a financial plan was designed. This plan covered equipment evaluation and solutions to a growing tax problem. The BDC restructured all of Mr. Smith's debts and the business to facilitate a complete loan package. Trade creditors were also harnessed in the process. The loan package was for a total of \$132,000.

Financing

Under the circumstances the Superior Machine & Tool Company did not appear to be a good risk for a lender. After review by several banks the developer decided that one remaining possibility would be a Small Business Administration (SBA) guaranteed loan since the banks contacted would not consider a conventional loan. In realistic terms Mr. Smith's shop was a going concern; the capital equipment, except for

the most recently acquired was acceptable collateral and Smith presented himself well. The developer had already made these assessments of the case, among other factors, but no bank was willing to consider a loan of \$132,000.

Once SBA had reviewed the loan package, it agreed to guarantee a bank loan of \$72,000 for Mr. Smith. Tentative acceptance from the bank had been gotten by the BDC. The difference of \$60,000 would have to be raised either in equity or some other source. These circumstances led to extensive efforts with a local university business development foundation with funds available for lending. The loans were made to Mr. Smith for a total of \$132,000.

The Third Year

Armed with a new, diversified roster of clients, thanks to the contract procurement efforts of the BDC, an acceptable financial plan, Ralph Smith agreed to permit the BDC to closely monitor the operations until such time the developer would be assured that the business was proceeding viably. He also provided technical assistance when needed.

What appeared earlier to be another small business failure seems to have been turned around. While the earlier projections had to be discarded, the actual gross receipts were \$274,000 in 1974, \$170,000 in 1975 (the effects of a depressed economy in that region), and 1976 projections are \$290,000. The Superior Machine & Tool Company is not "out

of the woods" but is well on the road to recovery. Interestingly, Smith did not avail himself of any of the training courses. Had he done so, perhaps he would have been alerted much sooner to the destructive course his decisions were taking, and reduced the difficulty of the solutions.

The two cases already cited are similar in that both seem to be headed toward viability. The case that follows ended up a failure. The reasons will be obvious.

Case 3. Strickland Machine & Tool Company

For nearly a year Harvey Strickland had been considering establishing a machine shop. The idea germinated from a proposition from a friend, a manufacturer of vibratory feeding equipment who had work he wished to subcontract. By April, 1973 Strickland had decided to set up a small operation on a part-time basis using \$400 from a purchase order for 1,600 springs. Mr. Strickland visualized overseeing his two full-time employees in his spare time. It took only three months for Strickland to begin to have misgivings about this arrangement and that the two employees needed full-time supervision. Strickland then decided to spend full-time in the shop especially since the work load began to exceed considerably his original expectations. Based upon what

appeared to be a definite sign of a need for increased capacity, Harvey Strickland decided to explore the possibility of expanding his facility. He contacted the Small Business Administration for assistance and was in turn referred to the local Urban League BDC.

Mr. Strickland at 42, is married with several children. Although he did not complete high school he indicated that he had taken courses at drafting, accounting, and vocational schools since that time.

Since leaving the army in 1952 Strickland worked at a variety of jobs and between 1958 and 1960 he was a foreman with an industrial sand blasting company in Gotham City where he now resides. Between 1960 and 1967 he worked with several different companies in the area of machine tool design. From that period to the present Mr. Strickland was self-employed as the owner of "S" Enterprises, an entity that comprised, among other things, a security company.

According to his own accounts, considerable debt was accumulated during the unstable period directly after returning to civilian life. He was unable to satisfy creditors nor support his family on the income he was managing to scrape up. Thus, as a last resort and on the advice of creditors, to whom he owed approximately \$9,000, he filed for bankruptcy. The deposition was determined to be a "no asset bankruptcy."

One point is obvious. Strickland was extraordinarily enterprising because since his bankruptcy he has accumulated a net worth (by his reckoning) of \$58,000 as of December, 1973. A considerable part of this net worth seemed to be derived from the net worth of the machine shop.

The Business Package

Although the BDC developer felt that there were gaps in Strickland's accounts, he knew that the process of developing the loan package would reveal the necessary answers to unanswered questions. Also, the initial steps of the process would either eliminate Mr. Strickland as a bona fide client eligible for help from the center or substantiate his claims. The assessment proved favorable to Strickland.

A business loan of \$77,000 was packaged and submitted to a local bank. Meanwhile Mr. Strickland seemed to have been capable of recognizing the weaknesses in his business and set about arranging for the services of consultants in areas of accounting, management, finance, and law. In addition, he increased the number of employees to five.

It was Mr. Strickland's intention to begin production of a line of products (parts feeders, parts elevators, and drive units) which were produced mainly by a division of the BMR Corporation. Strickland's market analysis indicated that a large segment of BMR's corporate customers were not fully

satisfied with the products. Strickland also hoped to crack the nationwide market for these products but planned to emphasize the machine job-shop capabilities of his company until his business was on a firm foundation.

In an attempt to reduce as much as possible the risks involved in starting up the machine shop, Strickland has solicited and received purchase orders, letters of intent, and letters of commitment in excess of \$225,000. This, of course, was very supportive of the loan application. However, the bank ultimately said that it would agree to make the loan only if it was SBA guaranteed. The loan package had been put together initially in such a manner as to meet SBA requirements, therefore, all that was remaining was to get its approval.

Thus, when the \$77,000 loan request was submitted, the plan for the uses of the money was very carefully outlined. One-half was to be used for the purchase of additional needed equipment, one-quarter for the retirement of current payables; 20 percent was to be used for working capital, the balance of 5 percent was to be allocated for promotion. The developer had anticipated the scope of problems and provided acceptable solutions to the bank and SBA in the business package. Once SBA submitted the 90 percent guarantee approval the funds were disbursed. The one caveat which the bank and SBA had presumed was the continued

assistance and monitoring of the business by the Center.

The Expansion

Once Harvey Strickland had the loan funds in hand it was as though no plans had been made. Without consultation or even notice, he leased another building five times the size of the original shop and costing five times as much on a two year lease. In addition to increasing the monthly lease payments, this now necessitated the installation of both electrical wiring sufficient for the machinery and a heating and air conditioning system. Strickland then ordered several pieces of expensive office equipment which had not been provided for in the loan package.

The upshot of his move was to drastically alter the original plans. Instead of four employees as in the old location, Strickland was hiring as many as a dozen new employees.

Before Strickland's loan, his income statements showed a modest loss of \$4,500 on sales of \$31,600 between April and October 1973. For the nine month period ending September 30, 1974, just after he had received the loan funds, his income statement showed a \$45,000 loss on sales of \$68,500. This was an incredible 66 percent loss. Most of the loss was traced to shop salaries where Strickland spent \$43,000 in this area alone in the expansion of the number of employees.

To exacerbate an already bad situation Strickland engaged in other extravagancies such as a telephone installation in his car. He continued to act as though there were no working capital problems.

Interestingly, Strickland's operation could have withstood the effects of the unwarranted expenditures had his sales income approached the initial projections. The \$225,000 in purchase commitments dwindled considerably due to the state of the general economy. Thus, much of the work which had been promised never materialized.

Instead of seizing the opportunity to stabilize, Strickland's actions characterized an almost pathological inclination to do just the opposite. With the slow-up in the economy, competition stiffened. In order to compete for the business that was available, Strickland was forced to offer extended credit terms (up to six months in some cases). This further impaired his cash flow and forced him to slow down payments to his creditors.

The BDC felt obligated to exhaust whatever means available to either stabilize the business or at least facilitate an orderly transition. In an attempt to break out of the vicious circle and based upon the work which Mr. Strickland was doing with the local subsidiary of a national trailer company, the developer assisted Mr. Strickland in preparing a request for an additional \$25,000 from his bank.

The bank granted the loan to him in late 1974.

With this infusion of working capital, Strickland was able to generate \$31,500 in sales the first period of 1975 with a net loss of only \$2,000.

Unfortunately, Strickland was forced to continue his very liberal credit terms and his payables began to suffer. This slippage continued until finally two of his creditors went to court in late 1975. This action represented the beginning of the end for Strickland Machine & Tool Company. A number of the remaining creditors also pressed their claims against the company, thus eliminating any remaining chance to work its way out of debt.

Right up to the day Mr. Strickland closed the doors of Strickland Machine & Tool Company, he was confident that the business would survive. It was this optimistic attitude and his ability to convince others that there was reason for such optimism that enabled him to stay in business as long as he did. A good example was the additional \$25,000 working capital bank loan.

If there is a lesson to be learned, surely a part of it must be that a business, large or small, has to function within realistic parameters. Despite Strickland's optimism the realities of inflation, recession, inadequacies in the knowledge of basic business factors, and poor judgment combined to induce the failure of Strickland Machine & Tool Company.

An important consideration in all of the businesses established or assisted in some manner is not only to provide stop-gap support, but to make them self-sustaining. For this reason attempts at closely monitoring, even to the extent of virtually "spoon-feeding" some of the businesses, was necessary to accomplish a measure of viability. Besides the day-to-day efforts, attendance and participation in various types of conferences and seminars, and on-going workshops sometimes extending over several weeks were some of the methods utilized. The basic purpose of such programs is to ultimately enhance the technical competences and ability of the small minority entrepreneurs whenever the opportunity is presented.

As the last case indicates, the client-consultant relationship was as critical as it was sensitive. It is highly susceptible to many kinds of breakdowns - sometimes personalities clash, flow of communications disrupted, and difficulties are encountered in attempting to maintain adequate monitoring systems. Any or all of these might be present in a single case. Coupled with the volatile nature of the small business, a business development program must be a genuine commitment by the organization which attempts to operate one.

Not all of the experiences have been difficult. Some have provided considerable satisfaction to the program

developers and others who have been a part of the action. The following case is such an example.

Case 4. Fairview Convalescent Center

The summer of 1973 was winding down in Brighton, a light industrial and commercial mideastern city of about 500,000, and for nearly twenty years about this time of year Lionel Bristow begins to contemplate another season as a teacher in the local high school. Not that he was entirely unhappy with the prospect, since his masters degree in Music Education had produced a department chairmanship when he came to the school. Along with his wife, a nursing home administrator, he had lived rather comfortably and had managed to accumulate some savings, besides. Yet when he was told of an opportunity to purchase a nursing home he was more than a little interested.

The Business Opportunity

Mr. Bristow was aware of the Urban League Business Development Center as a result of its weekly television show. He contacted them and requested assistance in investigating the circumstances surrounding the owner's desire to sell. Also he felt that some professional expertise was needed to assist him in the purchase price decision if he decided to buy. As fortune would have it, the nursing home site was a very good location, the physical plant was in top-notch

condition, and the buildings were fully equipped and operating.

There remained a very serious question. If the nursing home is operating profitably, why would its owners wish to dispose of it? This question was satisfied as the result of a meeting with the owners.

The Urban League Center agreed to work with Mr. Bristow in acquiring this business once it was determined that he was an eligible prospect for assistance.

The first task the BDC developer undertook was to assist Mr. Bristow in arriving at a reasonable appraisal on which to base an offering price. (There was no question of the feasibility of the home since it appeared to be a going operation.) Competition was practically nil inasmuch as the demand for beds had remained strong for some time. (Occupancy was then at about a 98% level.) The appraisal was based on the physical plant as well as comparable establishments in Brighton. Mr. Bristow successfully negotiated the purchase of \$303,000 (\$300,000 price, \$3,000 supplies inventory) on the assurance that the developer would put together the necessary business package. He also indicated that he could comfortably invest about \$20,000 toward the purchase.

As is typical for most of the loan packages the BDC is asked to work on, the \$20,000 equity capital Mr. Bristow agreed to invest was somewhat less than an acceptable 10 to 15 percent down payment. Also a conventional bank loan would

be at a high interest rate. Therefore, it usually seemed advantageous to attempt a Small Business Administration direct or guaranteed loan, where possible.

The developer packaged the loan, did the pro forma statements and made provisions for adequate working capital and 5% vacancy factor, all three year projections based upon the history of this business. The bank agreed to a \$217,000 SBA guaranteed loan. The balance of \$86,000 was borrowed from the local Minority Enterprise Small Business Investment Company (MESBIC). (A MESBIC is a venture capital organization licensed by the Small Business Administration to provide equity capital and loans to small businesses which are at least 50% owned or controlled by minority individuals.)

Completing the loan package and getting it accepted by SBA, the bank and the MESBIC required several months. It was not until November 1974 that the transaction was completed and ownership transferred. Meanwhile, Mr. Bristow had taken several courses in nursing home administration and obtained his license. In addition, he participated in several training courses during the interim, including the BDC tax seminar which was held during the summer. He seemed highly motivated and keenly ready to transfer from teacher to entrepreneur. Besides, much of his confidence probably derived from the fact that Mrs. Bristown was a ready back-up resource for advice or other assistance, if ever necessary.

Open for Business

Ordinarily a client such as Mr. Bristow, no prior experience and no indication of entrepreneurial instincts in his background, would have been counseled and probably advised against launching an unfamiliar new business career. But at 45, Lionel Bristow is now indeed an entrepreneur and determined to succeed at it. Bristow shed his academic mantle and took on this small business enterprise.

To begin with, Mr. Bristow inherited a rather seasonal staff of 25, covering three shifts, certain equipment with which he had to become familiar, and day-to-day operating decisions - a new experience for him. However, the first months proved not too difficult. Of course, the BDC developer visited him twice weekly and was available any other time he was needed. To assist Mr. Bristow, his wife helped him organize the operations and actually did all of the bookkeeping without compensation during this period.

