ANALYSIS OF VENTURE CAPITAL INSTITUTIONS FINANCING MINORITY BUSINESSES IN BOSTON

by

VERNON ALLEN MCINNIS

Submitted in Partial Fulfillment

of the Requirements for the

Degree of Bachelor of Science

at the

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

June, 1974

Signature of Author . . . .
Department of Urban Studies and Planning, May 10, 1974

Certified by . . . .
Thesis Supervisor

Accepted by . . . .
Chairman, Departmental Committee on Theses

ABSTRACT

ANALYSIS OF VENTURE CAPITAL INSTITUTIONS FINANCING MINORITY BUSINESSES IN BOSTON

by

VERNON ALLEN MCINNIS

Submitted to the Department of Urban Studies and Planning on May 10, 1974 in partial fulfillment of the requirements for the degree of Bachelor of Science.

Managing minority enterprises is a very difficult occupation. The problems of minority entrepreneurs can be divided into two major categories - money and management. Even though the managerial expertise of those involved in managing minority enterprises is a real and important problem, the focus of this research shall be in the direction of financing minority businesses.

One of the problems associated with these businesses is a lack of equity necessary to leverage adequate debt for everyday business operation. This paper shall seek to investigate the sources of this equitey through the venture capital market in Boston.

Thesis Supervisor: Frank Jones

Title: Ford Professor of Urban Studies and Planning

TABLE OF CONTENTS

INTRODUCTION

It is true that business is the mainstream of the American economy. Status, wealth, and social well being are all products of successful business. The minority community will be unable to move toward economic equalization with white America unless they become totally involved in the business economy. As of date, the problems incurred by minorities in their attempt to gain a fair share of America's Gross National Product has restricted them in their effort to enter the business world.

These problems can be associated with many hypothetical and real barriers that have occurred in minority business. The lack of managerial expertise has probably been the problem that has received the most attention by scholars in education and business. On the otherhand, their is a silent murmur being whispered among minority entrepreneurs. They exclaim that the lack of venture capital has caused major problems in their attempt to run a business. The focus of this paper shall be to analyze the venture capital market in the Boston Metropolitan Area. Four different institutional sources of venture capital were analyzed with respect to their importance to economic development of the minority community, and most important, their effect on stabilizing and improving minority business. Results lead to definite conclusions, and from those conclusions, recommendations were made.

THE APPROACH AND QUESTIONNAIRE

Financing minority business is often times a difficult task even for the most experienced financiers. The problems associated with black controlled or managed companies sometimes are confused with the problems of an entire ghetto environment. The purpose of this section of the report shall be to investigate and analyze four different institutional sources of venture capital in the Boston Metropolitan Area. To achieve a somewhat standard basis for comparison several general questions were developed that explored the history, goals and objectives of each of the foundations to be analyzed.

The general questions purposely try to explain why a venture company wishes to enter into the field of minority financing. The source of funds, application of those funds and their relation to publicity and corporate social responsibility represented an adequate number of the general questions. Other questions used in the interview sought to delve into the managerial structure of the venture capital company. The need for a buffer between white wealth and black control was investigated. The strength and expertise of the company executives, along with the racial composition entered into the discussion. These were only a few of the questions that tried to discover the reasons behind developing a venture capital fund for minority entrepreneurs.

One is well aware that there are goals and objectives for any type project with a purpose. As a conclusion to the interview, questions were asked about the method and criteria for evaluation. The success of the companies capitalized were not the only ones subject to evaluation. The venture capital company itself was asked to evaluate its goals in relation to what it hoped to accomplish in the minority community. Goals help to distinguish the level of rhetoric and level of practice. It is important to evaluate the need for rhetorical advertisement in any type company that deals with the welfare of the general public. A complete listing of the general questions are listed in Table I.

Besides the general questions, specific questions were asked of each institution. The specific questions centered around each institution's organizational structure or their goals. Some questions arose from printed data or misconceptions about the purpose of the organization as viewed by the local community.

The approach utilized was an informal question-answer type. Questions were not presented so as to evoke only set answers, but to stimulate a general education for the researcher. Available and pertinent data was requested, not as a method for comparison, but as clarification of general ideas. All of the above statements represent the method and procedure used to investigate and analyze the sources of venture capital in Boston. Following are the results of the interviews conducted with the different institutions providing venture capital to minority businesses.

URBAN NATIONAL CORPORATION

Urban National Corporation is a venture capital fund investing in minority controlled business. The board of directors is minority controlled and has final approval of all investment proposals recommended by the management. Urban National's venture fund consistsof ten million dollars which can be invested in any type of minority controlled business. The money was provided by twenty-four institutional investors primarily in the field of finance. Money is invested in companies that are expected to yield a return commensurate with the high risk involved in investing in minority companies. Urban National only invests monies above the one hundred thousand dollar plateau. At the present time start-ups are excluded along with community development projects. Generally all concerns that can not be evaluated using regular business rules are excluded. Urban National depends on the growth, sales, and profitability of the companies contained in its portfolio. It is extensively involved in suggestive management of actual and potential problems of those companies contained in its portfolio.

The investment structure of Urban National lends itself more to equity-type financing rather than short term loans. Even term debt opens itself to common stock convertibility. This structure leads to additional debt financing against the equity through lending sources such as banks. Acquiring funds through Urban National requires the borrower to submit the necessary data that is essential for company evaluation. Balance sheets, resumes of key personnel, business descriptions, and proposed use of funds are but a few of the typical data needed.

Those interviewed within the management of Urban National Corporation were Kenneth H. Miller, Assistant Vice President and Counsel, and Herbert P. Wilkins. Mr. Miller is a white Harvard Law School graduate with deep interest in community affairs. From working with community groups in Chicago, he is well aware of the importance of a viable black community. From talking with Mr. Miller my conclusi ons reveal that he is a strong backer of black capitalism, not so much through community control of assets in the black community, but through viable black companies and entrepreneurs. Mr. Wilkins is a black graduate of Harvard Business School. He feels that it is a necessity for blacks to establish their own venture capital corporations. Mr. Wilkin's discussion expounded more on this topic and its importance.

