AN ANALYSIS OF COMMUNITY-BASED ORGANIZATIONS' EFFORTS IN SMALL BUSINESS ASSISTANCE: A CASE STUDY OF THE CDC COMMUNITY BUSINESS NETWORK

by

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B.A., Urban Studies
University of Pennsylvania, 1995

SUBMITTED TO THE DEPARTMENT OF URBAN STUDIES AND PLANNING IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF

MASTER IN CITY PLANNING AT THE MASSACHUSETTS INSTITUTE OF TECHNOLOGY

JUNE 2000

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ABSTRACT

Efforts by community-based organizations (CBOs), such as community development corporations (CDCs), have incorporated small business development into their overall neighborhood revitalization efforts with mixed success, especially when working with minority, low- and moderate-income entrepreneurs. These entrepreneurs often lack the technical skills and access to capital that they need to start, expand, or maintain their businesses. They face linguistic and social barriers that isolate them from traditional lenders and small business assistance providers. This thesis seeks to 1) provide a context for community-based organizations’ roles in small business development for those unfamiliar with the challenges involved in minority, low- and moderate-income business development and 2) provide CBOs interested in pursuing small business development with some comparative guidelines for their own efforts.

The thesis identifies three elements that contribute to the success of small businesses—social, human, and financial capital. Minority, low- and moderate-income entrepreneurs often face deficiencies in one or more of these elements. Community development corporations have attempted to provide technical assistance to businesses in their communities to address these issues, but are often faced with their own constraints of limited staffing and resources.

One collaboration of ten Boston area CDCs is attempting to break down these constraints and combine and share the expertise of the member CDCs. This collaboration known as the CDC Community Business Network (CBN) provides one-on-one neighborhood-based assistance yet also provides access to the larger experiences and contacts of the other member CDCs. Even with the shared resources of its member CDCs, CBN still faces its own challenges of limited skills, capacity, and funding; an unclear role among other technical assistance providers; and the need to develop effective collaborations with other stakeholders in small business development.

The thesis examines two other small business assistance networks and looks to them for lessons in addressing the deficiencies in the three types of capital and the challenges facing CBN. The two comparable networks offer alternative organizational and operational approaches to small business assistance. This thesis asserts that small business assistance organizations must have an understanding of the deficiencies in social, human, and financial capital in order to effectively assist minority, low- and moderate-income entrepreneurs.

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ACKNOWLEDGEMENTS

Many people deserve my utmost gratitude through this experience.

Karl Seidman, my academic and thesis advisor, has kept me on track and somewhat saner than I would have been without his encouraging words and guidance.

My thesis readers, Joe Kriesberg of MACDC and Sarah Griffen of JPNDC, for their time and guidance on this thesis.

The many small business assistance professionals, from CBN, BOC, WMEF, EDAC, ICIC, and the SBDC, who took precious time from their work in order to enlighten me and answer my many questions.

My family and friends, who have supported me throughout my graduate program, even though I have not spent enough time with them over the past two years.

And to all of my classmates, who have made my time at MIT a truly memorable and enjoyable experience.
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CHAPTER 1: INTRODUCTION

Small business development plays a prominent role in the revitalization of many minority, low- and moderate-income neighborhoods. Entrepreneurship in these environments requires concentrated, comprehensive assistance to overcome traditional barriers to success. Efforts by community-based organizations (CBOs), such as community development corporations (CDCs), have incorporated small business development into their overall neighborhood revitalization efforts with mixed success, especially when working with minority, low- and moderate-income entrepreneurs. The successful efforts address in one form or another the deficiencies in social, human, and financial capital that characterize many minority, low- and moderate-income entrepreneurs.

CDCs perform a number of services towards achieving their goals of improving neighborhoods and the lives of its residents. Their services sometimes include small business development, providing technical assistance and access to financial capital. These CDC services attempt to address the various barriers that isolate minority, low- and moderate-income entrepreneurs. Linguistic differences and misinformation contribute to their isolation. Individual CDC efforts to overcome these barriers, while somewhat successful, have been hampered by their limited staffing and resources.

One collaboration of ten Boston area CDCs is attempting to break down these constraints and combine and share the expertise of the member CDCs amongst each other. This collaboration known as the CDC Community Business Network (CBN) has in its second year of existence secured over $2 million in loans and provided technical assistance to service over 200 businesses across neighborhood boundaries.
In this thesis I attempt to answer the question of how CBOs can effectively support local business development through a case study analysis of the CDC Community Business Network (CBN). Minority, low- and moderate-income entrepreneurs have traditionally been more at a disadvantage in accessing technical assistance and capital in establishing or expanding their small businesses.

My hypothesis is that an effective model to support minority, low- and moderate-income business development is one that addresses the social, human, and financial capital deficiencies of this group of entrepreneurs. I assess the quality of CBN’s service delivery in terms of how well it addresses the needs of small businesses through the technical services it provides, its outreach and accessibility to those businesses, and its place in the wider universe of small business technical assistance providers. The analysis includes examining comparable networks’ successes and failures in identifying and fulfilling the needs of its constituent small businesses and in turn, draws upon these examples to recommend strategies for CBN to further develop and expand its small business development capacity.