As the summer months rolled around most wage-earners begin to think of vacation. It was then that Bristow discovered that, while the staff was a very good one, the majority also had considerable longevity on the job. This meant vacation pay and the cost of replacement staff. The original cash flow analysis had not made a provision for this contingency. The problem was overcome by Bristow through the establishment of a regular line-of-credit with the bank from

which he has obtained the debt capital. He remedied a recurrence of this experience by a staggered vacation schedule. A brief look at the following table will give an indication of the new business's progress:

<u>Year</u>	<u>Projections</u>		<u>Actual</u>	
	<u>Gross Income</u>	<u>Net Income Before Taxes</u>	<u>Gross Income</u>	<u>Net Income Before Taxes</u>
1974-75	\$183,000	\$21,500	\$202,000	\$26,000
1975-76	\$201,000	\$29,500	\$220,000	\$30,000
1976-77	\$222,000	\$38,400	-	-

The developer did a new projected cash flow for 1976-77 and is confident that the actual net income will approach the estimate barring any extraordinary circumstances.

The Future

Mr. Bristow believes that if the progress already accomplished is an indication of the viability of his enterprise, his debt is manageable -- the MESBIC loan will require having to make only interest payments the first three to five years. The return on the investment is respectable and he expects to do even better. Lionel Bristow's rewards for this extraordinary effort are not just financial, but most importantly seem to come from the satisfaction of making a business go.

Case No. 5 Star Package Store

Even the layman knows that a retail liquor outlet can be very profitable under favorable circumstances. Where the

site is favorable to traffic flow, competition relatively mild, the consumer target population represents good potential, and a license is obtainable, then a potential entrepreneur can begin to consider seriously such an investment.

Profile of Jim Cobb

Jim Cobb grew up in Marksville and has lived there all of his life. Graduating from high school he knew he needed some kind of skill to get a decent job, and radio repair was respectable. However, years later, he also learned television repair and related service repair. Meanwhile he was thrifty and enterprising in that he felt a need to secure what earnings he was able to keep after taxes in solid and reasonably safe havens. A portion of the savings he accumulated was invested in small residential income property and the balance was used to purchase United States Savings Bonds.

Most of Mr. Cobb's 48 years have been lived with the notion that one day he was going to see an opportunity and be able to take advantage of it. He had observed the apparent lucrativeness of package stores but he really knew very little about how to operate one. Also, usually licenses were quite costly, and he knew that you could not establish a store without certain metropolitan zoning board approval and agreements.

It was during 1948 that Jim Cobb managed to obtain a part-time job as a liquor store clerk. He attempted to learn as much as possible about pricing, marketing, traffic flow, problems usually encountered in this kind of operation, and everything else to which he was exposed on the job.

For approximately five years Cobb worked and learned. Then, in October of 1973, he decided to investigate the public service commercial he had seen recently on one of the local television stations. It stated that the Urban League Business Development Center had a staff prepared to help all comers interested in starting a new business.

When Mr. Cobb contacted the BDC, after the preliminary screening and initial information-gathering, the center agreed to assist him in investigating the possibility of a new package store outlet and in constructing his loan package.

The Business Package

A feasibility study was performed on the store site Mr. Cobb had selected - the traffic flow plans in that location and its demographic implications, estimated potential, competition, estimated sales, and other pertinent information. On the basis of the study the BDC developer agreed to assist Mr. Cobb in approaching the Metropolitan Zoning Board for a variance for the site. Mr. Cobb meanwhile agreed to participate in the BDC's management skills training course which was beginning about this time. The courses consisted of ten

consecutive weeks of basic bookkeeping, personnel management, marketing and the tax structure. This marked the beginning of the realization that extraordinary efforts would be required to actualize Mr. Cobb's idea. Besides the basic management tools the center insisted he acquire, there was the added burden of learning more about the industry, particularly Government regulations (fair trade laws in the State of Indiana). But in exchange for the unusual effort by Mr. Cobb, the developer proceeded to package the loan based on the selected site lease and the typical projections for a package store.

The loan was for \$35,000 with an initial investment of \$44,250 including a \$20,000 liquor license. Obviously Mr. Cobb was determined to build a viable business because the money invested represented his entire life's savings, notwithstanding his equity in several small pieces of real estate.

The Operation

The store was opened successfully in the Spring of 1974 and except for the initial months, has exceeded the sales projections. The general picture is shown on the following page:

Year	Item	Period	Gross Receipts		Income B/T
1	Projections	4/74 3/75	\$152,000	} 15 mos.	\$39,000
	Actual	6/74-12/74	\$ 77,500		\$62,000
		1/75- 9/75	\$159,500		
2	Projections	4/75- 3/76	\$182,000		\$32,000
	Actual	4/75- 3/76	\$209,700		\$54,300
3	Projections	4/76- 3/77	\$225,000		\$57,800

Although the developer still spends an hour or two a month with Mr. Cobb, this entrepreneur has done much on his own. For example: he has availed himself of IRS tax seminars, and at least one other accounting and bookkeeping seminar conducted during the second year. In the two and one half years in which the business has operated, he figures that it has a net worth of about \$93,000. Besides, the ROI is phenomenal for such a small enterprise. Naturally, Mr. Cobb is beginning to consider other opportunities to repeat this good experience. From all indications, the sacrifice and effort that he devoted to starting this business were more than justified by the results.

Case No. 6. An Expansion of American Janitorial Service & Supply Co.

Jake Haskins had worked most of his adult life in janitorial service. He had had the advantage of little schooling but seems to have possessed more than his share

of good judgment and a strong desire to provide for his family. For the past fifteen years he had worked for the Ohio Utility Company and in the process had gained experience supervising groups of employees, and the mechanics of servicing a large customer. It was natural for him to ultimately consider contracting out his own services and managing his own crew. Besides, there were other possibilities associated with operating this kind of a service enterprise, and also that of janitorial supplies.

So, for the next few months Mr. Haskins quietly went about bidding and soliciting contracts and recruiting workmen for his crews. Recruiting was the easier chore since he was always working with potential candidates. Besides, with little instruction this kind of job can be performed satisfactorily. Mr. Haskins had two major points in his favor: (1) he had good skills, and (2) he knew the business well.

The Business Operation

Five thousand dollars represented a major portion of the savings Haskins had accumulated so when he decided to launch his own operation (about \$5,000), he was serious about making it viable. He had successfully gotten several contracts, enough to initially hire thirty employees. These employees included a number of part-time people, which means that he employed them as needed.

While Mr. Haskins felt comfortable with the janitorial service business he had acquired few business management skills. Intuitively he did a number of things properly; among them, the recognition that he would soon have to seek assistance for managing the business. The American Janitorial Service and Supply Company grossed slightly more than \$200,000 in 1969. Haskins realized about \$60,000 before taxes during that year. It was in the second year that Mr. Haskins became concerned because, despite increasing business with added employees, the net income seemed to be weakening. Although he had made a small MESBIC loan in 1969 intending to retire it within a couple of years, it did not appear possible to do so. Also, he had begun to stock supplies but did not have an inventory control system. Mr. Haskins was astute enough to recognize that he needed additional operating expertise and contacted the Urban League BDC for help.

The Technical Assistance

The BDC assigned a developer to this business and at least four major factors were considered problematical: (1) the need for an inventory control system; (2) there had to be an organized method for procuring contracts; (3) the need for a cost accounting system directly tied to the cost of a contract; and (4) a provision should be established for working capital and expansion.

The first step was to redesign American's financial structure and rid the business of the restrictions of the MESBIC loan. This was accomplished with a Small Business Administration direct loan of \$100,000 at six percent, by far the best terms available at the time. SBA predicated its loan on the promise by the BDC that it would work with American in procuring a broader range of contracts and setting up a system of cost and inventory controls.

Meanwhile the number of employees needed was steadily increasing. This was due to a considerable effort with 8(a) contract procurement. (8a government contracts are non-competitive to minority businesses.) At this point nearly sixty percent of all contracts were with Governmental agencies. This circumstance had to be overcome if American was to remain viable in the long run. With the assistance of the contract procurement specialist on the BDC staff, the business is progressively reducing the proportion of 8(a) contracts by replacement with private sector bids.

Through the BDC business school intern program, a personnel manual has been designed and an inventory control system instituted. With the aid of MBA interns a computer program was installed to allocate cost per contract.

Jake Haskins was steadily improving his lot by participating in any activity which might enhance his skills. These included a business leadership training course and

management skills training courses given by the BDC. Mr. Haskins seemed highly motivated and took his responsibilities seriously. He was able to implement much of what he had learned as he continued to operate. As a result American was monitored on a quarterly basis. Haskins had melded a surprisingly smoothly functioning business. The growth in gross receipts is shown by the following:

<u>Year</u>	<u>Gross Receipts</u>
1969	\$ 200,000
1970	\$ 430,000
1971	\$ 656,000
1972	\$ 800,000
1973	\$1,100,000
1974	\$1,200,000
1975	\$1,200,000

Mr. Haskins has realized an average of approximately three percent on gross. This income is of no little consequence for a man approaching his middle years with less than a high school education from a southern school system. He now employes 250 people and is seeking expansion. The BDC is presently developing a loan package to purchase a building for expansion.

Case No. 7. TWR Wholesale Industrial Supplies, Inc.

Most B-School graduates, when leaving school consider one day operating his own business, although the immediate expedient is to obtain the very best position possible on the job market. Paul Stewart was no different from the rest

in that respect. With his diploma in hand he sought and obtained a lucrative sales position in which he rapidly moved to a managerial slot. Mr. Stewart remained with this large national company for nearly ten years before he spied what appeared to be an opportunity.

The Buyout

TWR Wholesale Industrial Supply Company was a fledgling business losing about \$11,000 a month in its operations. The liabilities were progressively mounting, inventory was slipping, and working capital was at a dangerous level. Mr. Stewart took a look at the company and decided that he could turn it around. For him, this was not empty conjecture. Stewart had developed into a good planner and was confident of his wide capabilities.

The deal consisted primarily of the assumption of the company's debts at a total purchase price of \$75,000. A \$63,000 SBA guaranteed loan was obtained and Mr. Stewart supplied the balance. The loan package consisted of provisions for some debt retirement, inventory, working capital, and some equipment.

The Business Operation

The first move that Mr. Stewart made was to recruit new personnel. He now has a staff of five. As an inspirational-type leader, Stewart also took his own advice

seriously. He determined that the BDC could be most helpful to him in three primary areas. The center agreed with this assessment and proceeded to do an industrial analysis, design a financial plan for TWR, and assist Mr. Stewart in procuring contracts for supplies. Meanwhile he participated in a business leadership training course, several seminars and related meetings, to enhance his position.

The first two years of operating seem promising. In 1975-76, the average quarterly gross was about \$70,000. 1976-77 saw this figure more than double and the forecast of the second year's gross receipts is \$435,000. Barring any extraordinary circumstances the immediate future looks bright for TWR Wholesale Industrial Supplies, Inc.

* * * * *

The selection of the preceding cases as a subgroup of the population was judged to be representative of the total population. In this type of study certain limitations necessarily influence the outcome. For example, no allowance can be made for variability of exogenous factors, such as the commercial climate at the time, degree of business community interests, and the available cadre of potential entrepreneurs or representative businesses within any given community. Also the several biases earlier cited more or less control the parameters of the characteristics of the population. However,

the strong assumptions made are based on a considerable knowledge of the population selected.

The tenor set by each development experience cited shows several basic characteristics in common:

- (1) The businessman was introduced to the technical assistance by the business development centers operated by the Urban League.
- (2) Each business needed assistance, advice and counsel in financial and operations planning.
- (3) Without exception each businessman felt that additional education and training was essential to his business success.
- (4) Each business appeared to have taken on the flavor of its operator, indicating the importance of the role of the entrepreneur.
- (5) A longitudinal assistance plan would be beneficial to all of the small businessmen.

In the previous chapters the environment in which the small minority entrepreneur has to operate was established. Concomitantly, these were the same conditions under which the program had to function; limited resources and lack of wide interest notwithstanding.

During the approximately four years the writer administered the programs, 2,734 minority businessmen were provided help with their business plans, resulting in the

creation of 621 new minority businesses. The total capital investment in these businesses was \$11,138,500. The new businesses created more than 300 jobs. Additionally, through central administration managerial assistance was provided the Urban League network. The principal means was by gathering and sharing information on business development, interacting with individuals, regional and national offices of governmental agencies, private groups promoting minority business, and businessmen wishing to establish Minority Enterprise Small Business Development Corporations (MESBICS). Through such activity local Urban Leagues have been instrumental in establishing in their cities three MESBICs, two banks, and several local Development Corporations and Community Development Corporations (the latter two organizations are capital-accumulating and dispensing corporations).

Perhaps among the most significant observations the cases suggest for this study are the following:

- (1) Significant insight into the development of a skilled entrepreneur;
- (2) The role a community organization can play as a catalyst and coordinator of resources in support of community enterprise;
- (3) Reveals several possible approaches an educational institution may use to enhance its effectiveness in the development and viability of the small enterprise;

- (4) The Urban League program can be an effective vehicle for small business development support.

The motivation for entrepreneurial efforts had traditionally been attributed to the quest for profits. However, it has been substantially proven that there is at least one other factor impacting this motivation - that is, behavior to satisfy need for achievement. And, the need-achievement (N-Ach) motive can be stimulated through proper training and nurture in a propitious environment. In particular, educational institutions can play an important role in further experimentation and the development of curricula in this type of training.

In each instance with the business development centers there was an overt attempt to fill the gap created by the absence of effective academic programs. Generally, the BDC efforts could be categorized under these headings:

- (1) courses in basic bookkeeping, taxes, and other functional areas;
- (2) the use of business school students to aid the small businessmen through a work/study environment;
- (3) solicitation of expertise from university faculties and representatives from the local business community;
- (4) individualization of management and technical assistance;
- (5) encouragement to the recipients of the center's services to take advantage of every educational tool available to them, including the motivation for leadership courses;

- (6) to render on-going assistance to the small business as long as it seems appropriate, from fabricating the business package to marketing and inventory analysis.

The items listed above are not all inclusive but do provide significant insight into possible ways in which educational institutions may become more relevant in adult education for small business development.