Mr. Miller states that he agrees that obtaining risk capital is most difficult for minority businesses. The capital that is invested usually is well below that which is needed. This is why he feels that the one hundred thousand dollar minimum investment is a significant plateau. Because most black businesses, along with a lot of white institutions, expect 'give away money' the entire concept of profit has been distorted. Mr. Miller was quick to express the value of 'business contacts' as one of the most valuable and the most lacking for minority business enterprises.

The staff of Urban National originally consisted of four white executives. There was a hint to the fact that blacks were not at all interested in this type of business work. The staff is well qualified in that they have had extensive experience from working in the financial business community. Mr. Miller expresses that the respect in the financial community for the Coporation's president and vice-president did much to establish Urban National. The fact that the officers of Urban National are a white majority is insignificant. Mr. Miller states that it is the experience that is extremely important. Efforts have been made to acquire more blacks, but frankly stated was the fact that the qualified pool of experienced blacks in the field of finance is limited. Those that are available are attracted by large corporations. At present the officers are three white, two black with another black expected to join.

The source of Urban National's money is from, as stated earlier, twenty-four institutions. The money given is between two hundred fifty thousand to one and one-half million dollars. The institutions have the right to choose the board of directors and obtain prefered stock in Urban National. The Corporation makes no guarantees to its investors. One fact that has to to be stated is that the money is not given away, but invested at interest rates.

They types of minority companies financed are several. The primary criteria for investment is the ability to acquire a return on investment. Urban National states that they are not in the business to lose money or break even. They are like any other business in that they are in business to make a profit. Another factor that Urban National looks for in its portfolio companies is the managerial skills of that company's executives. They consider this to be just as important as the financial history of the company. Mr. Miller says that the financial history of a company often times presents many ills that can be discovered through faulty accounting, etc.

The effect that Urban National has on its portfolio companies and its investors was not completely answered in the interview. Urban National never allows itself to control more than fifty percent of a company's stock. This much control almost always implies that Urban National will have a major position in recommending officers to be placed in the company's management. Mr. Miller in his description of the relationship between Urban National and its portfolio companies pointed out that there was some sort of strange medium that balanced the power in the relationship. Even though it is legally possible to liquidate a portfolio company (because of distrust of management or other problems whether financial or managerial) most times Urban National would choose not to because it would mean a loss in the investment.

At present Urban National is not fully visible to the minority entrepreneur. They have made no efforts to advertise their capital to the minority community in Boston. Their only source of contact with the outside world is by work of mouth in the Boston financial community. This choice as to public presentation only shields Urban National from the real entrepreneurs desperate for help.

Urban National sets certain ground rules for acceptance. Among these is the fact that the company must be minority controlled. They do not accept companies that have blacks in figurehead positions. Urban National feels that the companies provided with equity must accept a minimum of one hundred thousand dollars. They feel that a major commitment such as this one forces them, as well as their portfolio company, to maintain an accurate and business like approach to management problems. Investments below one hundred thousand do not provide enough capital to adequately finance the business. This plateau enables the minority companies to realize substantial flexibility in obtaining additional funds utilizing the debt to equity concept. Urban National excludes start-ups because it does not have the staff to assess the many problems generated by new businesses. The company did express the desire to enter into this much more dangerous field in the near future when additional personnel become available. Community development projects are excluded from Urban National's portfolio for deeper reasons. Urban National believes that black capitalism should not become involved in business concerns that do not assume regular business principles. A business whose goals maintain objectives other than profit maximization in Urban National's eyes is destined to failure. There is a general feeling among Urban National's staff that any additional business problems will tilt the new businesses more toward failure than success.

Most interesting is Urban National's assessment of themselves. Thus far they have been in business for two and one half years and have only invested two and one half million dollars of their ten million dollar venture capital fund. What is even more appalling is the number of companies contained in their portfolio (ten). One often associates a venture capital company with stock in at least fifty or more portfolio companies. By maintaining a large number, the venture company is less likely to fail due to a few failures in their portfolio. Urban National's hands are coupled because of their limited staff. With work days approaching sixteen hours, the staff is physically unable to acquire any other companies at the present time. Without immediate expansion Urban National is doomed to being a small venture capital fund. Of the ten companies that Urban National has money invested only two are in the Boston Metropolitan Area, and of these only one is black owned. Unfortunately, this implies that Urban National is doing very little for black capitalism in the Boston area.

A listing of the companies being financed by Urban National is contained in Table II.

Talking with Herb Wilkins was educationaly stimulating. He emphasized that black entrepreneurs were taking the wrong approach in development of black business. Instead of taking over going concerns, most black entrpreneurs chose to go the start-up route. Because of the time and effort involved in start-ups, lack of managerial skills, and limited knowledge of the business community, blacks were becoming trapped in neighborhood businesses. He stated that the most important concept that he believed was valuable was business contacts. Without knowledge of suppliers and sellers in the market, black entrpreneurs were being ripped by the more experienced businessmen.

Mr. Wilkins' biggest concern was the fact that blacks were not able to enter the venture capital market. He stated that Urban National's program was first developed by himself and two of his business partners. Several years of hard work ended when they were not acceptable to the institutional investors they approached. Reasons blacks are unable to gain an adequate share of ownership of capital is this very reason. Without venture capital corporations controlled and managed by blacks, new businesses are not possible. Mr. Wilkins states that there is a general distrust of blacks' knowledge in business. This makes it impossible for the most qualified blacks to gain the trust of institutional investors.

This simply means that Urban National can never maintain an all black management team without fear of losing some of its investors. Without more blacks, who are willing to invest more in minority business, venture capital funds will continue to be extremely conservative. Even at Urban National there is sort of a general agreement among the staff to be conservative and not take the chances as if investing in white companies.