**Objective of the Thesis**

This thesis has two purposes. First, it seeks to provide those unfamiliar with the challenges involved in minority, low- and moderate-income business development a context for community-based organizations’ roles in small business development. Second, the thesis provides CBOs interested in pursuing small business development with some comparative guidelines for their own efforts.

For the first group, I provide a short history of how small business development activity relates to CDC goals for community development. I also identify and categorize the barriers that
hinder minority, low- and moderate-income business development. For the second group, I draw upon the practices of CBN with two other business development collaboratives to formulate a model for effective business development.

**RESEARCH METHODOLOGY**

My research methodology addresses the issues, problems, and best practices in providing technical assistance and capital to neighborhood businesses. In order to understand and create a framework for my analysis of community-based organizations’ efforts in small business assistance, I reviewed recent and past academic and applied studies on small business development, especially for minority, low- and moderate-income entrepreneurs, community-based organizations’ approaches and outcomes, and conducted interviews with key actors in the field of community-based small business development.

For my main case study, I analyzed the organizational structure and operations of the CDC Community Business Network (CBN). I interviewed central members of the network and utilized data from a recent evaluation of its program outcomes and operations to determine the effectiveness of its services in addressing social, human, and financial capital. The interviews provided me with an overview and various nuances in CBN’s perceptions and services in small business development. From the evaluation data I was able to gather evidence of CBN’s effectiveness and impacts on the three types of capital for minority, low- and moderate-income entrepreneurs.

As a comparison to CBN’s efforts I chose to examine the organizational structure and operations of two other community-based networks that could provide CBN with alternative approaches to small business assistance. For my analysis of the Business Outreach Center
Network (BOC), I relied on interviews with persons familiar with the network’s inception and current operations as well as existing case study write-ups of the network. The interviews and studies provided data to compare and contrast the network’s effectiveness with CBN under my analytical framework.

In contrast to the availability of information from the BOC Network, my analysis of the Western Massachusetts Enterprise Fund (WMEF) was not as comprehensive as I would have liked. I was hampered by limited access to data and main participants. However, the data that I was able to assemble directly from WMEF, came mainly from its own documentation and funding proposals. These documents provided an insight into the organization’s perceptions on effective service delivery systems in addition to its quantitative impacts. From this information I discerned WMEF’s performance in addressing the three types of capital and the applicability of its organizational and operational approaches to CBN.

**THESIS OUTLINE**

**Chapter 1** is this introductory chapter. **Chapter 2** provides background on the barriers that minority, low- and moderate-income entrepreneurs have traditionally faced and sets up the framework for discussing the relationships between community development corporations and small business development. **Chapter 3** explores how the CBN operates in the context of the CDCs’ roles in small business development and how the collaboration seeks to overcome its organizational limitations and the traditional barriers faced by its clients. **Chapter 4** examines the operations of two other small business development collaborations and highlights the practices that may be useful to CBN. The chapter concludes by drawing recommendations for CBN from the other networks in addressing the challenges faced by minority, low- and
moderate-income entrepreneurs and resolving several of its organizational limitations. Chapter 5 provides concluding remarks on the applicability of collaborative small business development efforts and recommendations for further study.
CHAPTER 2: THE CHALLENGES FACED BY MINORITY ENTREPRENEURS AND THE ROLE OF COMMUNITY DEVELOPMENT CORPORATIONS IN SMALL BUSINESS DEVELOPMENT

This chapter establishes the framework for discussing the context in which the CDC Community Business Network operates. I begin by defining three fundamental elements—social, human, and financial capital—that are necessary in successfully starting and operating a small business, and then lay out the challenges and obstacles that minority, low- to moderate-income entrepreneurs must overcome in starting and growing their small businesses. The following section then includes a short history of the formation of community development corporations (CDCs) and illustrates the relationship between neighborhood small business development and the missions of CDCs. The chapter concludes with a discussion of how CDCs address and overcome those challenges through their small business development programs as well as the challenges that they themselves face in doing so.

THE ROLE OF SOCIAL, HUMAN, AND FINANCIAL CAPITAL

Many researchers have written extensively on the keys to starting and operating small businesses. From this wealth of research, I have categorized three factors that improve the likelihood of success for small businesses—social, human, and financial capital.¹ I emphasize the importance of these three factors in the success of small businesses.

Social capital as defined in certain research, most notably by Robert Putnam, consists of "the norms, shared understandings, trust, and other factors that make relationships feasible and

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¹ I chose these three categorizations based on the overview of minority business development given by Ross Gittell and J. Philip Thompson in their chapter in Urban Problems and Community Development.
productive.”² Other research defines social capital as pertaining to “the stock of knowledge and other resources that enable members of a neighborhood or social network to help one another, especially in relation to education, economic opportunity, and social mobility.”³ For the purposes of my framework for analyzing minority, low- to moderate-income small business development, I intend for social capital to have more of the latter definition. I define social capital as the extent of an entrepreneur’s social “network”, the people that an entrepreneur knows either well or with whom they are acquainted. This definition fits well in that the added dimension of a well-established social network increases the potential access to resources for an entrepreneur, such as financial capital, business knowledge, or even labor. I presume that the more resources to which a business has access increase the likelihood of their survival.