C H A P T E R I V

SUMMARY AND RECOMMENDATIONS

The background for this study can be described as the "environment" in which the plan for an adult business education program will operate. Therefore, consideration has been given to the following:

- (1) Validity of the small business enterprise as a legitimate focal point;
- (2) The minority small entrepreneur as the object of a positive program for educational and skills development;
- (3) Relevant programs and experiences geared to minority business development;
- (4) Other influential factors relating to size, financing, and motivational development of minority entrepreneurs;
- (5) Adult educational thought associated with planning, establishing, and implementing a program through broader use of institutions of higher learning.

This list of items is predicated upon certain assumptions which were stated or implied throughout the document. The primary assumptions were that:

- (1) A specialized program for education and/or training of small businessmen is needed. Because most previous efforts have been fragmented largely unplanned, and uncoordinated, a comprehensive alternative plan based upon the four year experience of the writer will satisfy this need.

- (2) Basic developable skills can be manipulated through innovative educational strategies, and, motivation can be modified through a positive program of sequential development.
- (3) The educational institution is best equipped to design and administer an adult business education program.
- (4) One of the most effective means for maximum impact would be through a cooperative effort between the educational institution and other established community agencies.

Any adult business education program would have to accept a wide range of abilities and levels of motivation, therefore the individual development and rate of that development would be widely varied. It is particularly important that those associated with the program, such as planners and teachers, fully understand the problems frequently encountered by the small business. They should be empathic and knowledgeable in business functional areas as well as pedagogy. Based on this assumption, all concerned should recognize the conceptual framework and the inter-relationship of the disciplines. Thus we have introduced the first primary factor into the plan for a delivery system.

The second input factor to be identified and assigned to the planning schema relates to resources within the community which are not fully utilized. The system would overcome this obstacle by assigning to the community agency responsibility for gathering and organizing information, and

convening various interests groups. The coming together and interface among groups represents a necessary step in establishing the groundwork for the planning phase. Because the community agency (in this instance, Urban League) through its normal functioning has penetrated the community and enjoys a high level of rapport with other interest groups, the coordinating and convening task seems appropriate.

The dimension of coordination is introduced as the link and catalyzing factor between the urban community and the resources within that community. Important to this process is the inclusion of U.L.'s experiences and an assessment of similar programs in business education and training.

The four-year experiences with the Urban League demonstration program and the review of other programs evidenced certain weaknesses in the technical assistance models which have been mentioned. Among them were:

- 1) Most programs were not linked with any effective vehicle for capitalization (i.e., on-going financial support or plans for permanent financing);
- 2) There was a general lack of rapport between the various institutions in the community and the community;
- 3) There was an absence of strong or even effective coordination among the various com-

- munity interest groups, including educational systems, academic institutions of higher learning, trade and professional associations;
- 4) Ethnicity had an adverse effect on the program;
 - 5) Constraints placed on the use of the financing by the funding sources in many cases precluded the use of innovative ideas in the program design;
 - 6) Most programs were largely trial and error processes because of the lack of previous experiences in this kind of community economic development;
 - 7) Attempts were made to evaluate these programs without recognition of the value of certain pertinent data and the need for information a longitudinal study would provide. Without the retention of certain data over time on the businesses assisted by the program, documentation of methodology and other significant information, the benefit to be gotten from the demonstration program is weakened considerably;
 - 8) Education and training were considered initially to be of relatively low priority. Therefore, during the time covered, little development of E & T was evident.

Another factor impacting technical assistance to the small businesses was the lack of easy access to business education and training in an organized and permanent manner. It is proposed that post secondary institutions provide the bridge between the need and the academic resources.

Basically, two distinctive schools of thought or identifiable disciplines are being utilized - those of business and education. This is not entirely unique in that generally our schools perennially have been geared to the dictates of the business community. However, another dimension is being added to the schema. A primary objective of the educational institution encompasses its need to be optimally effective in the community in which it operates. Therefore, it is correlative to engage serious consideration for ideas which can enhance the educational institution's community impact.

The copious and mostly uncoordinated activities in assistance to small businesses are represented primarily by pilot and/or demonstration programs which for the most part have been experimental in nature. A good program design can adapt the available educational resources by a matching process to local needs in a coordinated, organized manner. A number of post-secondary institutions have engaged in some efforts in this direction without an overall design component. The majority of efforts have been in the area of fellowships

and scholarships for minority business students and volunteer counseling to entrepreneurs. Special education and training programs for minority entrepreneurship have developed to a somewhat lesser degree. The model to be presented is intended to circumvent this shortcoming. An adult education component designed for small entrepreneurs is an excellent vehicle for this purpose.

Essentially, what is being suggested is a two-faceted approach to the development of education, training, their transference to the small business population through an effective utilization of educational institutions in or near urban communities, and the use of community-based organizations which are geared to the delivery of community services. The institutions, principally colleges and universities, have sorely needed resources which would be beneficial to the small entrepreneur. Adult education can be the primary instrumentality by which this would be accomplished. Such areas as curriculum development, course content, methodology, work experience programs, achievement motivation components and technical assistance are ideal program areas in which the post secondary institution could be effectively involved on an on-going basis.

To summarize, the institution's functional role in building an adult educational program requires at least three ingredients before such a component is ready for

implementation:

- (1) a good plan;
- (2) qualified adult education practitioners; and
- (3) access to the target population for which the program is designed.

Minority small entrepreneurs need technical assistance in business development, which is available; they also need a more effective instructional methodology to make it work. Although the area of adult education is as embryonic as serious formalization of academic instruction in small enterprise development, there is an opportunity to utilize the concepts already developed in a useful way and experiment with untried and new concepts.

Functional Role of Community Agency. The second aspect of the design is represented by the community-based organization. Here is an entity with long standing rapport with the indigenous population targeted to be reached. Concomitantly, its normal operation involves interface with most major community institutions, trade and professional associations, industry, and others. Each of the organizations mentioned represent resources which would be useful in the planning and implementation of an adult business education program. The Urgan League, as a community-based organization, has demonstrated its capacity to engage in broad program activities in a number of areas. A copy of

its national administrative structure is represented in Appendix E. The organizational chart indicates an affiliate network of 105 leagues in all of the major urban centers of the country and many lesser cities. A number of post secondary institutions are in these communities.

There are several other advantages in using the National Urban League as the community organization for our model. Among these are:

- (1) There is a division devoted exclusively to business and career development. The number of years experience would be helpful in the planning and design of the program which is being recommended;
- (2) The administrative offices contain a management training and development unit with expertise and experience to impact the methodology and design of the program which is proposed;
- (3) The national office has in-house capabilities for a computerized management information system as well as a computerized national skills bank;
- (4) The agency has the benefit of several years of operating a business development program containing most of the components which are included in the model;
- (5) Although not treated as a significant factor in the body of the document, National Urban League has the extraordinarily broad capacity to provide support services in areas not directly related to education or business.

To summarize the community organization's role in the delivery system, the following factors are identified as paramount:

- (1) Function as a coordinator of community resources;
- (2) Act as a liaison between the educational institution and the target population;
- (3) Identify and convince all relevant interest groups;
- (4) Provide support services to the system for target population.

Centralizing and channeling the needed community resources is as important initially as in the implementation phase of the adult education program. The identification and convening of the various community interest groups imply that a permanent feature of a program should use these two devices as on-going processes.

The following is an outline of key features in the model:

I EDUCATIONAL INSTITUTION

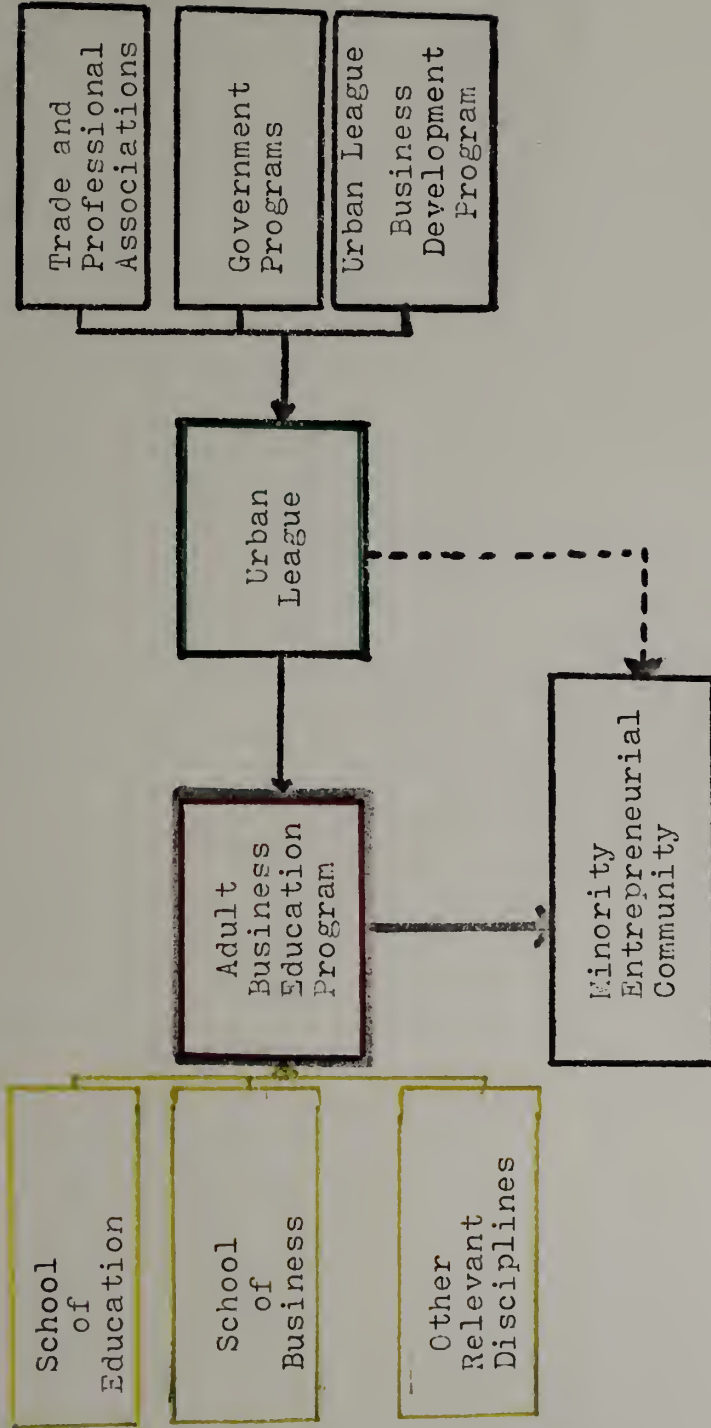
- | | | |
|----|--|---|
| A. | Input from Business Functional Area (School of Business) | Management
 Accounting
 Taxation, etc.
 Marketing
 Finance |
| B. | School of Education | Adult Education
 i.e., teacher/trainer
 training
 Curriculum Development
 Motivation Syndrome |

II COMMUNITY-BASED ORGANIZATION

- | | | |
|----|---|---|
| 1. | Definition of Role | Coordinator
 Liaison |
| 2. | Experience Input | Programmatic
 In-House Capabilities |
| 3. | Identification & Coalition In-House Resources | |

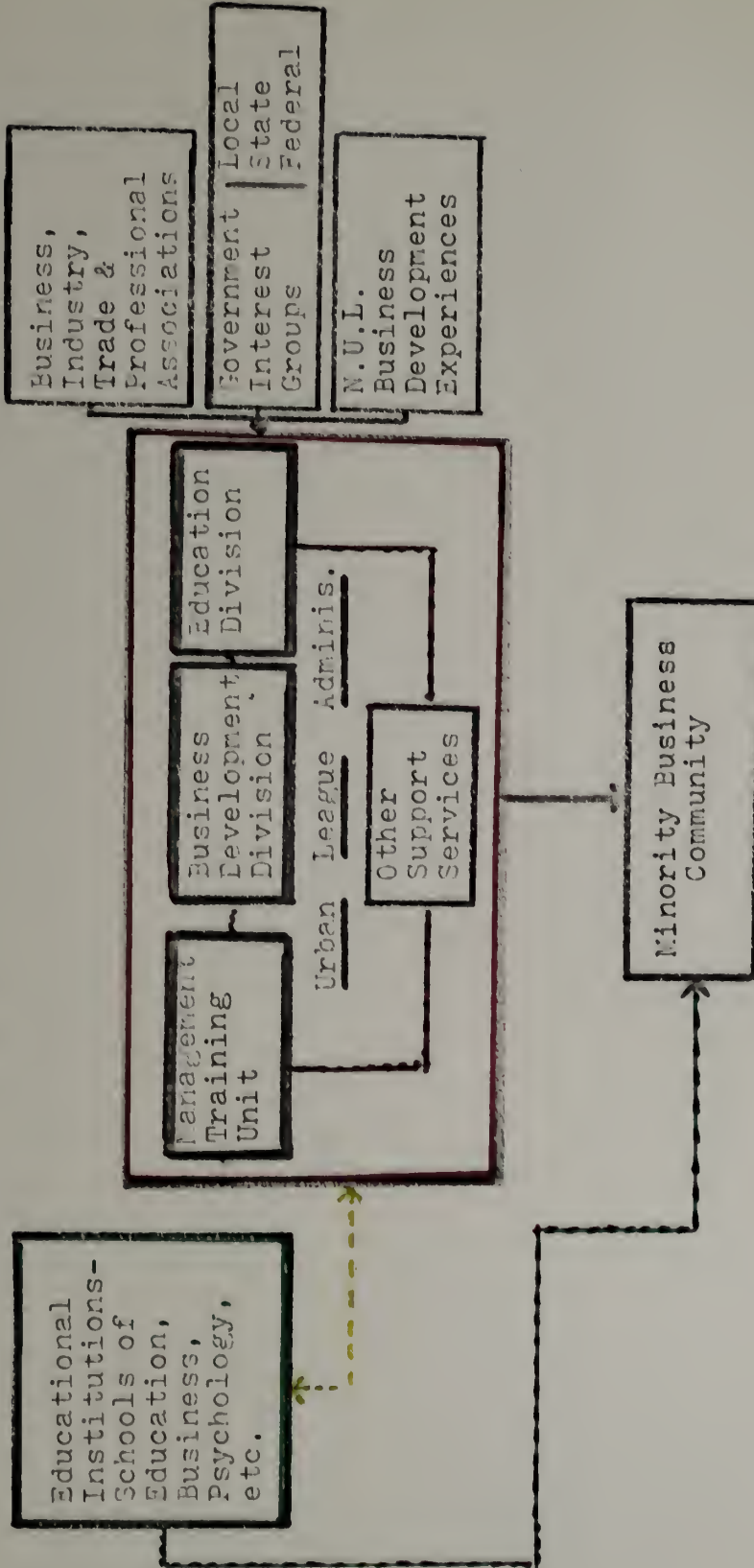
Graphically, functional schemas representing the flow of process are shown by the following: (see pages 136 and 137.