The concluding remarks would involve several of the above mentioned observations. Urban National must enlarge its staff with the qualified black managers now available in the black community. The statement that there is a lack of qualified black managers is a farce. Blacks contained in the nation's business schools should be recruited as trainees in companies such as Urban National. Urban National should concentrate at least fifty percent of its funds in the Boston Metropolitan area. The lack of investment in this area was excused because of the lack of companies that could utilize one hundred thousand dollars. Until Urban National expands its staff there is no way possible for it to successfully maintain a successful portfolio.

CIRCLE VENTURE CAPITAL FUND

The Circle Venture Capital Fund as its names signifies, provides venture capital to the black community. The most important fact about Circle is that it is a Community Develoement Corporation. This whole concept serves to pattern Circle in the mode that was created for all CDC's. The interview with Circle was conducted in the same manner as Urban National so as to later make comparisons much more easier to accomplish. The standardized questions were answered by Eric Gray, top executive at Circle Venture Capital.

Circle is in the business of venture capital to generate economic and social development in the black community - a parcel of land determined by the Federal government. Ownership of the company is distributed among the community through shares of stock. Another perplexing fact about Circle Venture is that their idea of profit is not synonymous with the common business meaning. The earnings of the business, if there were any earnings, would be distributed so as to better the community.

Circle is in the business of providing venture capital because the government provides the seed money. There is really no deep moral obligation from the company that provoked it into making equity available for small minority business firms.

Circle Venture Capital Fund was established by the Economic Opportunity Act of 1964. Title Seven created Community Development Corporations with the Office of Economic

Opportunity as the funding arm. This is why the management along with its board members are not totally responsible to the black community. The objective of providing risk capital to minority business, in the eyes of Circle Venture Capital is a government solution to minority problems. It has taken Circle several years to accept this policy as being for real. This was primarily the reason for apathy among the first set of managers and directors.

Circle Venture Capital Fund is a part of a much more complicated organization called Circle, Inc. which consists of an educational branch that provides knowledge to the community, a management training branch that deals with packaging and investments, and a small business development arm which is Circle Venture Capital. OEO forced Circle, Inc. to abandon their wing Circle Venture Capital so as to better establish financial account of the money that they were providing. Circle Venture is not a complete and independent entity of its own - instead it is more of a sister company with Circle, Inc. controlling less than fifty percent. Circle, Inc. represents the community through an eleven person board of directors, and one thousand shares of stock through its stockholders. The board consist of community people whose qualifications are expressed by Mr. Gray in the following manner. "All are people from the community who display good common sense." Four out of the eleven have good business experience, three or four of the others have adequate business experience. Mr. Gray stated that his only displeasure with the board was that they were all members of other boards which made it difficult to schedule board meetings which are an integral part of the investment process.

The expertise of the staff of Circle Venture Capital Fund was explained completely by explaining the duties of the staff positions, and then fitting them with the people. The complete staff consist of a manager, a coordinator, an office manager, and three business analysts. The staff also consist of two and one half secretaries, and one community relations officer. The duty of the manager is to coordinate the entire project management which includes overall operation and policy. The coordinator relates the wishes of the manager to the business anlyst. He motivates and pushes the business analyst to do the most effective job. His job also includes training new business analysts. The office manager can be described as head secretary with added duties. She's in charge of administrative duties, accounts payable, accounts receiveable and other invoices. The business analyst's responsibility is to repond to the company that receives funds from Circle. They completely analyze all the problems in the company. They occupy an important position both in the company to be invested and in Circle. Because of Circle's investment policies the business analyst assumes the position of executive president in the portfolio company's hetrarchy. All decisions must have his approval and can only be overruled by the upper level authority at Circle itself. Business knowledge above and beyond the company executive seems to be a false statement with Circle's management. Mr. Gray, as manager, believes that managers and consultants in new enterprise require little experience and non-extensive business knowledge. The meat of the venture company, the business analyst, is inexperienced in the work world and under educated in business theory. Mr. Gray's analysts consist of people in entirely diferent educational fields. Some only have a high school education and no business experience. Mr. Gray states that the extreme variety in his business analyst makes for a better venture capital investment team. Those that are long on experience and short on education give to those that are short on work experience and long on education. The theory could be plausible but as will be described in the conclusion, it lacks those ingredients that add to making a good businessman.

The source of Circle Venture Capital Fund's money as was explained is the federal government. OEO through July of 1971 has provided Circle with the monies described in Table III.

Complications arise from the restrictions that are placed on Circle's investment nonies. First of all, all investments must be totally explained to OEO. Without their approval investments can not be made. Circle must file a cumbersome quarterly report in order that their funds can be released. If the money released is not invested OEO can recall the money given in the last period. It can also limit the funds to be distributed in the next funding period. The latter is the most probable. Some of Circle's biggest restrictions evolve from the fact that they are chartered as a CDC. This means that their monies can only be invested in such a manner that it will have a significant impact on their economic tarket area outlined by the government. Circle must also by law obtain a controlling interest in the companies that they invest, unless fifty-one percent is controlled by two or more community improvement organizations. The loan funds of Circle have been cut off by OEO because of disastrous failures in the past.

Mr. Gray feels that the problems of minority enterprises are epitomized by undercapitalization. Most minority businesses don't have enough equity to leverage debt. Circle describes one of its functions as originating from their goals of helping small companies to obtain this equity. By assigning their analyst as a monitor, he is able to assist the business with its management problems. He makes sure that the management of the company does not bypass the future goals of that company.

The types of minority companies Circle finances is really an integral part of their goals. Mr. Gray felt that their strategy for investment had to include companies that are visible, that have a potential for providing impact on the community (jobs, neighborhood improvement, etc.), and the company had to have an excellent probability to succeed. Circle feels that their investments are most effective around fifty thousand dollars.

As of date Circle Venture Capital Fund has made six investments averaging seventy-three thousand dollars per company. Of these six investments, one company has folded with another that is probable. Within the last three years five of the investments were made in the last one half year. Table IV contains the type of businesses in which Circle has invested.