As for human capital, I define the concept as the knowledge and skills needed to operate and successfully maintain a business. These are the knowledge and skills, which entrepreneurs bring to their businesses, such as understanding their finances, knowing their markets, and how to access needed services. An entrepreneur’s level of human capital plays an important role in determining how he or she can adapt to changes in the market and ensure the stability or growth of the business.

Financial capital includes financial resources through debt or equity sources. Financial capital plays an important role in meeting the needs of starting and operating businesses. Without sufficient financial capital in debt or equity investments, businesses cannot purchase equipment, meet payroll, or market their goods and services.

² Ferguson and Dickens, 5. This is social capital as defined by Robert Putnam and James Coleman.
³ Ferguson and Dickens, 5. Social capital as defined by Glenn Loury.
CHALLENGES FOR MINORITY, ETHNIC, IMMIGRANT ENTREPRENEURS

In light of the three types of capital that I define above, many minority, low- to moderate-income entrepreneurs face a number of structural and social obstacles that limit their social, human, and financial capital and the opportunities to expand them. An abundance of research has been conducted concerning these barriers. Obstacles range from linguistic isolation and discrimination to a lack of education and technical skills. Ethnic immigrant entrepreneurs face additional barriers to the ones faced by native-born minorities, such as language barriers and limited knowledge of traditional market systems. The research can be broadly categorized into addressing the differences in the three types of capital—social, financial, and human capital—that affect minority entrepreneurs. Researchers argue that the deficiency of one or more of these three types of capital inhibit and constrain minority businesses.

Minority small business owners and potential entrepreneurs may lack the technical skills and access to capital that they need to start, expand, or maintain their businesses. These businesses may be linguistic minorities, who are traditionally socially isolated and are disconnected from traditional lenders and small business assistance providers. The isolation from traditional sources of assistance and capital result from distrust or misinformation arising from class or ethnic differences as well as insufficient outreach on the part of traditional financial institutions, such as banks. This isolation also prevents community residents from being aware of the full range of services that may be available to them. Timothy Bates, one of the more prolific writers on minority small business development, has written extensively on the challenges facing minority small businesses:

“Barriers to education and training, limited access to financial capital and markets, entrenched old-boy networks, and other factors have discouraged or prevented many minorities from pursuing self-employment. Others have attempted to start their own businesses but have discontinued operations due to some combination of the above
constraints. Finally, self-employed minorities often select particular business sectors because they are perceived as the only areas where opportunities exist.\(^4\)

Public policies affect the extent of outreach from the traditional financial institutions and availability of other technical assistance services. Legislation, such as the Community Reinvestment Act of 1977, has improved the involvement and investment of banking institutions in local communities.\(^5\) However, these banking institutions often do not effectively serve a particular segment of many low- to moderate-income neighborhoods, who may require more personal, one-on-one assistance, or may not speak the same language. Prior to the passing of the Community Reinvestment Act, the practice of “redlining” was pervasive throughout the financial industry. Banks would often lend at unfavorable terms or refuse to lend to certain neighborhoods and minority groups regardless of their credit history.\(^6\) This practice had an adverse effect on the development of minority businesses, especially in African-American communities, where there were often no other means to obtain financing.

**Social Capital**

In addition to the factor of discrimination, minority immigrants also suffered from social isolation from the broader, mainstream culture. Immigrants who did not speak English were further isolated from the traditional economy. The language barrier limited the employment opportunities of the immigrants as well as their education and technical skills training, prompting them to pursue self-employment. The barrier also put immigrants at a further disadvantage to accessing financial capital.\(^7\) Immigrants were forced to look to others within their ethnic group

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\(^7\) Light and Bonacich, 1988.
for financing and economic opportunities. One body of literature examines the development and function of ethnic social networks.

Strong social support networks exist among some minority groups, especially among some Asian, Latino, and other immigrant groups, that provide an individual with financial support as well as other support such as labor to start and maintain a business. The significance of these social networks cannot be overstated. However, not all minority groups have developed these strong social ties nor are they necessarily able to benefit from them. Some sociologists argue that the lack of strong social networks within certain minority groups, specifically among African-Americans, accounts for the differences in success rates for minority small businesses. Researchers, such as Ivan Light, emphasize the importance of trust and social relationships for sustaining minority businesses in the face of other economic disadvantages. Increased social capital within a minority group enables the minority entrepreneur to overcome some of the previously mentioned constraints, providing them access to capital through revolving loan funds or membership organizations, peer support around business problems, and networking opportunities. However, strong social ties within an ethnic group can also have insular effects and limit an entrepreneur’s ability to develop ties outside the group to other ethnic and non-ethnic business resources.