EDUCATIONAL INSTITUTION'S FUNCTIONAL SCHEMA



----- (support services)

URBAN LEAGUE FUNCTIONAL SCHEMA



- (in-house collaboration)
- .- (Institution/Agency exchange)
- .- (institutional output)

The two functional schemas represent the basis for a design of the delivery system. The following is an outline of the key elements of that system:

DELIVERY SYSTEM

A. INPUTS

- | | |
|--|--|
| 1. Business Functional Information | Business School
Government Agencies,
i.e., SBA, OMBE,
HEW, etc. |
| 2. Survey of Community Business Needs | Business Education Needs
Technical Assistance Needs
Perceived Business Needs |
| 3. Adult Education Requisites | Skills Transfer, i.e.,
Management, Finance
Motivation Syndrome |
| 4. Identification of Community Resources | Educational
Business
Organizations, Community
Agencies
Governmental Agencies |
| 5. Review and Analysis of Similar Business Education Development Efforts | Academia
Government
Community Agencies |

B. PLAN DEVELOPMENT

- | | |
|--|--|
| 1. Curriculum Development Incorporating Adult Education Concepts | Private Business
Industrial & Trade
Associations
Federal Agencies
National Education
Associations, etc. |
| 2. Identification & Orientation of Adult Education Practitioners for Program | |

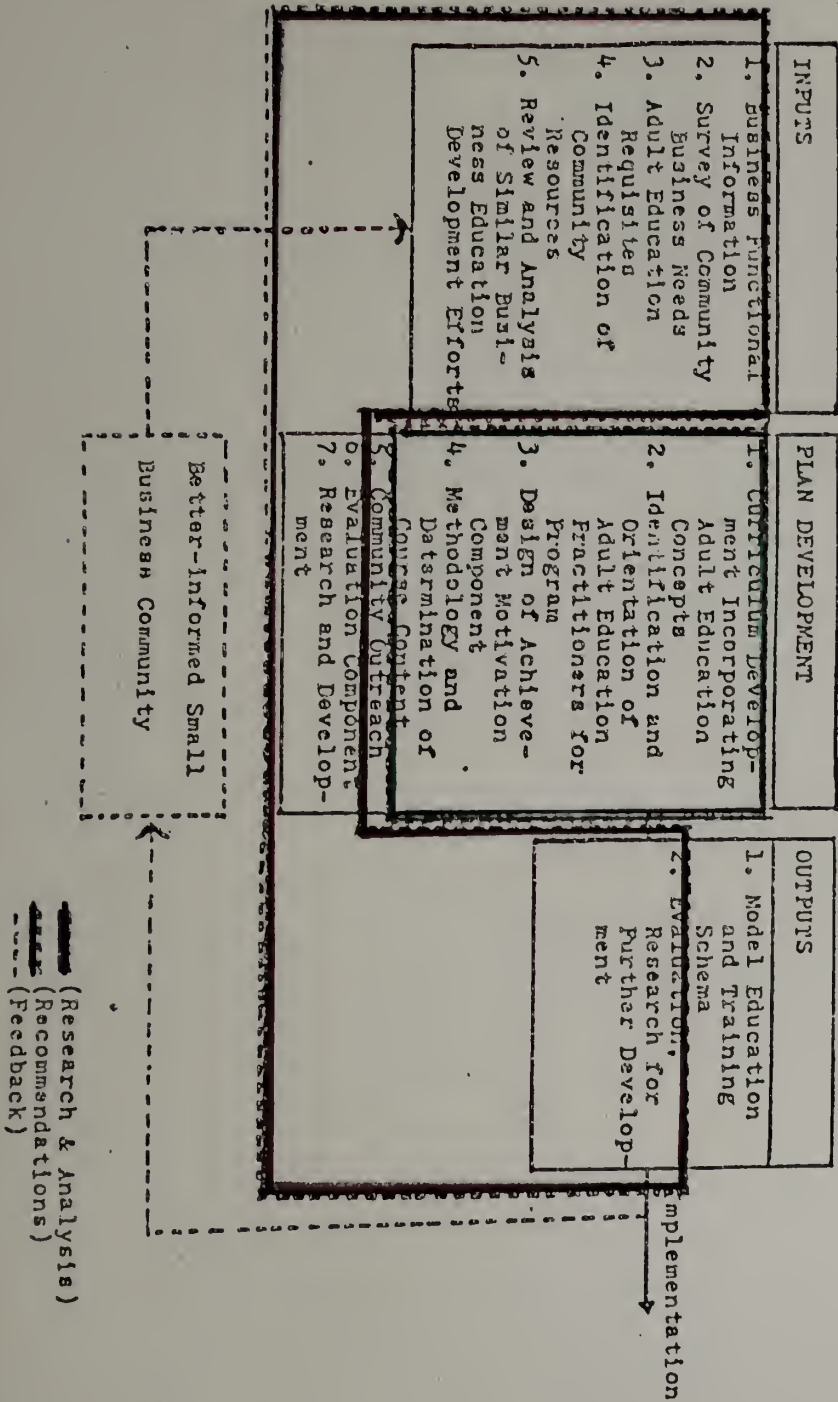
3. Design of Achievement Motivation Component
4. Methodology & Determination of Course Content | Pedagogy
5. Community Outreach | Minority Entrepreneurs
Potential Minority Entrepreneurs
6. Evaluation Component | Feedback
Adjustment
7. Research and Development

C. OUTPUTS

1. Model Education & Training Schema | Work-Experience Design
Flexible Scheduling
for Maximum
Participation
2. Evaluation, Research for Further Development
 - a. Career Counseling | Entire public education system
 - b. Adult Business Education as Integral Part of Teacher Training Design

Pictorially the delivery system would have the principle features as shown by this schematic (see page 140).

DELIVERY SYSTEM



The first phase of the delivery system is already in process. This document can serve as the basis, if considered along with the recommendations which follow. The identification of principals, the initial course of action, and the nature of the action to be taken are delineated. There remains, however, a need for some measurable evaluative tool for existing programs in minority business education and training programs. Also, a better profile on the target population of minority groups, the available technical assistance, and a realistic cost benefit analysis for instituting an effective program should be among the next steps to be taken in the development of an adult business education program.

The factors earlier identified as essential for establishing the program such as planning, staffing, curriculum design, do not necessarily require a funding outlay but rather an institutional commitment. This commitment can take many forms. Listed below are several recommendations based on the information contained in the previous chapters.

The educational institutions can:

1. Build into the business education program an in-service type of awareness schema for all personnel having responsibilities in the program;
2. Assist in the design of career education for pre-higher educational levels;

3. Assist in a sensible program design for implementation in primary and secondary educational systems;
4. Seek to improve the skills and attitudes of school guidance counselors through its pedagogy toward better conceptualization of their responsibilities in counseling minority youth in awareness of opportunities in the business sector;
5. Encourage the business schools and related centers of the university to assist the community in planning for capital-accumulative vehicles for small business development;
6. Become active force in its community in support of equitable treatment for the small minority business. This would be further enhanced by assisting financial institutions through the minority businessman to expedite evaluation of the propositions they are asked to finance.

The delivery system provides for an evaluative process. In planning this element of the system, quantitative and qualitative variables can be measured. An assessment of results will be geared toward answering questions, such as:

- (1) Were the goals established at the outset realized?
- (2) Did the enterprise increase its productivity, sales, or successfully manage other indicators of progressing viability?

- (3) To what extent, from observable evidence, was the new knowledge utilized?
- (4) Was there evidence of growth? The usual business indicators could establish business growth; observations of responses during exposure to the program will provide other indicators of progress?
- (5) What attitudinal changes surfaced or was there recognizable behavior modification?
- (6) Can the program be replicated in other areas with any expectation of success?

Closely related to the evaluative process are other elements of the system. Adult education concepts adapted to the business education program, methodology and course content, are notable. Another element, and one of the most exciting within the context of this document, is a provision for the design of the achievement motivation component.

Based upon the investigations of McClelland and others, the achievement motivation concept should be further tested, although its usefulness is established. Ways in which the concept can be incorporated into a comprehensive business education program is desirable.

In conclusion, a review of the literature on adult education indicates that a number of practices and concepts are appropriate and can be adapted to a schema such as is suggested here. The strength of an adult education program

will be heavily influenced by the quality of the delivery system as well as the instructional methodology and skills transfer mechanism. The model presented will enhance the educational institution's effectiveness in satisfying its objectives in discharging its responsibility to the community. Concomitantly, the community organization can acquire broader dimensions for its services to the people it is attempting to help.

APPENDIX A
BUSINESS EDUCATION PROGRAMS

Atlanta University (School of Business Administration). Atlanta University received federal funding in 1972 to establish a business management development program which would include training of 100 businessmen from various business fields. Graduate and senior accounting students would be placed as "interns" in CPA firms who make their services available to the program. Atlanta also sponsors several management seminars each year for minority business owners and offers two six week non-credit courses to existing and potential owners and managers.

University of California at Los Angeles (Graduate School of Business Administration). The University program to assist minority entrepreneurs has had a two pronged approach. One effort involves conducting special evening courses for minority business owners. The other activity couples the MBA program with work in a minority enterprise program. Credit is given to MBA candidates for work as VISTA volunteers in a minority entrepreneurship program such as the Inter-racial Council for Business Opportunity.

University of Chicago (Graduate School of Business). Students at the University of Chicago have developed a Small Business Consulting program to provide management assistance to minority business owners.

Community College of Denver. The Community College of Denver has established an experimental program in adult education called the "Minority Business Project." This program is directed to existing or prospective business owners and consists of practical management training courses.

Harvard University (Graduate School of Business Administration). Harvard students and faculty participate in a number of programs designed to assist minority business owners. Through a Business Assistance Program, students and faculty advisors provide a full range of technical assistance including accounting, tax, marketing, inventory control and financial assistance. Harvard also provides management training through the Roxbury Institute which conducts several minority enterprise management training programs.

New York University (Graduate School of Business Administration). In 1969, students formed a nonprofit organization called the "Urban Business Assistance Corporation" to provide management consulting services to minority business owners. The Corporation receives support from the School of Business Administration and private firms who encourage students to offer their formal training to help solve real business problems.

Northwestern University (Graduate School of Management). The Northwestern University program for minority business assistance combines the talents of the Law School with those of the Graduate School of Business. Students assist existing and prospective business owners with legal problems relating to the business and with management training in basic business.

Pepperdine University (Graduate School of Business). In 1973, through a grant from the federal government, Pepperdine established a minority business management training program. The program consists of seminars and teaching courses in business management fundamentals provided for business owners in the Los Angeles area.

Rutgers University (Graduate School of Business Administration). In the Rutgers program students and faculty advisors provide a range of management and training services for existing or prospective business owners. Through the Rutgers Minority Enterprise Small Business Investment Company, a number of minority business owners receive loans. These loan recipients are also given management assistance in specific areas of need as indicated through a thorough analysis of their business operation.

University of Southern California (Graduate School of Business Administration). The University program includes a relationship with a local minority enterprise development organization, IMPAC, through which graduate business students assist the staff in providing management counseling and training to businessmen in the South-Central Los Angeles community.

University of Texas (College of Business Administration). Faculty members provide direct management assistance to existing or prospective minority business owners. Teams of faculty and students also conduct management and technical assistance programs for minority entrepreneurs.

APPENDIX B
McCLELLAND'S TWELVE PROPOSITIONS
FOR
MOTIVE ACQUISITION

- Proposition 1. The more reasons an individual has in advance to believe that he can, will, or should develop a motive, the more educational attempts designed to develop that motive are likely to succeed.
- Proposition 2. The more an individual perceives that developing a motive is consistent with the demands of reality (and reason), the more educational attempts designed to develop that motive are likely to succeed.
- Proposition 3. The more thoroughly an individual develops and clearly conceptualizes the associative network defining the motive, the more likely he is to develop the motive.
- Proposition 4. The more an individual can link the newly developed network to related actions, the more the change in both thought and action is likely to occur and endure.
- Proposition 5. The more an individual can link the newly conceptualized association-action complex (or motive) to events in his everyday life, the more likely the motive complex is to influence his thoughts and actions in situations outside the training experience.
- Proposition 6. The more an individual can perceive and experience the newly conceptualized motive as an improvement in the self-image, the more the motive is likely to influence his future thoughts and actions.
- Proposition 7. The more an individual can perceive and experience the newly conceptualized motive as an improvement on prevailing cultural values, the more the motive is likely to influence his future thoughts and actions.
- Proposition 8. The more an individual commits himself to achieving concrete goals in life related to the newly formed motive, the more the motive is likely to influence his future thoughts and actions.

- Proposition 9. The more an individual keeps a record of his progress toward achieving goals to which he is committed, the more the newly formed motive is likely to influence his future thoughts and actions.
- Proposition 10. Changes in motives are more likely to occur in an interpersonal atmosphere in which the individual feels warmly but honestly supported and respected by others as a person capable of guiding and directing his own future behavior.
- Proposition 11. Changes in motives are more likely to occur the more the setting dramatizes the importance of self-study and lifts it out of the routine of everyday life.
- Proposition 12. Changes in motives are more likely to occur and persist if the new motive is a sign of membership in a new reference group.