Unlike Urban National, Circle Venture Capital Fund seeks control of the businesses in which it invest. Because of this fact almost ninety percent of the people are turned off by Circle's policy. The OEO statement proclaiming that Circle must have fifty-one per cent of all businesses in which it invest can sometimes be relaxed. But this does not benefit the companies seeking venture capital. The only time Circle can take less than fifty-one per cent of a company is in cases of joint ventures with other community organizations. Does this financial control imply that managerial decisions are made by Circle? This question's answer can be either yes or no. If the decision that management makes is in line with Circle's wishes then the answer is no. However, if Circle does not agree with a particular decision it has the legal right to control all management decisions.

Minority entrepreneurs became aware of Circle through the initial confirmation of a press report reporting that they had received funds from the federal government. These funds were designated to be distributed to minority businessmen within the Roxbury tarket area. Mr. Gray states that there is no need for any extensive advertisement because of the the overflow response caused by this press report.

A fact about Circle Venture Capital Fund that stands out is that their entire staff as well as their board of directors consist of blacks. Mr. Gray is quick to state that this happening was not by design. The color of his exployees is insignificant as long as they are able to do an effective job.

The conclusions that can be drawn from this interview with the Circle Venture Capital Fund can be described as very discouraging. First of all, the amount of proposals that have been through the doors of Circle have been few. Twenty-five to thirty in a three year period is indeed very few. Only one investment was made before the second funding period. This led to a cut in the amount of investment monies that the government gave to Circle. The expertise of the management staff at Circle is not as good as that of Urban National. Mr. Gray's key to formulating a good staff was determined by four ingredients: common sense, general management skills, the ability to analyze financial statements, and the ability to communicate. In these four ingredients are some of the most important attributes for working with minority entrepreneurs; but it must be understood that these are not the only attributes necessary for determining a successful staff. Many potential customers were turned away, not because of their faulty proposals, but because of Circle's standards for financing. Very few minority entrpreneurs would be willing to abandon fifty-one per cent of their business. Another concept that is faulty is the fact that the entrepreneur looses control of the everyday business control of his company if they do not agree with the wishes of Circle's staff, which described above leaves much to be desired. Even though Circle exclaims that it is not in the business to make money, the standards of OEO require it to act as a pure venture capital fund. Circle does more to hurt the minority community than to help it. By taking control away from the few minority entrepreneurs in the community, Circle is defeating its own goal. Mr. Gray stated that Urban National was working along a vertical path that made it possible for Circle to sell to them its successful ventures. This statement only serves to verify the comment about the direction of Circle Venture Capital Fund. Most important, Circle is deeply involved and committed to mixing business and politics. This only complicates a project that is already risky. A concluding fact is that the Office Of Budget And Management is in favor of dismantling all CDC's. This agency is now asserting pressure on OEO to establish some criteria for measuring success. Circle Venture Capital's success leaves much to be desired, this makes onlookers weary of the entire venture capital approach to finacing minority entrepreneurs. Talbot Bulkley, Deputy Director of the Small Business Administration classifies organizations such as Circle and Urban National as do-nothings working in the field of providing nothing but hopes for the minority businessman. He states that their total combined impact on providing funds for minorities in the Boston Metropolitan area has been nil. Agreement on the above statement is not the point to be argued. The point to be made is that the people in the community, educational as well as financial, see organizations such as Circle as scavengers feeding off minority entrepreneurs.

THE LATIMER FOUNDATION

The focus of the Latimer Foundation and its approach to venture capital was completely different from other venture capital organizations studied. The Latimer organization approaches venture capital more through educational management. Their primary focus evolves around establishing a marketing concept within the companies that they assist. The foundation's hypothesis is that the business world is a huge market place and until that market place is open to minority entrepreneurs there will be little chance for their success.

The Latimer Foundation feels that it is extremely important to focus their attention on existing minority business concerns. The feeling here is that conservation of existing business is practical because of the difficulties involved involved in capitalizing new start-ups. Start-ups present more difficult problems in relation to access to the market place and a much more direct need for substantial technical assistance.

The application of sound marketing principles is the top priority that the Latimer Foundation wishes to instill in the companies in which it assists. The Foundation believes that there has been an adequate introduction to product management, and now is the time that the ignored principle of marketing took precedence over all other forms of assistance. The organization feels that most of the initial assistance regarding financing and start-up is available, and by keying in on one trouble spot, it can achieve its goal of developing minority business.

The interview with the Latimer Foundation was conducted with its president, Mr. Robert Royster. Because of the different nature of the Latimer Foundation, most of the questions on the standardized questionnaire were bent to accommodate the organization. Mr. Royster's very informal and informative talk helped to clarify many points about the general nature of minority business. First of all, Mr. Royster stated the often repeated fact that most minority businesses are undercapitalized. Their real capital often times is no more than five to ten per cent. His way of improving the problem is much like that of Reverend Leon Sullivan, who has devised a community plan with residents supplying a set amount to a venture capital pool. Mr. Royster believes that by obtaining money from the black community to be put into a huge venture capital pool, minorities would be better able to finance their own businesses. Mr. Royster states that black's disenchantment with the American business system has caused problems relating to false idealisms about capitalism. Non-whites see only the good in business. They see the company presidents doing nothingin their offices, going home early and coming in late. They see them reaping huge profits to support their luxurious living habits. But what they do not see is the investment that these businessmen had to make to acquire the position and monies that they now have. Blacks don't see these businessmen investing twelve to sixteen hours a day at the company for twenty or so years. Mr. Royster says that blacks don't see the sweat that has to be invested before any money can be churned out. This sort of knowledge is not known to the new minority entrepreneur. So often times they tend to bleed their businesses of profits when the company is not ready. They disregard the idea of working more than eight hours or even working eight. Often times they are lax with their employees. These are the type of problems that black businessmen must be able to conquer before they move on to understanding the much more technical aspects of business.