These insular effects and deficiencies in social capital with outside contacts constrain minority businesses’ access to a wider customer market. Businesses in low- and moderate-income neighborhoods suffer from an inherently weak and constrained market. Even in ethnic businesses that have strong social networks, those social networks can be a constraint on the

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8 Light, 1972.
9 Gittell and Thompson, p.492-493.
businesses. The businesses may not reach outside markets nor access other suppliers that are not part of the ethnic network.

**Human Capital**

Having strong social capital by itself does not increase the success rate of minority small businesses. Critics of the social capital argument, such as Timothy Bates, are wary that too much emphasis is placed on the importance of social capital compared to the roles that human capital and financial capital play in starting and sustaining businesses. Bates argues that both human and financial capital account for the success of small businesses:

“...least likely to survive are those newly formed by persons with low levels of education who invest small amounts of financial capital in their ventures. Conversely, the firms most likely to survive are those formed by college-educated persons who start out investing substantial financial capital.”

Higher levels of education and training enhance the human capital factor, the knowledge and skills needed to successfully start and operate a business. However, as previously mentioned, language barriers may hinder the development of human capital for minority entrepreneurs. Educational language instruction or training in an entrepreneur’s own language may be helpful in overcoming this barrier. Many minorities face limited access to basic business skills training and industry-specific information due to limited outreach by or knowledge of resources that may be available to improve their human capital. In a sense, limited social capital affects entrepreneurs’ ability to improve their levels of human capital. Likewise, a deficiency in human capital can hinder an entrepreneur’s access to financial capital, such as the case where not knowing how to develop a business plan, impedes the ability to acquire a loan. Another result of insufficient human capital can also lead to the improper management of financial capital.

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FINANCIAL CAPITAL

Financial capital is a major issue in the analysis of barriers to minority small business development. Bates and others have written extensively on this issue. Research around ethnic social groups and discrimination focus on obtaining financial capital. Other research addresses the limited personal capital of minority entrepreneurs, especially among African-American and Latino entrepreneurs, and the discrimination they face. Still others analyze the access to debt versus the access to equity capital. Studies show that some minority businesses take on too much debt, which subsequently creates financial problems for those firms. This body of research on financial capital and minority businesses concludes that discrimination and limited personal financial resources contribute the most to minority, low- and moderate-income entrepreneurs’ insufficient access to financial capital. The restriction on the financial capital available to this group of entrepreneurs limits their ability to start or meet the demands of sustaining and growing their businesses. This problem further handicaps these businesses in competition with businesses that have greater access to financing.

The constraints facing minority, low- and moderate-income businesses limit the social, human, and financial capital available to these businesses. Consequently, the deficiency in these three types of capital inhibits the formation and sustainability of minority businesses. Programs that can address these three types of capital would benefit minority businesses. Community development corporations have thus attempted to focus on developing these three factors as part of their neighborhood revitalization goals.

11 Bates, 1993. p.44.
THE ROLE OF COMMUNITY DEVELOPMENT CORPORATIONS

CDCs are one vehicle for revitalizing neighborhoods and improving the lives of their residents. CDCs provide a number of services in their efforts to achieve that goal. Their services include providing assistance in acquiring affordable housing and linking residents with employment opportunities. Some CDCs recognize that the development and survival of small neighborhood businesses are vital to achieving the goals of neighborhood revitalization and have expanded their economic development activities to provide technical assistance and improve local neighborhood businesses’ access to capital. These CDCs usually have goals that are in line with the development of neighborhood services, providing community residents access to those services, the development of entrepreneurial and employment opportunities, and the physical revitalization of the community. Small business development addresses these issues to improve the quality of life for community residents.

Community development corporations (CDCs) have attempted to provide such technical assistance to businesses in their communities to address these issues, but are often faced with limited capability to provide such services to meet demand. Many CDCs have worked closely with their communities and gained the trust of the residents. Different CDCs have developed their own experiences in providing small business assistance with varying successes but are still faced with their own constraints of limited staffing and resources.

Modern community development corporations have undergone four decades of formation and change and have developed various programs to address the challenges that afflict minority small business development. Not all CDCs have instituted small business development programs to be sure. However, those that have pursued programs in small business development
view them as one component in achieving their larger goal of community revitalization and viability.

CDCs focus on the issues confronting low- to moderate-income communities. Many of their activities fill the voids in services and resources that have contributed to the distressed conditions of these communities. CDCs are typically engaged in a number of different activities at any one time in the pursuit of their missions, creating a medley of programs to address the housing, education, and economic issues of the communities they serve. There are over 3,600 community development organizations operating in local communities in the United States.