VARIABLES CONCEIVED AS ENTERING INTO THE MOTIVE CHANGE PROCESS

A Input or independent variables	B Intervening variables	C Output or dependent variables
1. Goal setting for the person (P1, P11)	Arousal of associative network (salience)	Duration and/or extensiveness of changes in:
2. Acquisition of n Achievement-associative network (P2, P3, P4, P5)	Experiencing and labeling the associative network	1. n Achievement associative network 2. Related actions: use of feedback, moderate risk taking, etc.
3. Relating new network to superordinate networks (P2) the self (P6) cultural values (P7)	Variety of cues to which network is linked Interfering associations assimilated or bypassed by reproductive interference	3. Innovations (job improvements) 4. Use of time and money
4. Personal goal setting (P8)	Positive affect associated with network	5. Entrepreneurial success as defined by nature of job held and its rewards
5. Knowledge of progress (P3, P4, P9)		
6. Personal warmth and support (P10)		
7. Support of reference group (P11, P12)		

APPENDIX C
DUN & BRADSTREET'S
GUIDE TO BUSINESS RATIOS

HOW THE RATIOS ARE FIGURED

Although terms like "median" and "quartile" are everyday working language to statisticians, their precise meaning may be vague to some businessmen.

In the various ratio tables, three figures appear under each ratio heading. The center figure in bold type is the median; the figures immediately above and below the median are, respectively, the upper and lower quartiles. To understand their use, the reader should also know how they are calculated.

First, year-end financial statements from concerns in the survey (almost exclusively corporations with a tangible net worth over \$100,000) are analyzed by Dun & Bradstreet statisticians. Then each of 14 ratios is calculated individually for every concern in the sample.

These individual ratio figures, entered on data-processing cards, are segregated by line of business, and then arranged in order of size—the best ratio at the top, the weakest at the bottom. The figure that falls in the middle of this series becomes the median for that ratio in that line of business. The figure halfway between the median and the top of the series is the upper quartile; the number halfway between the median and the bottom of the series is the lower quartile.

In a statistical sense, each median then is the typical ratio figure for all concerns studied in a given line. The upper and lower quartile figures typify the experience of firms in the top and bottom halves of the sample, respectively.

Current Assets to Current Debt Current Assets are divided by total Current Debt. Current Assets are the sum of cash, notes and accounts receivable (less reserves for bad debt), advances on merchandise, merchandise inventories, and Listed, Federal, State and Municipal securities not in excess of market value. Current Debt is the total of all liabilities falling due within one year. This is one test of solvency.

Net Profits on Net Sales Obtained by dividing net earnings of the business, after taxes, by net sales (the dollar volume less returns, allowances, and cash discounts). This important yardstick in measuring profitability should be related to the ratio which follows.

Net Profits on Tangible Net Worth Tangible Net Worth is the equity of stockholders in the business, as obtained by subtracting total liabilities from total assets, and then deducting intangibles. The ratio is obtained by dividing Net Profits after taxes by Tangible Net Worth. Tendency is to look increasingly to this ratio as a final criterion of profitability. Generally, a relationship of at least 10 percent is regarded as a desirable objective for providing dividends plus funds for future growth.

Net Profits on Net Working Capital Net Working Capital represents the excess of Current Assets over Current Debt. This margin represents the cushion available to the business for carrying inventories and receivables, and for financing day-to-day operations. The ratio is obtained by dividing Net Profits, after taxes, by Net Working Capital.

Net Sales to Tangible Net Worth Net Sales are divided by Tangible Net Worth. This gives a measure of relative turnover of invested capital.

Net Sales to Net Working Capital Net Sales are divided by Net Working Capital. This provides a guide as to the extent the company is turning its working capital and the margin of operating funds.

Collection Period Annual net sales are divided by 365 days to obtain average daily credit sales and then the average daily credit sales are divided into notes and accounts receivable, including any discounted. This ratio is helpful in analyzing the collectibility of receivables. Many feel the collection period should not exceed the net maturity indicated by selling terms by more than 10 to 15 days. When comparing the collection period of one concern with that of another, allowances should be made for possible variations in selling terms.

Net Sales to Inventory Obtained by dividing annual Net Sales by Merchandise Inventory as carried on the balance sheet. This quotient does not yield an actual physical turnover. It provides a yardstick for comparing stock-to-sales ratios of one concern with another or with those for the industry.

Fixed Assets to Tangible Net Worth Fixed Assets are divided by Tangible Net Worth. Fixed Assets represent depreciated book values of building, leasehold improvements, machinery, furniture, fixtures, tools, and other physical equipment, plus land, if any, and valued at cost or appraised market value. Ordinarily, this relationship should not exceed 100 percent for a manufacturer, and 75 percent for a wholesaler or retailer.

Current Debt to Tangible Net Worth Derived by dividing Current Debt by Tangible Net Worth. Ordinarily, a business begins to pile up trouble when this relationship exceeds 80 percent.

Total Debt to Tangible Net Worth Obtained by dividing total current plus long term debts by Tangible Net Worth. When this relationship exceeds 100 percent, the equity of creditors in the assets of the business exceeds that of owners.

Inventory to Net Working Capital Merchandise Inventory is divided by Net Working Capital. This is an additional measure of inventory balance. Ordinarily, the relationship should not exceed 80 percent.

Current Debt to Inventory Dividing the Current Debt by Inventory yields yet another indication of the extent to which the business relies on funds from disposal of unsold inventories to meet its debts.

Funded Debts to Working Capital Funded Debts are all long term obligations, as represented by mortgages, bonds, debentures, term loans, serial notes, and other types of liabilities maturing more than one year from statement date. This ratio is obtained by dividing Funded Debt by Net Working Capital. Analysts tend to compare Funded Debts with Net Working Capital in determining whether or not long term debts are in proper proportion. Ordinarily, this relationship should not exceed 100 percent.

RETAILING

Line of Business (and number of concerns reporting)	Current assets to current debt	Net profits on net sales	Net profits on tangible net worth	Net profits on net working capital	Net sales to tangible net worth	Net sales to net working capital	Collec- tion period	Net sales to inventory	Fixed assets to tangible net worth	Current debt to tangible net worth	Total debt to tangible net worth	Inventory to net working capital	Current debt to inventory	Funded debt to net working capital
	Times	Per cent	Per cent	Per cent	Times	Times	Days	Times	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
5641 Children's & Infants' Wear Stores (50)	4.65 2.64 1.73	3.73 1.72 0.67	16.09 7.85 3.23	16.49 9.56 4.55	6.35 4.44 3.27	8.33 5.31 4.06	* * *	7.5 5.2 3.9	5.2 17.1 27.5	30.1 56.2 95.0	95.2 147.4 287.2	57.9 111.2 154.2	42.6 80.4 95.3	15.2 37.4 93.2
5611 Clothing & Furnishings, Men's & Boys' (221)	4.49 2.73 1.96	4.39 2.35 0.85	12.70 6.88 3.02	17.50 7.70 3.23	4.43 3.11 2.17	5.02 3.84 2.55	* * *	5.7 3.9 2.9	5.3 47.3 22.5	24.5 105.6 98.2	59.6 161.5 161.5	61.4 92.0 127.2	38.8 64.1 96.7	10.9 25.5 41.4
5311 Department Stores (259)	4.47 2.89 2.06	2.92 1.55 0.52	9.28 5.42 1.61	11.81 7.05 2.05	4.69 3.13 2.37	5.98 4.15 3.05	* * *	7.1 5.8 4.3	11.7 28.0 54.2	22.4 42.1 70.6	51.9 82.0 128.1	57.6 76.9 107.5	44.1 69.8 101.9	16.3 32.2 66.2
Discount Stores (224)	2.64 1.88 1.54	2.68 1.49 0.70	15.45 9.97 5.24	21.73 13.29 6.33	8.71 6.28 4.49	11.45 7.85 5.26	* * *	7.2 5.2 3.9	14.8 28.9 51.6	52.0 81.3 135.4	74.7 120.1 197.4	103.5 146.1 195.3	54.4 72.6 93.8	12.4 32.3 64.0
Discount Stores, Leased Departments (53)	3.09 1.94 1.52	3.49 1.85 0.44	15.19 8.98 3.69	19.25 12.18 3.98	7.88 5.43 4.00	9.46 5.87 4.56	* * *	6.2 4.8 3.1	14.5 27.5 45.5	46.9 87.3 170.8	67.9 114.9 210.3	93.7 134.8 181.8	49.7 70.9 99.3	7.5 22.1 47.8
5651 Family Clothing Stores (93)	5.25 3.18 2.23	4.31 2.85 1.27	15.06 8.28 3.68	16.89 10.35 4.57	4.86 3.53 2.10	5.68 3.67 2.48	* * *	6.8 4.8 3.5	5.1 12.3 27.7	21.2 41.3 72.4	51.2 88.8 160.8	52.1 79.7 127.8	40.0 56.9 86.3	11.7 30.5 53.8
5252 Farm Equipment Dealers (91)	2.46 1.79 1.39	3.47 1.99 0.89	17.30 9.26 4.38	18.98 10.91 5.65	6.66 4.78 3.19	8.22 5.49 3.49	20 32 53	5.0 3.3 2.3	7.7 15.1 38.4	51.4 117.2 191.8	108.2 181.2 276.9	85.3 143.3 279.7	68.3 83.8 102.3	16.3 28.8 45.0
5969 Farm & Garden Supply Stores (70)	5.33 2.79 1.49	3.91 1.90 0.99	13.57 7.01 3.31	28.26 14.45 5.85	4.79 3.18 2.25	9.07 5.32 3.87	* * *	16.8 9.0 5.5	14.5 38.1 56.2	14.5 35.3 83.5	53.8 76.8 118.8	41.8 72.5 118.5	42.7 86.4 165.6	26.0 58.4 100.8
5712 Furniture Stores (186)	5.93 2.67 1.79	4.74 2.11 0.76	10.55 6.02 2.47	11.95 8.67 3.33	4.28 2.67 1.71	4.85 2.87 1.89	40 104 194	6.3 4.7 3.5	5.2 11.4 26.1	20.5 49.9 97.6	52.1 85.9 156.9	34.4 68.7 108.6	57.9 87.5 145.4	7.5 17.3 35.0
5541 Gasoline Service Stations (78)	3.59 1.79 1.24	4.96 2.97 1.19	16.60 9.75 5.26	49.30 28.26 13.36	6.14 4.07 2.53	19.62 8.09 4.96	* * *	24.9 12.1 6.8	31.6 51.2 84.2	19.7 45.1 91.9	48.2 90.2 144.2	40.9 80.5 157.3	78.3 183.4 215.2	40.6 71.4 214.7
5411 Grocery Stores (138)	2.44 1.73 1.39	1.80 1.00 0.54	19.30 10.48 4.92	45.53 22.38 11.18	14.37 10.28 7.48	33.77 21.88 13.48	* * *	22.4 17.1 12.5	39.6 66.5 96.5	38.0 97.4 93.2	63.0 141.3 167.0	92.0 141.3 210.7	65.5 93.0 128.9	26.1 60.0 126.5

* Not computed. Necessary information as to the division between cash sales was available in too few cases to obtain an average collection period usable as a broad guide.

Line of Business (and number of concerns reporting)	Current assets to current debt	Net profits on net sales	Net profits on tangible net worth	Net profits on net working capital	Net sales to tangible net worth	Net sales to net working capital	Collec- tion period	Net sales to inventory	Fixed assets to tangible net worth	Current debt to tangible net worth	Total debt to tangible net worth	Inventory to net working capital	Current debt to inventory	Funded debt to net working capital
	Times	Per cent	Per cent	Per cent	Times	Times	Days	Times	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
5251 Hardware Stores (99)	6.35 3.58 2.24	4.64 2.64 1.05	12.14 6.91 2.61	15.90 8.41 3.58	4.18 2.51 1.79	4.71 3.17 2.43	*	4.9 3.9 3.2	8.5 16.1 37.2	15.7 30.6 71.4	34.9 65.2 129.5	60.0 87.0 113.5	28.7 59.0 73.2	8.3 25.4 68.3
5722 Household Appliance Stores (93)	2.94 1.95 1.44	2.32 1.54 0.76	11.03 8.54 3.14	15.95 9.36 4.16	7.03 4.74 2.99	8.68 5.70 3.42	20 37 82	7.3 5.1 4.3	6.7 15.3 35.2	38.2 88.0 148.6	80.9 137.2 262.9	60.0 100.5 179.5	73.9 99.3 133.2	7.8 18.1 34.7
5971 Jewelry Stores (79)	5.43 3.16 2.03	5.23 2.66 0.83	9.74 5.73 2.42	11.10 6.68 2.49	2.81 2.05 1.50	3.21 2.43 1.73	*	4.5 3.0 2.3	4.8 10.6 25.3	22.0 44.4 88.9	45.7 73.6 149.3	56.3 77.1 109.2	35.7 64.9 99.5	8.7 19.6 45.6
5211 Lumber & Other Bldg. Mtls. Dealers (196)	5.40 2.80 1.94	3.79 2.07 1.08	13.22 7.03 4.20	17.65 9.78 4.86	4.79 3.27 2.13	6.60 4.25 2.92	40 54 77	8.3 5.9 4.4	12.2 21.7 43.5	19.0 39.8 73.2	55.6 88.6 127.1	52.8 70.3 96.4	38.4 79.0 130.4	14.2 27.9 58.3
5399 Miscellaneous General Mdse. Stores (84)	6.60 3.49 2.09	4.98 2.61 1.55	15.00 9.20 5.67	18.78 10.88 5.79	4.84 3.19 1.69	5.89 3.83 2.22	*	6.2 4.1 3.1	7.1 14.2 26.3	14.3 36.1 67.2	60.1 85.2 118.5	59.7 93.7 123.0	26.6 50.1 62.2	14.8 38.7 62.6
5511 Motor Vehicle Dealers (100)	1.95 1.50 1.28	2.07 1.35 0.62	20.81 10.63 4.99	30.77 18.18 7.80	12.65 9.71 6.35	22.79 14.49 9.29	*	9.1 7.4 5.9	8.3 26.2 51.7	75.7 123.1 201.2	112.2 195.4 274.3	136.2 200.4 285.8	75.9 91.3 106.7	21.0 73.2 121.2
5231 Paint, Glass & Wallpaper Stores (31)	5.02 3.27 2.00	4.91 3.10 1.50	18.90 13.61 4.26	21.74 14.82 6.45	4.58 3.09 2.34	5.41 3.61 2.98	*	9.6 6.6 5.2	11.0 18.4 50.0	16.3 40.5 78.7	38.9 66.7 138.4	40.5 66.5 108.4	42.6 74.2 115.3	9.5 26.8 114.1
5661 Shoe Stores (103)	5.78 3.20 2.16	3.09 1.67 0.72	9.98 5.24 2.64	12.85 5.86 2.77	4.51 3.30 2.39	5.70 3.64 2.67	*	5.0 3.8 2.7	5.6 12.5 24.5	18.0 35.1 74.1	47.4 82.4 149.4	68.6 103.7 146.4	30.9 48.9 65.1	5.0 22.0 48.3
5531 Tire, Battery & Accessory Stores (69)	3.34 2.23 1.62	5.20 2.39 1.28	17.12 10.71 4.81	24.85 12.89 6.15	5.18 3.76 2.48	7.18 5.00 3.33	*	8.9 6.5 4.4	8.0 18.5 54.2	36.0 58.0 121.5	64.3 127.0 176.3	62.1 85.3 125.9	63.8 107.0 191.4	14.4 28.7 67.3
5331 Variety Stores (71)	4.24 2.93 2.09	3.40 2.31 0.84	13.57 8.27 3.13	17.55 10.19 3.54	5.04 3.84 2.68	7.05 4.87 3.57	*	5.1 4.1 3.1	10.0 23.8 43.9	28.0 40.8 65.1	51.5 75.1 98.3	99.5 120.4 151.8	30.2 42.9 58.2	12.8 31.6 57.4
5621 Women's Ready-to- Wear Stores (189)	4.08 2.51 1.73	3.70 1.81 0.76	13.12 6.68 3.13	17.65 8.64 3.90	5.84 3.95 2.38	8.07 4.73 3.14	*	8.9 6.6 4.7	7.5 18.6 37.0	23.2 51.0 96.0	65.7 104.0 155.6	48.6 76.7 115.8	54.7 87.0 137.9	13.6 29.8 59.2