"The name of the game is business contacts." The above statement by Mr. Royster has been repeated by most venture capital companies, but it has not become the primary focus exept in the Latimer Foundation. These business contacts are the essence of good marketing. Until blacks are able to expand their number of contacts, they are doomed to stay in the ghetto marketplace as service type businesses. The difficulty in obtaining contracts for their products and services is a major reason for failure in most minority businesses. Mr. Royster's objective is to try and encourage corporations to strengthen minority economic development by buying the products of these companies. One must realize that the success of all the companies listed in the Fortune Five Hundred is dependent on the small businessman. White small businesses have used the marketing concept successfully to obtain contracts. Most important, they have established contacts that are so strong that a sense of loyality makes it a impossibility for minority firms to break the bond. But appeals through affirmative action and equal opportunity programs have been a key for blacks entering the marketplace. Probably one of the key reasons blacks have problems in marketing is due to a widespread rumor of lackadaisicalness among black firms. Whites are afraid that black firms can not meet deadlines, so they tend to discriminate. The white firms are accepted even when it is economically viable to accept a lower bid from a minority firm.

But the Latimer Foundation does act as a venture capital organization in some ways. It is able to obtain funds for its assisted companies through other organizations and institutional investors. The Latimer Foundation through its contacts is also able to obtain contracts, a most important element for preventing business failure.

Mr. Royster describes the staff of the Latimer Foundation as one of the best marketing organizations in the country specializing in minority business. The staff has extensive business experience and is also well educated. It consists of one attorney, a Harvard M.B.A., a business systems analyst, a market researcher, a salesman, a secretary, and the president who is Mr. Royster. The entire organization works together, not in a set pattern, but in a coordinated effort accord- to the type of company to be assisted.

The Latimer Foundation is financed from grants from the Office Of Minority Business Enterprise. Their first year they received one hundred fifty thousand dollars, and in the second year one hundred thirty thousand dollars. Like any other government financed agency, they are expected to explain the quality of service that they provide. They must service all minority entrepreneurs that visit them. Mr. Royster states that this could spread them toothin and that they would not be able to work effectively with such a large amount of companies. Mr. Royster also feels that the government and its short term commitment limits the amount of long term planning that the company can participate. The political nature of being funded by the government also dampens the type of service the company can provide. Mr. Royster feels that his company will not be financed during future years because of the President's move away from his commitment to minority business.

It is difficult to assess the impact that the Latimer Foundation has had on minority entrepreneurs. The opportunity did not avail itself that would make it possible to evaluate the number of companies assisted by Latimer that were able to claim their place in the market place. The objectives and the goals of the organization are commendable. Mr. Royster has effectively analyzed why minority businesses have trouble, and has discovered a way of tackling the problem.

Mr. Royster approves of the venture capital approach of investing in minority business with the purpose of making a profit. The explanation concerning ownership of more than fifty per cent of the company to be invested was informative.. He stated that by acquiring control of these new minority companies the venture capital oraginzation could effectively deal with the financial and managerial problems within the company. Mr. Royster stated that most white venture capital firms seek up to eighty per cent ownership. In contrast, Mr. Royster greatly disapproves the type of work that the Small Business Administration is doing in regards to helping minority entrepreneurs. He hinted that the loan officers are malicious towards blacks who seek to invest government monies in their own companies.

THE MASSACHUSETTS VENTURE CAPITAL FUND

Massachusetts Venture Capital is a MESBIC regulated by the federal government. They were chartered only recently (February 1974) so it is difficult to approch their success from their pass accomplishments. The principal in the interview was Mr. Charles Grigsby a graduate of Harvard College and the company's president. Mr. Grigsby felt it necessary to express his views on the idea of MESBICS before getting into the heart of the case. His definition simply states that a MESBIC is no more than a small business investment corporation whose investments are restricted to minority businesses. MESBICS can be capitalized with as little as one hundred fifty thousand dollars. The Small Business Investment Corporation Act of 1958 allowed double matching funds that could be obtained from the Small Business Administration in the form of ten to fifteen year subordinated debentures.

Mr. Grigsby stated that his company decided to get into the business of providing risk capital because it was the wish of the financial institutions in the Boston Metropolitan Area. By setting up a MESBIC they were able to justify the refusal of loans or any other type of assistance to the minority community. This vehicle made it possible to route all requests for financing to the MESBIC. The finacial institutions benefited in several ways. First of all, corporate tax loop holes made it possible for them to realize deductions from their normal tax structure. Secondly, by providing seed money along with other companies, they were able to shift high risk venture type loans to the MESBIC, and through this organization leverage additional monies from the federal government. Last, these companies were able to appease the minority community by showing off their participation in an organization that was established to help minority businesses. The job of running the company and the money was handed over to a person that they could trust. Mr. Charles Grigsby was a responsible loan officer for the city's (Boston) largest bank, and he was black.

The staff of Mass. Venture Capital at the present time consist of only two people, Grigsby and his secretary. The expertise of the staff must be appraised not only by the quality but the quantity, too. Mr. Grigsby has praise for his secretary in handling the difficult task of organizing documents and scheduling the best use of available time. Mr. Grigsby mentions that his five years experience as a loan officer at the First National Bank of Boston gave him the ability to more effectively analyze the business of going concerns. Working in a financial institution, he felt, helped him to evaluate and locate, sometimes ahead of disaster, the problems of many small businesses. The whole process of watching a business grow and mature provided him with the skills necessary to know when to inject money into a business. Mr. Grigsby is qualified in providing limited technical assistance because of the huge flow of cases to be financially analyzed. This probably is the weak point in the expertise of Mass. Venture Capital's staff. With only this very limited staff, they are unable to provide the technical assistance needed by many minority businesses. Mr. Grigsby feels that the other venture capital organizations and management assistance programs can do the job along with Mass. Venture Capital. In essence, Mass. Venture Capital must contract for assistance in order for their portfolio companies to receive an adequate management of the funds that are being provided. Mass. Venture Capital will take on additional staff but only as financial analyst, whose job it will be to determine the type and amount of financing needed by the companies to be assisted. This approach of separating financial assistance from managerial assistance can not be criticized as of yet.

The bulk of Mass. Venture Capital's funds originate from financial institutions in the Boston Metropolitan Area. The dozen or so investers are legally stockholders in the business to make a profit. They have poured in more than seven hundred thousand dollars to establish this organization. Those primarily responsible for creating the venture capital fund were the First National Bank of Boston, John Hancock, and Ratheon. There are no restrictions on how the money is to be invested. This gives the officers of Mass. Venture Capital complete freedom in making any kind of minority investment.