A common misperception is that CDCs in the past were only concerned with housing and did not undertake economic development activities such as business development. This was not the case. Early CDCs that formed in the 1960s undertook an extensive array of activities in community development. Some produced housing, yet were also focused on business and work force development. The 1960s was a turbulent time of riots, the civil rights movement, and major federal funding for urban renewal programs and poverty alleviation. Federal funding was made available with the intent of establishing community organizations to carry out comprehensive approaches to community development. Funding came from such programs as the Model Cities Program and the 1964 Economic Opportunity Act's Special Impact Program to create community action agencies and other service-delivery organizations to address the issues plaguing low- and moderate-income communities. CDCs formed around the protests and civil unrests that erupted in that decade. Peirce and Steinbach describe the generation of CDCs in the 1960s as "having the aura of a grand social experiment. Many were sizable organizations, with expansive agendas and sometimes great expectations, dozens of full-time professionals and

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13 Vidal, p.80.
technical consultants, multi-year commitments for operational funds, massive housing projects, commercial ventures, social service programs, venture capital arms, even trusts.\textsuperscript{16}

Another generation of CDCs came about in the 1970s. This new wave of CDCs had their origins in advocacy and organizing against forces that would devastate the physical and social fabric of each neighborhood as well as threaten their viability to survive. Threats to low- and moderate-income neighborhoods such as the construction of interstate highways, institutional expansion, redlining, and inadequate city services galvanized the creation of CDCs by community residents. Funding to community groups came from foundation and corporation support and the federal Community Services Administration. Later in the decade the Department of Housing and Urban Development’s Office of Neighborhood Development provided support to community organizations. Federal funding differed in that the funding came more in the support of individual “single-purpose” programs. It was a calculated move away from wholesale funding of community development activities as in the 1960s. Economic development programs that were funded included technical assistance, the supply of equity capital, and loans to neighborhood businesses.\textsuperscript{17}

The next generation of CDCs in the 1980s experienced drastic reductions in federal funding support. Successful CDCs adapted to the changing environment by making new partnerships with regional and national non-profit philanthropies and foundations, local governments, and private sector organizations. They pieced together funding from a patchwork of sources involving intermediaries such as the Local Initiative Support Corporation (LISC), the Enterprise Foundation, and the Neighborhood Reinvestment Corporation (NRC).\textsuperscript{18} Other

\footnotesize
\textsuperscript{15} Stoutland, p.196.
\textsuperscript{16} Peirce and Steinbach, p.21.
\textsuperscript{17} Stoutland, p.198.
\textsuperscript{18} Stoutland, p.199.
sources included local and state governments, foundations, private partnerships, and what was left from the federal government. CDC staffs became more professionalized as the organizations focused more on housing development and increased efficiency. The professionalization of the staff in some CDCs in the 1980s and 1990s created movement towards a different strategy from the activism of the CDCs in the 1960s and 1970s with an emphasis on a more cooperative approach with neighborhood participation and collaboration with non-profit, private, and government agencies.

CDCs, for the most part, concentrate their activities toward low- and moderate-income residents in a specific geographic location. Other CDCs may focus on serving a specific ethnic or other demographic group within a larger region. According to a 1992 study conducted by Avis Vidal, CDCs perform an important role in revitalizing low- to moderate-income communities.\(^{19}\) The communities in which they operate are underserved by other non-profit, private, or public agencies. The study claimed that from the CDC activities surveyed only six percent of those CDC activities would have been performed by other organizations.\(^{20}\) The reasons behind this void stem from the fact that CDCs are more likely to undertake those projects that may not be profitable or may be too difficult or risky for other private, non-profit, or public agencies. However, the benefits from undertaking these types of projects in the form of direct and spillover benefits and the incremental improvement to the community justify CDC efforts in furthering its mission to underserved, distressed neighborhoods.

Sara Stoutland in her chapter on CDCs in *Urban Problems and Community Development* categorizes CDC activities into four primary program activities and two secondary program activities as listed in the table below:

\(^{19}\) Vidal, p. 82-84.
Community Development Corporation

Primary program activities (physical and economic development)
- Housing development and management
- Commercial real estate development and management
- Business Development
- Work force development

Secondary Program Activities
- Physical and economic development
- Social Development
  - Social service delivery
  - Advocacy and organizing to direct more services and other resources to the neighborhood
  - Convening and participating in neighborhood events such as neighborhood planning meetings, community celebrations, block parties, and other activities that promote community pride
  - Arts and cultural activities

This categorization of CDC activities provides a more detailed portrait of the range of projects that CDCs undertake. CDCs that perform more than one of these activities often attempt to integrate them with one another. They attempt to create a synergistic relationship among the programs to complement or feed one another, albeit with limited success in most cases. For example, a CDC may develop a commercial property and be able to provide space for startup businesses that are using its small business technical assistance services. Also the CDC work force development programs may be able to serve as a ready source of trained labor for those businesses; and connections to or the provision of social services such as childcare, would allow community residents to participate in the job training and stay in their new jobs without having to worry about those issues. Likewise, the ability to keep a steady job with a decent income allows residents to keep up with their rent and other daily expenses. This in turn provides a customer base for the neighborhood businesses.