* Not computed. Necessary information as to the division between cash sales was available in too few cases to obtain an average collection period useful as a broad guide.

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ABSTRACT

BUSINESS DEVELOPMENT HANDBOOK

500 East 62nd Street
New York, New York 10021

This document is intended primarily for use by U.L. affiliates which may not now be involved in business development, therefore only the most elementary aspects are included. We recognize that the handbook could contain considerably more information, which we plan to provide in a subsequent edition.

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The Urban League's mission in the economic development of the minority community is to effectively change the policies of both public and private systems to eliminate the disparity between the economic well-being of non-white minorities and the majority population, and to increase non-white participation in all phases of American endeavor.

Specifically, and more simply stated, our mission is to increase the "per capita" income of Black and other non-white Americans by equalizing their opportunities to more effectively use their skills and abilities in the pursuit of economic security.

A review of the process involved in achieving this mission presents the task of finding solutions to the following questions:

1. What steps do we take to equalize the "life chances" of Black and other non-white Americans?
2. How do we develop the strategies that produce economic power and how do we use it to participate in the economic growth of the nation?
3. How do we use equal opportunity programs in employment to expand and improve educational and training programs as a means of providing for a more secure family situation?
4. How do we develop innovative programs for identifying and eliminating the barriers which create problems, and therefore, affect the economic status of minority Americans?

One answer to these questions is the development under the aegis of UL sponsorship of business development programs which foster the economic growth and stability of the community.

The long range goal of black business development is to generate in the community wealth necessary to achieve social, political and economic parity - in short, to enable the black community to build for its people a more satisfying and self-sufficient life. This attempt to evolve one's own options is the crux of minority entrepreneurial development. There can be no limits or set parameters which prescribe fixed formulas in achieving this end. It can be achieved in a number of ways. It is this flexibility which enables the NUL to provide a broad range of practical alternatives.

As business development in ghetto areas is an on-going process, in most locations there will be deficiencies in sound principles of profitable entrepreneurship, in funding, and in the coordination of community services. It is our intent as one practical answer to these major problems, to match the potential entrepreneur, the opportunity, the capital, and the technical resources to help meet the need. In doing so the League demonstrates community participation with community groups, church groups, lawyers, accountants, management associations and trade associations, all must be involved to some degree and at some point.

INTRODUCTION

The National Urban League's first major effort in Business Development began in 1968 under the League's "New Thrust" program. As a part of New Thrust, economic development programs were begun in ten (10) cities, funded by several foundations.

Columbus, Ohio and Muskegon, Michigan developed "Economic Action Teams," to stimulate black business. Minneapolis, Minnesota founded Business Enterprises For American Minorities (BEAM) and produced the first national black business directory. Anderson, Indiana set up "Buy Black" campaigns. Winston-Salem, North Carolina developed an economic development corporation to operate simultaneously in several cities. Dayton, Ohio and New Orleans, Louisiana organized black contractors, and New Orleans also started a Black Business Council and a buying cooperative. Other League cities raised seed capital for housing ventures, organized and trained black entrepreneurs in innovative ways, and incited communities to action on their behalf.

These activities attracted the support of government and led to a \$425,000 U. S. Department of Commerce one-year grant in January, 1969, which established fourteen (14) full-time and four (4) part-time "Entrepreneurial Development Specialists" in ten (10) League cities, coordinated from League headquarters in New York. Ultimately extended to September, 1970 and matched by \$142,500 from the National Urban League, the project recruited and counselled

black entrepreneurs, assisted their search for capital by helping develop and channel their loan applications, and systematized methods of technical assistance to them. Minority contractors were also encouraged to pool their resources in joint venture agreements, apprised of Federal construction opportunities, and shown how to obtain Federal contracts for the first time.

The broad effects of the project in ten (10) cities called for reassessment of its format. There was increased local foundation interest in supporting minority enterprise, increased cooperation from community agencies, and increased communication between minorities and white financing institutions. These factors suggested the possibility of new program directions, and there was an evident need to look at the program's effect on the new minority businessmen now that their new businesses were established. An added dividend was the creation of many new jobs for the community through the new enterprises, and this too suggested new program possibilities. Thus, in late 1970, the Department of Commerce established the League's Business Development Program focused on a single demonstration model, the Urban League Business Development Center in Indianapolis, Indiana, to refine the League's assistance to black enterprise and to explore the more far-reaching benefits possible in such programs. Center work was to be supervised and assessed by a Project Director at League headquarters in New York.

An expansion of the League's Business Development Program took place in January, 1972. A \$1,002,000 contract from the U. S. Department of Commerce established Local Business Development Organizations in Columbia, South Carolina; Milwaukee, Wisconsin; Jacksonville, Florida; Tulsa, Oklahoma and Indianapolis, Indiana. The latter was a continuation of the former Business Development Center, and its activities are serving as a model for the new project cities. A National Business Development Organization was also established at League headquarters in New York.

The main thrust of national-level activity was to consolidate League experience in minority business development and share it with affiliates and the Local Business Development Organizations. But a national store of information on the needs of minority entrepreneurs and ways to answer them is emerging. This information was made available to-and has been shared with-individual entrepreneurs; regional and national offices of Federal agencies such as the Small Business Administration, the Federal Reserve Board and the Office of Minority Business Enterprise (OMBE); private groups and agencies promoting minority business; and minority businessmen wishing to establish MESBIC's.

The League's business development efforts are linked with other national minority business development programs.

To date, the program has prepared nearly 600 loan and procurement packages totaling approximately \$37 million. 800 minority businessmen have received formal training while more than 3,000 others have been assisted in various aspects of business operations.

Obviously, the Agency has gained a tremendous experience in business development. This guide is an attempt to begin to share more effectively these experiences with all Urban League affiliates, which will hopefully enhance their efforts in this important role in community economic development.

BACKGROUND

There are four (4) equally important ingredients that must go into any business:

First, the right man - someone with the drive and determination to want to cut himself a piece of the American free enterprise system.

Second, a realistic opportunity - a potential or existing business that supplies a produce or service for which enough people will pay enough money so that the business can turn a profit.

Third, adequate capital - financing that will enable the entrepreneur to get his business off the ground initially and keep it alive during the tough period which faces every new business and those enterprises which are trying to expand.

Fourth, management and technical assistance - the kind of capable, practical, and continuing aid which can often mean the difference between success and failure to a small business.

Stated simply, successful minority business development proceeds on the premise that there are four (4) essential ingredients to successful business ownership:

1. A qualified or qualifiable minority entrepreneur;
2. A sound business idea or opportunity;
3. Adequate available financing, including a reasonable mix of equity and debt capital;
4. Available managerial and technical know-how.

It is to the successful combination of these ingredients that this manual is dedicated.

The Federal Grant Effort

Executive Order 11526 created the Office of Minority Business Enterprise (OMBE), and designating it as "the focal point of Federal Administration efforts to assist in the establishment of new minority enterprises and the expansion of existing ones." OMBE was organized to concentrate its program efforts in four (4) basic areas: (1) Coordination of Federal Activities; (2) Mobilization of Private Sector; (3) Stimulation of Minority Community; and (4) To serve as an Information Center.

Localizing Federal Efforts

The Federal minority enterprise program is based on the ability to deliver the benefits of its programs at the local level. The communication and implementation of programs undertaken at the national level, both by the Federal Government and by the private sector, is dependent upon local cooperation in

seeking out minority businessmen and in producing a coordinated local "delivery system" that will bring together these individuals and the other three (3) ingredients for success--capital, business opportunity and technical assistance.

There are various local business resources of this type that are already present throughout the country. For example, there are numerous trade and professional associations and existing organizations in local areas who have made commitments to supply technical assistance to minority business aspirants. Many local universities, corporations, banks and other institutions sponsor seminars and training sessions to aid the efforts of minority enterprise. All of these resources are invaluable to the total program.

OMBE Business Development Offices

OMBE instituted a system of Business Development Offices (BDO's) to insure that the minority businessman is reached and will be provided with the assistance necessary for his business success.

OMBE BDO's are existing community organizations with established reputations in the minority community. They are funded as "one-stop" centers at which the current or prospective minority businessmen can receive or be guided to any form of assistance for which resources are available within his community.

Organizations are selected as BDO's on the basis of their ability to find the qualified or qualifiable minority entrepreneur, provide necessary information, assist with business packaging (a complete business proposal which includes a feasibility study, loan package, management plan and time-phased goals), and make available technical and managerial assistance.

A local business development office promotes the economic development of a low-income community by encouraging members of the community to engage in worthwhile enterprises. The BDO encourages such enterprises and provides them with various kinds of services.

Specific BDO Functions and Capabilities

In it's role as broker-sponsor, the BDO engages in any or all of these activities:

1. Conducts research on job opportunities and on the community's needs for business services and makes the results of such research available to potential entrepreneurs, to outside businesses that may wish to establish or expand facilities in the community, and to local businesses that want to tailor their operations more closely to community needs. Based on its research, the BDO may propose establishment or acquisition of businesses by one or more residents of the community.
2. Discovers local investment opportunities, such as businesses, or facilities for sale, persons seeking partners or joint ventures, potential corporate spin-offs, high-demand markets, etc. The BDO can

make such opportunities known to community residents who are interested in establishing businesses.

3. Discovers persons and businesses in the community that have a desire to aid the economic development of the community providing the training, information, and assistance needed to do so.
4. Provides organizational assistance to groups that wish to establish businesses in the community. For example, the BDO could aid a group in establishing a cooperative, in acquiring a small business, or in forming partnerships.
5. Provides managerial and technical assistance to established businesses and to those interested in acquiring businesses. For example, the BDO could help in making feasibility studies or provide accounting, marketing, purchasing, or other advice and services.
6. Provides financial services to new and established businesses, by arranging high-risk loans or by arranging loans from conventional sources.
7. Arranging for key sites, sale or lease land, buildings, equipment, or other capital goods to community businesses.

PROGRAM DIRECTION

A major consideration in establishing program direction is the presence of majority controlled institutions which are known to favor certain aspects of business development such as technical assistance, training, or loans, and whose support could be immediately forthcoming.

PHASE I

Using these factors as a frame of reference, considerable initial time will have to be spent in surveying the minority

business community and in establishing contact with local universities and corporations for pledges of training and technical assistance. Radio and television spots could be sought, regular newspaper articles and public service announcements obtained. This is a period in which local Leagues must attempt to exhaust the possibilities of the potential for a successful business development project. Sheer volume will force selectivity, but much knowledge and insight will be gained concerning the myriad problems confronting the minority entrepreneur which must be solved in order to move any significant number into the mainstream of the economy.

Basically this initial period is one of learning -- at all levels.

PHASE II

Institution Building

During Stage II in the search for direction, careful evaluation of the institutional strengths and weaknesses in the community is made. A view of the majority business world will indicate that it would be folly to launch a large-scale effort to get business started without first establishing the necessary institutional arrangements that would support them. The failure rate among small businesses, generally about 90% in the first five years, makes the case for business institution-building for the minority community with obvious priority over business development per se.

PHASE III

Consequently at Stage III, attention must be given to establishing dependable volunteer technical assistance arrangements; to initiating a dialogue with banks and other potential lenders to clarify their criteria and orientation and encourage collaboration; to the potential for establishing training programs; to forming businessmen's associations; to the possibility of developing coordinating bodies where there were several organizations engaged in minority business development in order to maximize resources; and to establishing workable relationships with local and federal economic development agencies. It can readily be seen that the absence of any one of these institutions weakens the entire effort. The absence of dependable capital, technical assistance, and training components virtually dooms the undertaking to failure.