As of date, Mass. Venture Capital has not made any investments. They have more than forty proposals that are now in house. They expect to make almost a half dozen investments by this autumn. A clue to the type of organization that they will finance is evident among the following: film production company, furnition manufacturer, land developer, charter airlines, and a travel agency. Mr. Grigsby says that he is not limiting his investment to establihed minority firms, but at the same time he is not overly enthusiastic about investing in start-ups. Because of their staff, Mass. Venture Capital is not able to do an effective job of seeking out companies to be financed. One of his statements expressed the fact that the most successful attempts at establishing venture capital organizations actively sought out companies to be financed. The only criteria for receiving additional monies is the fact that the portfolio company must be successful. Mr. Grigsby stated that profitability would not be the only measure for determining success.

Mass. Venture Capital does not seek any type of control, financial or otherwise. They only seek to establish a working relationship among themselves and their portfolio companies. This working relationship can be attained by placing on the board of their portfolio company a working director. This individual would be responsible for locating the problem spots and helping the companies to obtain assistance (both technical and financial). A surprising fact is that this member would be unpaid. The argument here is that this type of exercise would be that individuals civic and charitable duty. Effective management can not always be successful without financial reward. Mass. Venture Capital never expects to control more than fifty percent of any business. If they did control over fifty per cent and the company executives had to be removed the lack of a in house management staff would make it impossible for Mass. Venture Capital to successfully run the business. Mr. Grigsby feels that all managerial decisions must be made by the existing management personnel within the financed company. Mass. Venture Capital would act only as a source of advice. The thirty to two hundred thousand dollar investment that Mass. Venture Capital expects to make in each company is just what the name implies. They do expect some type of return on the money that they have invested.

The community becomes aware of Mass. Venture Capital through word of mouth among financial institutions. The banks and most other investment and venture capital organizations are well aware of Mass. Venture Capital. Because of the large number of proposals, Mr. Grigsby feels that his organization is accessible to the minority community.

Mr. Grigsby is very enthusiastic about the progress the company has made. Because the company has been in operation for three months, it is difficult to assess its impact on the minority business community. The companies initial capitalization at seven hundred thousand dollars categorizes it as an average MESBIC, but as Mr. Grigsby exclaims, this is infinitely better than being capitalized at the minimum one hundred fifty thousand dollar level. If financed at this minimum amount, a MESBIC could not effectively attract the qualified personnel necessary to run a good investment corporation. Grigsby states that even with the funds they now have available for adminstrative officers, it is still almost impossible to find qualified minorities with the education and experience. Supplying venture capital to the minority community is a task that is much hard work. A coming together of MESBICS, CDC's, and private venture corporations will make it easier to provide the necessary assistance and managerial skills.

Mass. Venture Capital, when they have invested sixty-five per cent of their funds, will be able to exactly triple their investment pot. The projected 2.9 million dollars injected into the minority community will help to break the minority entrepreneur into the American mainstream. Mass. Venture Capital hopes to measure their success by the same criteria that is used by white investment corporations. Success is making a profit. In a year, if they look at one hundred companies, they expect to invest in ten and have one to succeed.

Mr. Grigsby realizes that black businesses are different from white. He emphasized that if blacks are able to reject political philosophies from their businesses this would greatly lesson the failure rate. He states that everyone has their solution for creating a successful minority entrepreneur. If this knowledge could be pooled, the educational value would be tremendous.

ANALYSIS

Financing minority business is a difficult task even for the most experienced loan officers located in major financial institutions. The problems associated with minority business has made it extremely difficult to acquire the capital needed to successfully operate in the American economy. The traditional source for acquiring money has turned its back on the minority community. Whether the fact that these banks have had reason to shun minority entrepreneurs is not the scope of this paper. But this paper does realize that the complexities involved in financing minority business have as their origin these financial institutions.

There have been many attempts in formulating methodologies for solving the financial problems of minority business. Many of America's foundations have taken on the task of distributing free money. These gifts have caused minority entrepreneurs to lose respect for the fundamentals of American capitalism. Minority entrepreneurs can be described as working within a political economy quite different from the mainstream of American business. Charitable givings from foundations have caused minority businesses to become dependent. The extent of that dependency is at such a high level that business policy within most minority firms is controlled by these foundations.

The American government is indirectly responsible for the pitiful plight of the new crop of minority business.

Small grants and loans have tied the minority entrepreneur's hands. He is forced to accept the random variations of his sponsor. The government has attempted to abolish true capitalism among minorities by destroying the few learned business principles in the minority community. The new slogan among minorities is to holler for their fair share of federal and institutional grants. The need for hard work through business principles in a capitalistic system is no more. The American government has said to the minority community - we owe you. So, we are going to give to you the following to create a viable minority business. In realistic terms the government has moved the minority community away from pure capitalism. This move has created several new methods of providing venture capital to the minority entrepreneur. Some of these attempts by the government at establishing sources of equity for the minority entrepreneur approach workings of a socialistic rather than capitalistic economy.

This research paper has investigated four institutions within the Boston Metropolitan Area whose purpose is to provide assistance to the minority entrepreneur by providing him with venture capital or by making this entrepreneur aware of sources of this venture capital. One of these organizations works within the capitalistic framework, when providing equity for the minority firm. The other organizations are government sponsored.

The minority entrepreneur in the Boston Metropolitan Area is faced with enormous obstacles in his attempt to finance his business. The four organizations have to attempt to limit the amount of customers that approach them for assistance, so the most familiar way is to set guidelines. This is the first in a series of refusals and rejections for the minority entrepreneur. Next, the minority entrepreneur has to learn to translate the wishes and hopes for his company into a language that is communicable to all parties. The four venture capital institutions that were investigated have served the minority entrepreneur. The type of service that they have provided will determine the success of the equity approach to financing minority business.