The activities were grouped in three main categories: housing development, commercial development, and
CDCs that incorporate business development in their activities view business development as an integral part to sustaining a neighborhood’s economy, addressing residents’ quality-of-life by providing them access to goods and services, and as potential sources of job creation. The services that the CDCs strive to provide address those challenges that face minority, low- and moderate-income entrepreneurs and attempt to increase the amount of social, human, and financial capital available to them.

Business development activities that address human capital include technical assistance to entrepreneurs seeking to start businesses or to existing businesses wishing to expand or sustain their businesses. Other cases of CDCs’ development of entrepreneurs’ human capital involve the CDCs’ provision of loan counseling and loan packaging assistance to businesses seeking loans for startup or expansion. This type of assistance and training instructs entrepreneurs in the basics and nuances of acquiring and utilizing financial capital and expands their human capital. Also, some CDCs have experience with directly developing and owning businesses. This type of business development activity, while providing a source of employment, serves to train potential entrepreneurs in business operations in a specific industry and provides them with experience in the business, developing their human capital business skills and knowledge. Some CDCs also directly provide trainings and workshops in business skills and language instruction or else can refer an entrepreneur to another service provider.

CDCs can also serve as liaisons and refer entrepreneurs to the resources that they need and in turn, develop their social capital. Successful CDCs usually have built relationships with local governments, businesses, educational institutions and other community agencies. These relationships enable CDCs to access a wider array of services and support for their business enterprise development.

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footnote:
21 Stoutland, p.216.
development activities and assist minority, low- and moderate-income entrepreneurs in finding
the appropriate resources. CDCs may also develop relationships between peer businesses to
serve as resources for the entrepreneurs. Informal relations among entrepreneurs and service
providers may develop as a result of a CDC’s more formal referrals, furthering the development
of the entrepreneurs’ social capital.

In terms of financial capital, CDCs facilitate access to financing through either a
commercial or non-profit lending institution or in some cases the CDCs’ own loan funds or
equity investments. Building relationships between lending institutions and the CDC itself is
crucial for the CDC’s ability to advocate for minority, low- to moderate-income entrepreneurs.
In some rare cases, CDCs provide venture capital investment to start-up businesses. However,
the most common form of CDC assistance in financial capital is identifying sources of financial
capital and working with the entrepreneur to acquire those resources.

The following table from Avis Vidal’s study of CDCs provides a sense of the scope of
CDC business development activities. The data is from a sample of 130 CDCs that had business
development experience, which was typically five years or more:

**Total Business Enterprise Development Output of CDCs**

<table>
<thead>
<tr>
<th>Output</th>
<th>Mean</th>
<th>Median</th>
<th>Number of CDCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms given technical assistance</td>
<td>203</td>
<td>63</td>
<td>44</td>
</tr>
<tr>
<td>Managers trained</td>
<td>300</td>
<td>55</td>
<td>20</td>
</tr>
<tr>
<td>Direct business ownership (Annual Sales)</td>
<td>$4,238,143</td>
<td>$650,000</td>
<td>21</td>
</tr>
<tr>
<td>Loans Administered</td>
<td>$1,145,139</td>
<td>$650,000</td>
<td>18</td>
</tr>
<tr>
<td>Venture capital invested</td>
<td>$1,221,750</td>
<td>$294,250</td>
<td>18</td>
</tr>
<tr>
<td>Provision/administration operating cost subsidies</td>
<td>$2,773,045</td>
<td>$122,708</td>
<td>10</td>
</tr>
</tbody>
</table>

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23 Vidal, p.90.
In some cases CDCs are able to address more than the deficiencies in the three types of capital for minority, low- and moderate-income entrepreneurs in their businesses. With its array of services, such as housing programs and relations with other agencies, CDCs can assist an entrepreneur with issues that may indirectly affect his or her abilities in starting or maintaining a business. These issues hinder the development of the entrepreneurs’ social, human, and financial capital needed for their businesses. Minority, low- and moderate-income entrepreneurs may have deficiencies in social, human, and financial capital in other aspects of their lives. For example, an entrepreneur who may be having trouble with finding sources of capital may be able to refinance a home mortgage with the help of the CDC’s housing staff as well as benefit from the expertise of the business development staff. Links to childcare may also free some time for the entrepreneur which he or she may not have had to enroll in business skill development training classes. The CDC’s relations with other community services enable entrepreneurs to concentrate on developing their social, human, and financial capital for their businesses.

CHALLENGES FOR CDCS AS EFFECTIVE BUSINESS DEVELOPMENT RESOURCES

CDCs face a number of challenges in providing successful and effective business development services. Among these challenges are 1) developing internal skills and capacity for small business development, 2) clarifying the CDC’s role among other business development programs and services, 3) developing effective collaborations with the local government, lenders, and other technical assistance providers, 4) improving the image and perception of their neighborhoods, and 5) conducting outreach and building trust with entrepreneurs.