TYPES OF AID

The principal types of aid to inner-city enterprises rendered by outside business should include:

Financing Lending money to inner-city concerns (usually at below-market or no interest); making outright grants to them or (rarely equity investments* in them) granting credit on easier-

*Equity investment is described as a nurturing activity when (1) there is little expectation of achieving more than a token profit; and; (2) more important, the prospect of profit is not a pre-eminent motive for the investment.

than-usual terms, or securing such terms from other suppliers; helping the concerns to get financing from banks and other lending institutions and offering financial guarantees as a substitute for performance bonds for minority-group contractors; and depositing funds in black-owned banks, and donating, lending, or making available at low cost, goods and services, such as production equipment and radio and television time.

The largest problem for any new businessman is to find and tap sources of capital with which to establish and operate his business. He must obtain both an adequate amount and a proper mix of equity capital, debt capital and credit. To obtain debt capital - that is, to borrow money - he must have in hand sufficient assets to secure a loan. To accumulate those assets, he requires equity or seed capital - investments in his business. To balance his cash flow during periods when his obligations exceed his receipts, he also needs credit.

While sources of equity capital have been opening up for minority entrepreneurs, this type of financing continues to present them with greater problems than debt financing. It is more difficult to locate and more difficult to attract. In the end, the potential for return on investment is the prerequisite for equity investment on the scale needed.

Credit

Even with a proper mix of debt and equity capital, a businessman requires short-term credit to carry him through periods of cash flow shortage. Such credit is needed if his business is subject to seasonal fluctuations, if substantial outlays are required early in the production process and to carry receivables.

Managerial and technical assistance This is extremely broad in scope and includes: preparing business plans, budgets, and pro forma financial statements; providing legal and accounting services; installing systems, procedures, and internal controls; recruiting and training managers and workers; devising purchasing and inventory policies and procedures; winning needed sanctions or concessions from government officials and agencies; locating and acquiring sites, and laying out plans and stores; preparing and negotiating bids and proposals; and selecting and procuring production and office equipment.

Once a minority business had been financed, no matter how carefully the mix of debt and equity financing has been calculated, no matter how carefully the financial projections have been worked out, and no matter how successful the business may look on paper, the business will not succeed if the men in charge do not know how to manage.

Articulating the essential needs for management and technical assistance is easy enough - but it is not easy to deliver useable assistance at the right time to minority business men and women struggling to make their way in an unfamiliar, extremely competitive, complex environment largely stacked against them.

DEVELOPING THE LOCAL PACKAGE

The first step in developing a local program is the national commitments NUL has made in the business development program identifying needs and markets, and locating prospective entrepreneurs.

Based on the needs and resources which have been identified, the local League should begin to respond with ideas for its program to assist minority enterprise. Because of the variety of economic and social conditions occurring in the urban environment, the components of such a program will necessarily differ from city to city. Generally, the more varied and sizable a "package" is, the greater its impact will be. It is important, however, that the kind and number of program goals do not overload the capability of a community to accomplish what it has set out to do.

Hence it is vital that all sectors of a given community - both mainstream and minority - be involved in putting together

the "package". Only with a complete and continuing commitment from all can such a program be implemented.

A BDO package, or proposal, should include:

- I. PURPOSE -- Describe the situation giving rise to the problem and how you became interested in it. Discuss the implications of the problem.
- II. SURVEY -- The Community to be served should be described in terms of the following:
 - A. Give the estimated population of the area to be served and indicate the area's population distribution in relation to the city and/or state. Cite relevant figures as to the characteristics of the population.
 - B. Attach a map showing the area to be served by the project.
- III. STATEMENT OF NEED -- The needs of the community should be discussed in terms of the following:
 - A. Describe the relevant resources in the target area.
 - B. List and describe how the general needs of persons in the area were determined, and why the needs for the proposed program were assigned priority.
 - C. State the rationale for this type of project as the best solution for meeting these needs.

- D. Describe the extent of financial inadequacy of local (area) resources for providing the proposed program as compared to the resources available in other areas in the State for similar purposes.

IV. OBJECTIVE -- Distinct objectives or purposes should be delineated. These objectives often serve as the basis for determining the method of procedure of the project. The objectives of a project set the stage for showing how one intends to resolve his statement of the problem. Frequently, proposals establish objectives that are impossible to undertake. This suggests that one of the first things to do when the proposal is completed is to reread it and make sure that the objectives section neatly fits the problem statement, and that the procedure section adequately encompasses all of the objectives.

The objectives should be concrete and specific. They should give the appearance of being achievable. They should be listed in approximate order of their importance.

V. METHOD -- This is usually the most carefully read section of the proposal because this is what the grant giving agency is really buying. In this section state in sequence the procedures to be used and tell why these procedures are considered the best method for achieving

these objectives. Be sure to include a time schedule as it is an excellent indication of how carefully and realistically the project has been developed. The time schedule should be a clear sequential statement of the operations to be performed. The duties and responsibilities of Key Project Personnel should be spelled out in detail. Resumes of Key Personnel should be included in the appendix.

VI. EVALUATION -- This section of the proposal must describe the criteria, methods, techniques, and procedures which will be used to determine the degree to which the objectives of the proposed program are achieved. Describe the process to be used to conduct the evaluation.

VII. PERSONNEL -- Cite the name, title and a brief statement of pertinent experience and qualifications of all personnel.

VIII. FACILITIES -- Describe the kind of facilities that the project will need. Where the project must get underway shortly after it is approved, ready availability of needed space and equipment should be noted. Where the method of procedure requires the sanction and approval of other cooperating agencies, evidence of prior approval

lends credence to the proposal. In some proposals, copies of letters from responsible personnel in cooperating agencies have been duplicated and included in the appendix with good effect.

IX. BUDGET -- The budget is an operational statement of the project in monetary terms. All of the budgetary provisions should have a counterpart in the project description. A clearly described project is easily translated into budgetary terms. A poorly described project will be translated with a great deal of guess work. If much of the latter occurs, re-examine the proposal. It will probably need considerable tightening up!

A. Direct Costs

1. Salaries: List all personnel separately; e.g. director, assistant director, research associate, consultants, data processing personnel, secretaries, etc. Give percent of time to be devoted to the project.
2. Employee Benefits: This item includes Social Security, retirement, group hospital and life insurance, unemployment compensation, etc.
3. Travel: Check government regulations as to what is allowed.
 - a. Staff Travel: (Project personnel) include funds for attendance at meetings, site visits, data gathering, etc.

- b. Other Travel: (Advisory committee, trainees, etc.) include number of meetings, days per meeting, and number of people attending each meeting.
4. Equipment: All equipment must be itemized. Costs should be shown, based on current quotations from manufacturers or distributors.
5. Supplies and Materials: Includes standard supplies such as papers, pencils, manila folders, stationery, etc.
6. Communication: Telephone, telegraph, postage, amounting to approximately \$_____ per month. Distribution cost of publications.
7. Duplication and Reproduction: This item includes mimeographing, xeroxing and printing any publication materializing out of the project efforts.
8. Rent: Include the number of square feet needed for staff and approximate cost per square foot.
- 9.
- a. Total Direct Costs: Sum of direct costs.
- B. Indirect Costs: _____% of the total direct costs.
This rate varies from project to project and may be the subject of negotiation.
- C. Grant Total: Sum of Total Direct Costs and Indirect Costs.
- D. Cost Sharing: Show percentage of costs borne by Federal government and percentage borne by others.

BUDGET POSTSCRIPT

Depending on the project, additional line items may be needed. For example: if questionnaires are to be used to gather data, it will be necessary to increase the amounts budgeted for

postage and reproduction; or if the project involved making a film, a separate line item may be necessary.

PROPOSAL WRITING POSTSCRIPT

Once the proposal has been written, it should answer all of the following questions:

- (1) What are you going to do?
- (2) Why do you want to do it?
- (3) How are you going to do it?
- (4) What new or old techniques will be used or used with improvements?

If the proposal does not answer these questions, rewrite it.

In sum, the BDO proposal should request funding to contact and counsel potential minority entrepreneurs; provide information and data; help prepare business plans, loan applications and feasibility studies; serve as a liaison with government and private sources of financial aid; and assist with initiation and expansion of businesses.

THE LOAN PACKAGE

Consistent with its role as "facilitator" and "broker", the local League BDO will have as one of its primary functions the preparation of "loan packages" for minority businesses in its

area which need start-up or expansion capital. A "loan package" is essentially a feasibility study done on a business to analyze its ability to use loaned money wisely and to pay it back on time. These packages, prepared through the League BDO's are the assessments upon which the decisions to loan moneys to specific minority businesses are based.

Part of the funding of each League BDO should be allocated to the manpower needed to prepare these "loan packages". The League through this effort becomes an extension of the lending institution, assessing the needs of each potential borrower and assisting them in preparing a viable formal loan request. In general, a typical entrepreneur loan package will include:

A TYPICAL LOAN PACKAGE

<u>Item</u>	<u>Identification</u>
I	Case History
II	Statement of Personal Goals
III	Personal Financial Statement
IV	Projection of Income and Expenses for Three Years
V	Projection of Cash Flow for Three Years
VI	Projected Balance Sheets for Three Years
VII	Feasibility Survey
VIII	Break Even Analysis
IX	Equipment Package Needed
X	Equipment Depreciation Analysis
XI	Loan Requirements
XII	Loan Repayment Plan
XIII	Proposed Organizational Chart
XIV	Income Tax Return Statement
XV	Operating Statements
XVI	Lease Agreements
XVII	Miscellaneous Purchase Quotes
XVIII	Contract Agreement
XIX	Six Month's Cash Income & Expense Projection
XX	Small Business Administration Letter of Loan Approval
XXI	Location of Business
XXII	Bio-data on key personnel

Private Sector Role

Harnessing the extensive resources of the private sector requires the existence of local, fully staffed private organizations to identify opportunities and provide assistance. Briefly, LBDO's offer a pool of private sector experts who help identify and ensure the availability of capital and financial assistance for minority businesses, stimulate market demand for minority produced goods and services, provide a clearing-house for information on business opportunities, supply full-time management consultants and technical experts and develop a skills-bank of experienced volunteers.

Business Counseling

One source of support for the new entrepreneur is direct counseling by businessmen experienced in the same business or with special skill in the problem facing the new businessman. Many graduate business schools now provide counseling programs in the areas where they are located.

However, a group experienced in business counseling in New York offers this caveat:

"Each of these organizations has its own objectives, priorities, and capabilities, which may or may not be in the best

interest of the individual minority entrepreneur. Furthermore, changes in staff or financial resources may substantially influence an organization on short notice."

"...In seeking their help, as in running his business, the entrepreneur should remember that he alone is ultimately responsible for his own success or failure."

VENTURE CAPITAL

The term "venture capital" has no commonly accepted definition but conventional usage, in the United States at least, implies investment in a business enterprise where the uncertainties have yet to be reduced to risks which are subject to the rational criteria of security analysts.

The concept of venture capital is quite simple. An investor or group of investors, contributes capital money to the new or small corporation in return for an equity position in that corporation. The object is that, as the business grows and prospers, the value of that equity position will increase. Furthermore, at some favorable time in the not too distant future (usually 3-6 years) it will be possible for the investor to convert the value of that equity position into cash or other liquid assets. Thus the appreciation of his investment will be in the form of capital gains.

The entrepreneur should remember that the venture capitalist has as much at stake as he - perhaps more. If a company fails, the entrepreneur can leave and can usually get a good job elsewhere. The venture capitalist is in the business as a career. He cannot readily walk away from a financial disaster, but must endure the damages to both his investment resources and his professional reputation.

FORCES MOTIVATING THE VENTURE CAPITALIST

What motivates the venture capitalist? The answer is simply and directly: the prospect of significant financial gain, i.e., financial gain which goes beyond what is possible in conventional investment in stocks and bonds.

Contrasted with these historical modes of investment, ventures, even given a greater degree of uncertainty, provide certain attractive options which allow the venture capitalist to control and reduce his risk exposure. The first and most apparent involved the screening process. Of the many proposals submitted to the venture capitalist only those with the greatest probability of success are selected. Later in designing the financial package for the selected venture, the venture capitalist can provide some means for effective control of the new enterprise. And, of course, the venture capitalist will also receive continuous information about the progress of the company and may reduce the risk of managerial error by participating in the policy-making decisions of the enterprise.

In summary, the venture capitalist is motivated by the reward he can attain. He has weighed the differential of an expected 9 percent to an outside 15 percent return in a traditional investment outlet against an expected 25 to 40 percent (or greater) return in a venture investment. He has considered the illiquidity of

the latter, balanced the risks involved under both alternatives and the relative extent to which these risks can be controlled or reduced, and concluded that the expected reward differential is sufficient or, more likely, more than sufficient to warrant providing capital for these new enterprises.

Attaining the Reward

The process can perhaps be put in context, if we examine the stages of development of a new successful venture. If the time frame in which the innovative idea is still not a full-time business is considered to be "Stage-Zero," four stages of growth can be described.

Stage-Zero -- Usually at Stage-Zero some monies (usually the principal's own) have been invested, a great deal of effort (on a part-time basis) has been expended, a prototype may have been developed. Or, on the other hand, it is possible that only the time and effort required to organize and plan for the new enterprise have been expended prior to entering Stage-I.

Stage-I -- is the start up phase. This is the period in which the operation is formalized and the produce or service is developed and produced. This start is made with seed capital which can come from a number of diverse sources. The company's initial financing will be largely from selling ownership shares to the financial bankers. This is the classic venture capital

step. Here the venture capital company participates with relatively small amounts of funding but, of course, the opportunities for growth are great.

Stage-II -- occurs when the company has built up a bit of a track record. It has moved through the initial growth phase and some of the conventional techniques of investment analysis can be applied to it. At this point, also, the company has developed capital equipment and can begin to plan for long-term growth.

It is in Stage-II that other institutional source of capital begin to participate in the financings of the new company.

Stage-III -- Further expansion is warranted due to favorable indications regarding the company's potential. The quantities of funds required are much greater than those raised in the earlier stages and the early investors are seeking both realized gains and liquidity. It is at this point that the public equity offering is usually made for the dual purpose of raising additional funds for the company (primary offering) and enabling the initial investors to realize a gain by selling a portion of their shares (secondary offering).