The initial reaction of the researcher toward Urban National was very pessimistic. After reviewing the difficulty in financing minority business, the criticism was not all justifiable. Most of the criticism was pointed toward the fact that there were very few investments considering the amount of money available. The very cautious and conservative approach was viewed as detrimental because needed funds were being withheld from the minority community. Urban National's staff is the best and most respected of all the venture capital organizations surveyed. Their education, plus the experience, provide them with the necessary tools to succeed. But what is perplexing is the failure that has occured within their portfolio. Why have they been unable to supply the managers within their portfolio companies the business knowledge they have acquired? The answer to this question must lie in the difficulty in operating a business in a capitalistic economy.

The statement that Urban National must enlarge its staff after consideration still stands. The initial investigation's concluding statements called for more blacks to be integrated into Urban National's framework. The writer must now disagree with his initial statement, and state that more blacks must be trained at the difficult discipline of financing any business. Experience must be gained from the established confines of capitalism before turning wholeheartedly to minority business. Urban National's approach, financing minority businesses with successful track records, can be the correct approach. This approach would take minority business away from mediocrity to large scale success.

The company has not had the opportunity to finance many firms in the Boston Metropolitan Area due to their stringent guidelines. But, there is potential for success at Urban National. The company is a good example of a hard working minority enterprise whose objectives are to be successful and profitable. The initial chastisement of the company did not take these important factors into consideration. Urban National's success record can be described as being equal to any regular white venture capital fund. They have had well over a ten percent success rate in a business where that per cent is the norm. But unlike white venture capital institutions, Urban National does not command as much of a return on its investments. This fact has quelled the potential for success at Urban National.

Circle Venture Capital Fund, as a community development corporation, has approached the equity problem from an entirely defferent viewpoint. Politics is a major portion of their objectives and goals. Their seed money and all additional funds are government sponsored. This makes it necessary for their success or even their attempt at being successful to be visible in the minority community. The political process is such that if organizations like Circle are successful then they are allowed to continue. But, Circle has not at all been successful to political onlookers. The entire CDC setup has not been a profitable stumping ground for politicians feeding on minority capitalism.

Circle acts more as a social agency than a pure venture capital organization. The politcal nature of their investment policy is only a new pathway towards failure. Their investments have failed in the past (beyond those made during the last five months) not only because of their investment policies, but because of their staff.

Circle's staff is selected without regard to business success. The staff can not help the minority businessman because of their lack of experience in the financial community.

In addition, their education lacks the business knowledge and theories necessary to make successful suggestions. What Circle has is a special type staff that is oriented toward the new socialistic business economy. Recent investments, however, under the management of Eric Gray, have made Circle visible and slightly successful in the black community.

Their new office building, to be constructed, has given them the backing of the community. But, unfortunately, this has been their only major accomplishment. The few businesses in which they have invested have not had time to show how successful they will be. If their current plight is any indication, then some are doomed to failure.

Probably the most controversial thing about Circle is the fact that they must control over fifty per cent of their portfolio companies for at least five years. The initial reaction of the writer to this policy was one of surprise. But after consideration, the idea seems extremely workable, but more for the venture capitalist than for the minority entrepreneur. The idea provides Circle with enough leverage to use the expertise and experience of their staff to nurse sick enterprises back to life. With the staff on hand, Circle does not have the manpower or expertise to do an effective job. The minority entrepreneur is short changed in some ways. His company receives the needed equity, but not the managerial assistance that needs to go with it. Circle Venture Capital Fund has had limited success in establishing minority business in the Boston Metropolitan area.

The Latimer Foundation is not a true venture capital institution. It provides more of managerial assistance than anything else. It is capable of obtaining some funds for the companies that it finances. Their main thrust is toward established minority concerns that have the potential to be successful. The Latimer foundation attempts to provide marketing skills to help these businesses establish themselves in the market.

They are financed by the federal government, but not to the extent of Circle. The difference is in the fact that Latimer's executives use their knowledge of capitalism to help minority entrepreneurs learn real business tools. They do not try to mix political goals with business practice.

The Latimer Foundation has been very effective in doing the job described above. They have provided the minority entrepreneur with the contacts that are needed to establish one's self in the business community. By focusing on marketing, the discipline that Latimer feels is weak in minority businesses, they have helped minority entrepreneurs to understand financial business procedures. Latimer is able to use their contacts in search for equity money for some of their clients.

The staff at the Latimer Foundation from all indication is to be praised. In the field that they work, they are as good as the staff at Urban National. The Latimer Foundation is something more than just a consulting firm. They do not only seek out problems in their client's firms, but they use their every available asset to be helpful.

The Latimer organization is constrained by some guidelines set down by the federal government. They must work with all minority firms that need their assistance. This tends to spread them thin. Second, they are unable to recruit additional staff due to instability in government funding. Some good businessmen are reluctant to work in an atmosphere that does not offer long term security (such as that provided by five year funding periods). If anything, the fact that they are funded by the government, will be the major reason for Latimer failing the minority community in Boston.

Massachusetts Venture Capital Fund operates as a MESBIC. They are capitalized in the midrange for MESBICS at three quarters of a million dollars. This gives them leverage at somewhere around two and one half million dollars. So the financial end of Mass. Venture Capital is somewhere between Urban National and Circle.

But again, Mass. Venture Capital does not have the staff to cope with all the minority entrepreneurs in Boston. One man, even though his qualifications are extremely good, can not handle the problems of several minority entrepreneurs. Mass. Venture Capital deals with the problem by stating that they will not package any minority enterprise. By specializing in supplying only equity money, they hope to do an adequate job in the community. The writer must strongly disagree with this approach. Giving minority entrpreneurs money, without technical or managerial assistance does the same damage as government grants. Mr. Grigsby did hint at the possibility of contracting for managerial assistance. This approach could work, but not until investments are made can conclusions be drawn. Mass. Venture Capital is limited by the government in obtaining additional funds. Until they have invested sixty-five per cent of their money, they will be unable to get the additional long term loans from the Small Business Administration. Working at the pace predicted, Mass. Venture Capital will not spend this amount of money until about three years. Looking at the record of the other venture capital institutions studied, it could be as long as five years before they reach this sixty-five per cent level. There is potential for success at Mass. Venture Capital. They seem to have adopted in their policy many of the principles found in the three other institutions. They have also acquired many of the other institution's faults.