Many individual CDCs must deal with limited funding sources and capacity for developing and sustaining effective small business development programs. CDCs must prioritize
the needs in their neighborhoods and direct resources towards activities that best meet those needs, and often business development programs compete against other programs such as affordable housing development or workforce development for CDC time and resources. Due to the nature of business development assistance for minority, low- and moderate-income entrepreneurs, i.e. the need for extensive time and assistance, CDCs face capacity issues in serving their constituents.

CDCs also face the challenge of integrating or delineating their business development services with other existing public, private, and non-profit business development programs and services. Minority, low- and moderate-income entrepreneurs often need a variety of services and assistance. CDCs need to determine the extent of the services that they can provide and how their services relate to any other existing services, given the challenge of having limited resources in the first place.

Another challenge for CDCs who have determined the capacity of their business development programs is to develop effective collaborations with local governments, lenders, and other technical assistance providers. Given the limited resources that most CDCs face, effective collaborations augment the business development services that CDCs are able to supply. Entrepreneurs are able to gain access to other social networks, training, and financial resources through effective collaborations. CDCs have had more success with their business development programs when they are able to work individually with neighborhood businesses over different stages of their operations as well as form close relationships with local government, financial institutions, and businesses both within and outside the boundaries of the neighborhood.  

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24 Vidal, p.99.
CDCs must find ways to sustain businesses when the local and regional economies are thriving and especially when they experience downturns. Often, the communities in which CDCs work suffer from poor reputations for business investment, limited capital, and a lack of business management experience in its residents and business owners. CDC business development programs need to combat negative images and perceptions of their communities and develop ways to educate the outside business community on the positive aspects of their neighborhoods. Other CDC programs may be able to assist in these efforts, such as physical revitalization and educational programs.

Finally, building trust and outreach to minority, low- and moderate-income entrepreneurs present a challenge to some CDCs. Without effective outreach and trust among local entrepreneurs, a CDC business development program has no one to serve. Entrepreneurs must be aware of and believe that the CDC business development program can provide them with worthwhile assistance or at least point them in the right direction.

In the next chapter I describe how the CDC Community Business Network builds on the CDC model upon which it is based and how well CBN has helped CDCs overcome the challenges to delivering effective business development services. I maintain that CDCs are the appropriate vehicles for addressing the needs of small business development as it pertains to minority, low- and moderate-income communities. Their strengths lie in the range of services that they provide as well as their close relationships with the residents and businesses in the communities. However, many CDCs have neglected their relationships with businesses and other organizations outside of the community.
CHAPTER 3: THE CDC COMMUNITY BUSINESS NETWORK

This chapter describes and evaluates the Boston-based CDC Community Business Network’s mission and operations within the framework of CDCs’ roles in small business assistance as laid out in the previous chapter. I will specifically evaluate CBN’s efforts in assisting minority, low- and moderate-income entrepreneurs to overcome deficiencies in social, human, and financial capital and describe the challenges that confront CBN’s efforts.

In the context of CDC involvement in small business development, the CDC Community Business Network (CBN) is attempting to overcome the constraints on low- and moderate-income entrepreneurs. CBN is a relatively young organization, starting its first year of full operation in 1997, and builds upon the CDCs’ previous individual experiences in small business technical assistance and access to loan capital. It seeks to combine the expertise and resources of its member CDCs to further enhance the services available to their low- and moderate-income clients.

ORIGINS OF CBN

Before the inception of CBN, CDC small business development consisted of individual CDC efforts and informal networks of varying degrees. A few of the Boston CDCs had experience providing direct technical assistance to neighborhood entrepreneurs. The City of Boston’s Economic Development Industrial Corporation created the Small Business Loan Fund Program (SBLFP) in 1992 but discontinued the program in 1995. The nine CDCs who participated in the SBLFP came away with a better understanding of the value and complexity of such a program and together with other CDCs sought to develop an alternative small business program. Additionally, the City of Boston decided to apply to the federal Small Business
Administration’s Micro Loan Demonstration Program. Participation in the program would require coordination and cooperation with Jewish Vocational Services (JVS), the non-profit technical assistance provider whom the City had chosen as the lead applicant. This program would provide a source of loan capital for the CDCs.

The discussion among the CDCs interested in developing an alternative small business assistance program focused around the lessons that were learned from the City’s defunct small business loan program. The CDCs agreed that an effective small business assistance program needed to address more than the issue of access to financial capital. A more comprehensive approach to small business assistance would include establishing connections between entrepreneurs and the resources they need, developing access to broader markets, technical assistance in developing business plans, education, and training, in addition to the financial capital component. In essence, the CDCs set out to increase the social, financial, and human capital of the entrepreneurs in their communities. The CDCs asked the Massachusetts Association of CDCs (MACDC), the state-wide association of CDCs, to take a central role in this effort to raise development funds and provide staffing assistance.

The CDCs and MACDC decided on a program design and structure with the assistance of the Economic Development Assistance Consortium (EDAC). The primary goals of the program were 1) to help micro and small businesses achieve greater stability and success and 2) revitalize the local economy in CDC communities. Neighborhood revitalization incorporated a number of other goals that were familiar to CDCs. Those goals included connecting businesses with the larger regional economy, job creation for community residents, developing entrepreneurial role models, and improving the services and products available to the community.