Stage IV -- The mature company has established itself and become a viable corporation.

To put the whole problem in perspective, what are the chances of getting a venture capitalist, either an individual or a firm, to back any given entrepreneurial endeavor? A reputable venture capital firm will, on the average, reject out of hand about 97% of the proposals submitted to it, take a first look at 3%, and in-depth look at probably 1%, and will actually fund less than 1/2 of 1%.

THE VENTURE CAPITAL INDUSTRY

Who makes up the venture capital "industry"? In addition to the traditional venture capital groups and families, some brokerage firms, pension funds, profit sharing funds, trust companies, insurance companies, hedge funds, specialized mutual funds, investment advisors, wealthy families and investors are all playing the venture capital game. However, these latter sources rarely provide initial financing. This remains the task of the traditional venture capitalist.

The traditional organizations consist of both privately and publicly held companies. Their objectives, motives and methods vary considerably from one to the other. Some are interested primarily in "frontier" research. Others are interested in high technology that has marketability now or in the very near future. Other venture capitalists are strong in

fields such as marketing, and tend to stay away from high technology areas. An excellent resource for locating the ideal venture capital company for a specific proposal is "Venture Capital, a Guidebook for New Enterprises."

COMMUNITY DEVELOPMENT CORPORATION

A Community Development Corporation (CDC) is a profit or non-profit making consortium of enterprises owned and controlled by the residents of a community who buy shares in them as they would in a corporation on the stock exchange. Residents who invest in CDC's do so primarily to (1) generate dollars and jobs for their community, (2) develop community resources of entrepreneurial and managerial skills, and (3) provide a variety of social benefits for themselves and their neighbors.

The profits generated by the CDC are invested back into the community in other profit making ventures or into community services such as day care, training or other operations that foster neighborhood economic growth and community self-determination.

DEVELOPING AN ENTREPRENEUR CADRE

Great civil rights victories began to happen when blacks decided to act collectively, led by a cadre of organized leaders and lawyers. Black political strides can rightfully be attributed to a new class of black political professionals. Black economic empowerment similarly requires leadership in conjunction with the assembling of community resources.

To compete under democratic capitalism for the allocation

of resources, and thereby gain economic power and the elimination of disproportionate poverty, blacks must develop a powerful entrepreneurial class of executives who manage and control business corporations ... bankers, manufacturers and builders. We must do this within the context of representation and involvement by the total black community.

This is why the emerging phenomenon of Community Development Corporations (CDCs) is so significant. CDCs are owned and controlled in various degrees by residents of their communities. They are also aimed at total development: economic, social, political. They are also flexible, and they create leadership.

The CDC is essentially a conglomerate owning a collection of businesses and having an equity in other business which may or may not be profit-making. Profits in any case are used both to generate additional business activity and to underwrite the cost of community services. But CDC's emphasis on profits is important, both because it leads to community self-determination, and because it sustains other essential non-profit activities to the same end.

CDCs further have the capacity to pool community talents and resources constructively. They produce synergistic results by generating increased income, accumulated capital and a class

of entrepreneurs, managers and skilled workers. Above all, they are an identifiable center for economic action. This makes it possible for impoverished minority communities to negotiate as equals with the majority society, eliminating volunteerism and paternalism.

However, if CDCs are to succeed in future, they must expand their resources beyond the primarily federal funds now available to them. They must obtain more, not less, federal assistance. But they must also obtain venture equity funds from conventional private sources, and develop a self-generating economic independent of other sectors' programs.

Thus community organizations like the UL can play a vital role as advocates of the CDC concept. We must talk to Congressmen and Senators, businessmen and foundation executives, about the potential of CDCs for ghetto economic development. If CDCs are to respond to the needs of their communities, rather than to pressures of Washington, City Hall or industry, we must build support for them.

At the national level, NUL is soliciting and encouraging members of its 41-member Commerce and Industry Council - who represent many of the nation's largest corporations - to aid economic development in UL communities where they have local plants.

Prudential Insurance Company's new efforts to convene major business interests in Jacksonville, Florida are the first fruits of C&I involvement and spearheaded by the Council's Task Force On Minority Business Development, whose chairman is a Prudential Senior Vice President.

Our experience and a review of available literature on CDCs suggest several aspects of CDCs worth considering:

- . The success of CDCs depends heavily upon built-in alliances with the local business community. But business support is always a trade-off for CDCs. Deposits are expected to be made in certain banks, or real estate transactions are to be handled by certain firms.

- . CDCs and other self-help economic groups must develop a national constituency as well as a local one, to obtain the public investment necessary to develop whole urban or rural poverty areas.

- . The political effect and tone of CDCs will have to be weighed along with their expressed goals and available resources.

- . As young and new as they are, CDCs are particularly vulnerable to distortions of their identity and role by funding sources - whether from the federal, foundation, or private sectors. They must therefore organize strongly, and draw new

interests into their arena: sympathetic local businessmen, the more progressive elements of the labor movement and concerned influential citizens.

. CDCs are the expression of a socio-political movement and process much broader than the old urban renewal and poverty programs. They are actually multi-purpose institutions, fundamentally flexible, and can take many forms, many of which are yet to be seen. Essential to them is their control by heretofore under-represented, under-privileged, under-developed neighborhoods and their residents.

OBSTACLES

There have been reservations regarding the viability of CDCs. Important among them is the fact that the normal objective of business profitability has been obscured by their attention to community social goals - making their successes difficult to measure in dollar-and-cents terms.

There have also been accusations that their managerial authority was either too limited, too ambiguous, or (worst of all) inept and/or capricious.

The answer to such reservations is two-fold: a) government and private programs have shown no greater success in developing

ghetto communities, and b) what is needed to try harder.

Government and private support of black economic development has been discouraging. The investment of talent and financial resources has been inadequate to the task. Programs have been timid and diffused - and there have been far too many different programs without any comprehensive plan. Further, most programs have been paternalistic, palliative, over-centralized, inefficient, and costly.

For CDCs to have the chance to prove their worth, there must be sufficient interest generated in CDC communities ... sufficient support from the majority business community ... a sufficient plan to produce skilled managers and entrepreneurs to run CDC enterprises.

New programs coming down the pike, such as "new communities," environment and conservation, may be relevant to CDC activities; but they must be scrutinized to be sure that CDCs can use them, with full awareness of the constraints placed on CDCs because they are community-managed and owned organizations.

WHAT CDCs MUST DO

CDCs must ask searching questions too. They must ask themselves how to overcome past deficiencies and failures. They

must reconcile community development with the profit motive. They must assure the community it will not be exploited.

And they must make certain: a) that their activities are not only needed, but desired by the community, b) that they make the most proficient use possible of local resources, c) that they out-perform other agencies with consistent, visible results which can be readily analyzed and evaluated, d) that the development process becomes independent and self-sustaining as soon as possible, and e) that development skills and economic power are, in fact, transferred to the community.

The long-range goal of minority economic development is to generate the wealth to achieve economic, social and political parity with the majority, and thereby achieve a more satisfying and self-sufficient life for themselves - a life with options and choices.

PARTIAL LIST OF COMMUNITY DEVELOPMENT CORPORATIONS
WHOSE HISTORIES MAY BE REFERRED TO
FOR FURTHER INFORMATION

Action Industries
1607 Pacific Avenue
Venice, California 90291
President: Clarence Dove, Jr.

The Albina Corporation
3810 North Mississippi
Portland, Oregon 97227
President: Mayfield Webb

Bedford-Stuyvesant
Restoration Corporation
268 Ashland Place
Brooklyn, New York 11217
President: Franklin A. Thomas

BEU of Greater Kansas City
2502 Prospect Street
Kansas City, Missouri 64127
President: Curtis R. McClinton,
Jr.

Black Development Foundation
1308 Jefferson Avenue
Buffalo, New York 14208
Executive Director:
Ambrose I. Lane

Black Peoples Unity Movement
201 Broadway
Camden, New Jersey 08103
BPUM-EDC Executive Director:
Harvey Johnson

Circle, Inc.
126 Warren Street
Boston, Massachusetts 02119
Executive Director:
William A. Davis, Jr.

Denver Community Development
Corporation
4142 Tejon Street
Denver, Colorado 80211
Executive Director:
Louis Ramirez

East Boston Neighborhood Council
144 Meridian Street
East Boston, Massachusetts 02128
President: Fr. John Hinkley

ECCO Development Corporation
22nd and McAllister
Columbus, Ohio 43205
President: James Cooper

FIGHTON, Inc.
65 Sullivan Street
Rochester, New York 14605
President: DeLeon McEwen

Greater Memphis Urban Development
Corporation
P. O. Box 224
Memphis, Tennessee 38101
Acting Executive Director:
Randall N. Conway

Harlem Commonwealth Council, Inc.
306 Lenox Avenue
New York, New York 10027
Executive Director: James Dowdy

Hough Area Development
Corporation
1835 East 79th Street
Cleveland, Ohio 44103
Executive Director:
DeForest Brown

ICBIF
6072 14th Street
Detroit, Michigan 48208
Executive Director:
Charles Brown

MEDIC Enterprises, Inc.
287 Washington Street
Newark, New Jersey 07102
President: Elvin Austin

North Lawndale Economic
Development Corporation
3325 W. Roosevelt Road
Chicago, Illinois 60624
Executive Director: Cecil Butler
Board Chairman: Thomas Smith

Operation Bootstrap
4161 South Central Avenue
Los Angeles, California 90011
Director: Louis Smith

People's Development Corporation
651 Florida Avenue, N.W.
Washington, D.C. 20001
Executive Director:
E. Richard Brown

Southside Revitalization
Corporation
1729 Center Street
Racine, Wisconsin 53403
Executive Director:
Lawrence E. Hunt

Southwest Virginia Community
Development Fund
401 1st Street, N.W.
Roanoke, Virginia 24016
Executive Director:
Thomas Morse, Jr.

The True Peoples Power
Development Corporation
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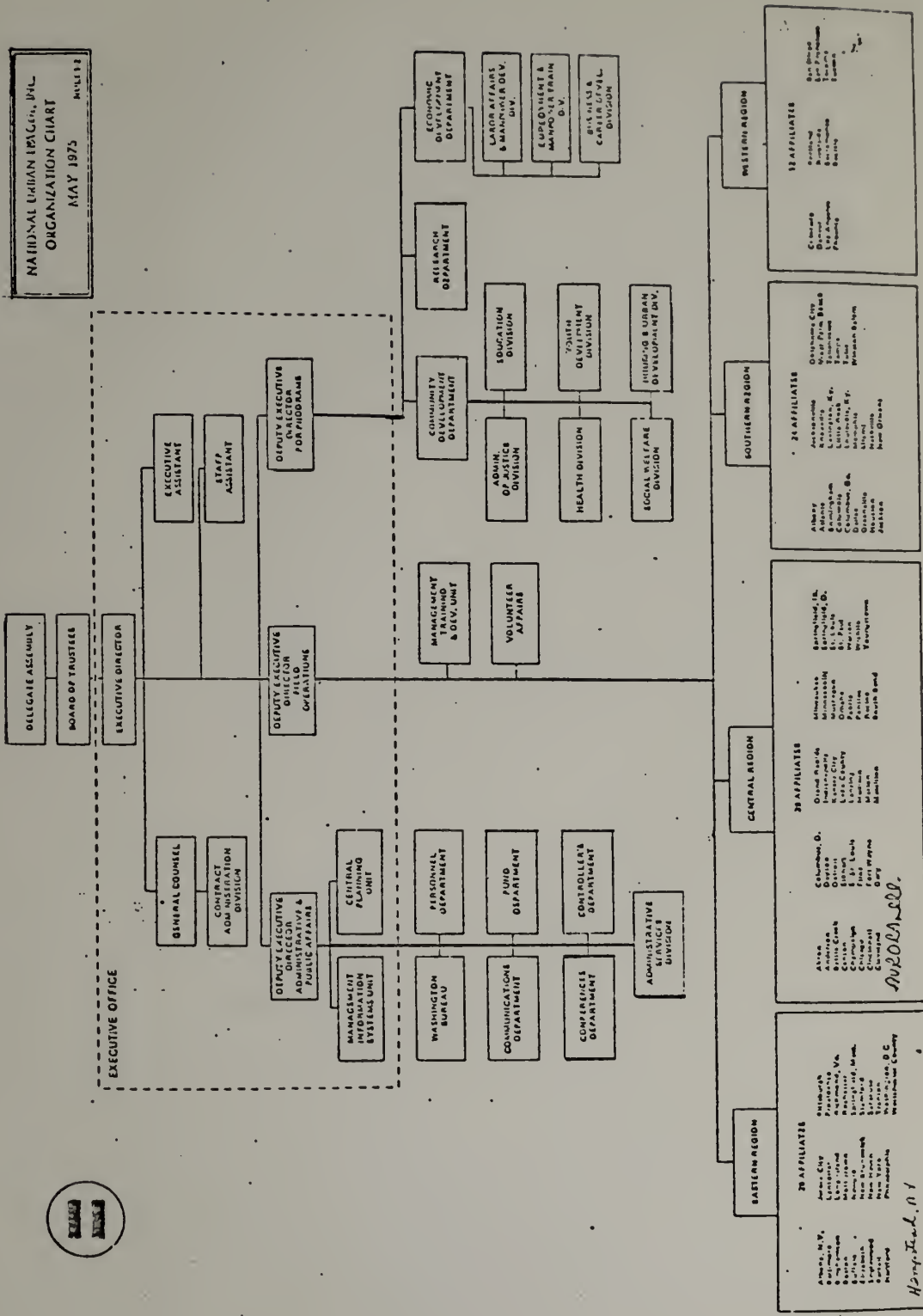
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APPENDIX E
THE NATIONAL URBAN LEAGUE
ORGANIZATIONAL CHART

NATIONAL URBAN EMERGENCY PLAN
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FOOTNOTES

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