Mr. Grigsby feels that he will be able to make five investments this year, after looking at approximately one hundred proposals. Having forty in-house proposals in only three months shows the number of potential minority firms in Boston who need help. Without adequate staff, there is nothing Mass. Venture Capital can do. Mass. Venture Capital has not made any investments, so it becomes necessary to predict their tract record. From the information available, the writer can only say that they will be more successful than Circle, but will fail in their attempt to match the work of Urban National.

CONCLUSIONS AND RECOMMENDATIONS

The purpose of this paper was to analyze the venture capital institutions in Boston whose purpose was to provide venture capital for minority entrepreneurs. The four institutions analyzed in this report were all extremely different in make up, and in their methodology for solving a mutual problem. The analysis was informative in that it revealed that venture capital for investment in minority business is available in the Boston Metropolitan Area. These funds, however, are extremely difficult to obtain. There are primarily two reasons for this difficulty. First, venture capital institutions are hesistant in investing their money into black business. It is correct that they are in the business to provide these funds to minority entrepreneurs - but they are also in the business to become and remain a viable entity in the minority community. By being highly restrictive and selective, they are able to stay in business by investing in conservative minority busisinesses. After all, venture capital institutions have to be successful themselves before they can be effective in the minority community. This conservative approach to venture capital has backfired, making it difficult for these institutional investors to understand minority business. In the screening process they have probably passed over some companies with ideas that could explode into successful enterprises. Second, these venture capital institutions do not have adequate personnel, some in quantity and others in quality. The major problem is quantity. Is it true that there are not enough men and women trained in finance that would like to work in improving the minority business community? The answer has to be no. With adequate inticement in the form of wages, more qualified personnel can be taken aboard. If it takes ridiculous salaries to intice the right personnel, then this is what must be done to get these venture capital institutions afoot. The idea of separating financial management from other business procedures could be a good idea.

But after analyzing these sources of venture capital, it can be concluded that these institutions have had a positive effect on the minority community. Even the proposals that were rejected were valuable. Often times they revealed to the company's management hidden problems. It is a surety that most took the recommendations of the venture capital companies into consideration when analyzing their business problems. Business development and community concern have also increased due to the knowledge disseminated in the Boston Metropolitan Area.

The President's minority capitalism program, being political in nature, will eventually dissolve. All that was learned in analyzing MESBICS, CDC's, and other funding approaches to financing minority businesses will remain for the new crop of minority investors to review.

There are a few recommendations that his paper will make. First of all, the best approach to funding venture capital institutions is through private funds. Urban National and Massachusetts Venture Capital have realized that institutional investors do expect a return on their investment. It is often difficult to approach the problem with grants only. Second, venture capitalist must learn to reject the overly conservative approach when seeking businesses to finance. Third, this paper suggests that these venture capital institutions take on larger and more qualified staff, no matter what the cost. The benefits of additional personnel will pay for itself with added success.

Table I

Standardized Interview Questions

Obtaining risk capital is one of the most important objectives of minority business, why did your company decide that it was their responsibility to provide these monies?

It has been said that managers and consultants in new enterprise must have business knowledge above and beyond the normal company executive, can you explain why the expertise of your staff qualify them for work in this very sensitive field?

The risk capital that is pumped into minority business by your company has a source, where does this money originate and what restrictions are placed on its use?

What types of minority companies does your company finace and what standards do these companies have to meet? Also, what type of record must these portfolio companies maintain in order to receive additional funds?

By providing risk capital to minority businesses, it seems that your company acquires financial control over your portfolio companies, is this the case, and if it is, does this imply that your failure means their failure? Also, does your financial control over minority business imply that managerial decisions within the company are ultimatley made by your staff?

How do minority entrpreneurs become aware of the benefits your company has to offer, and how would you describe yourself to them?

What extent is your company controlled by minorities (board of directors and employees)?

Table II

Companies In Urban National's Portfolio

1.	Supermarket The only black supermarket development in Baltimore	Baltimore
2.	Computer Keyboard Manufacturer	Greater Boston
3.	Fast Food Company Over one million dollars in sales	Greater Boston, New York
4.	Pole Line Hardware Six million dollars in sales	San Francisco
5.	Pharmaceutical Company	Los Angeles
6.	Macaroni Manufacturer	Los Angeles
7.	FM Radio Station	Los Angeles
8.	Vocational Training In Watts Well known black owned vocational school	Los Angeles
9.	Janitorial Service	Kansas City
10.	Mortgage Banker	Kansas City

Table III

Circle Venture Capital Fund's Funding From OEO

July 1971 to July 1974

Two Releases of Funds

A.	730,000 dollars	For venture capital investments
	400,000	For administrative expenses for two years
B.	300,000 dollars	For venture capital investments
	400,000 dollars	For administrative expenses for two years

Total 1.8 million dollars
.8 million for administrative

Table IV

Companies In Circle Venture Capital Fund's Portfolio

1. Bumper Reconditioner
   Manufacturer who sold all products to one company
   Out of business
   $75,000 investment ($55,000 loss)

2. Bed And Decorative Pillow Manufacturer
   Engaged in doing any type of sewing
   Employs a staff of twenty-five
   $60,000 investment (on the verge of going out of business if it does not receive additional funds)

3. Roxbury Action Pharmacy
   Employs three full time people, had difficulty in managing pharmacists
   Circle owns 40% trying to sell one half to Ruggle CDC
   $40,000 investment

4. Leona Park Fire Extinquisher Corporation
   Three full time employees, the company is having problems in salesmanship
   Circle owns 40% $40,000 investment

5. Circle Power Demolition Corporation
   Visibility of red, black and green symbolyzing minority breakthrough in construction, doing well
   Circle owns 51% $112,500 investment

6. Office Building
   Leased to New England Telephone for twenty years
   Circle owns 100% $193,000 investment