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25 CBN Program Design presented to the MACDC Executive Committee, August 1, 1997.
During the program planning and design process, a few of the more experienced CDCs expressed concern over the scope of the program. They felt that the different levels of CDC experience with small business development in the collaboration would inhibit the operations of their more developed small business programs, and they opted out of the discussion. The remaining CDCs formalized the structure of the collaboration and set up the framework for the CDC Community Business Network. The CDCs recognized that given the scarce financial and staff resources that characterize most CDCs and the existence of other small business technical assistance programs, the CBN should not replicate existing services nor expect each CDC to provide comprehensive services. At its core, the CBN should provide services that best fit the needs of the CDCs’ communities.

Organizational Structure of CBN

CBN’s organizational structure comprises of MACDC as the point organization for this collaboration of ten CDCs. CBN offers one-on-one, neighborhood-based technical assistance yet also provides access to the larger experiences and contacts of the other member CDCs. As the central organization, MACDC is responsible for coordination, fundraising and fiscal administration, and advocacy for CBN and its clients. Three lead CDCs provide the majority of the technical assistance for the network members, and the remaining seven CDCs are categorized as “affiliates”, who refer clients to the three lead CDCs. The current three lead CDCs are Allston Brighton CDC, Jamaica Plain NDC, and Dorchester Bay EDC. The seven affiliate CDCs are Asian CDC, CDC of Boston, Inc., Fenway CDC, Mission Hill NHS, Neighborhood of Affordable Housing, South Boston NDC, and Viet AID.
All ten CDCs are responsible for the marketing and outreach of CBN services in their communities. The individual CDCs have the experience and familiarity with their neighborhood needs and serve as the initial points of contact with an entrepreneur, having established themselves in some cases as a resource with local business associations and other agencies. The affiliates have varying degrees of technical assistance capacity to serve the clients. Some affiliates handle the initial intake and assessment process and provide the technical assistance themselves or refer the client to their associated lead CDCs. Other affiliates have more limited capacity and refer a client directly to the lead for intake, assessment, and technical assistance. The lead CDCs have full-time staff to handle referrals from the affiliate CDCs, provide direct technical assistance, loan packaging assistance, and referrals to other technical assistance providers. Figure 3.1 shows the basic organizational structure of CBN.

Figure 3.1.
Organizational Structure of CBN
CBN’s structure allows the ten CDCs to draw upon the experiences of all the CDCs and their respective contacts. The CDCs and the program manager meet regularly to discuss new strategies and directions for the network and collaborate on resolving issues that members may be facing in their small business development efforts. Collaborations happen formally through working sessions and informally among CDCs when needed. CDCs also conduct peer reviews to evaluate their performances and recommend solutions to improve the CDC’s participation in the network. The CDCs are in the process of adopting tracking software developed by Fitchburg State College and the Massachusetts Micro Enterprise Coalition to maintain client data and cumulative program statistics.

Additionally, an advisory committee consisting of business owners, public officials, and representatives from lending institutions and other small business technical assistance providers meets regularly to review CBN’s performance and develop ways to improve the program. The members of the advisory committee bring different perspectives to guide the operations of CBN.

**OVERCOMING BARRIERS TO MINORITY, LOW- AND MODERATE INCOME ENTREPRENEURSHIP**

The services that CBN offers to its clients through its lead CDCs and affiliates seek to overcome the barriers that minority entrepreneurs face in starting and sustaining their small businesses. As laid out in the previous chapter, these entrepreneurs face deficiencies in social, human, and financial capital. I analyze the strengths and weaknesses of CBN’s services in addressing the barriers to minority, low- and moderate-income entrepreneurs through the framework of these three types of capital. CBN’s combination of services addresses aspects of all three types of capital, though to different extents. Its strengths lie in developing human capital and access to financial capital for entrepreneurs.
A recent evaluation of CBN revealed the extent of CBN’s impact on minority, low- and moderate-income businesses. Through the end of 1998, minority-owned businesses accounted for 62% of CBN’s 202 clients, 62% of the 1,118 hours of technical assistance, and 60% of the forty-five loan recipients. Low- and moderate-income clients, as self-reported by themselves, comprise approximately 49% of the 202 clients and utilized 68% of the technical assistance hours.

The strength of CBN services lie in the development of entrepreneurs’ human and financial capital. Direct one-on-one technical assistance makes up the majority of the CBN cases where technical assistance is needed. CBN’s CDCs also offer training and workshops that are open to entrepreneurs in any of the neighborhoods in addition to providing the one-on-one technical assistance. Workshops enable CDCs to reach a larger number of entrepreneurs at any one time. CBN has the added resource of being able to provide technical assistance in seven languages through its CDCs. Results from a sample of 37 of the total 202 entrepreneurs who received technical assistance from CBN indicate that over half of the clients in the sample received technical assistance in preparing their business plans, 23% marketing assistance, 26.9% assistance in finding real estate space, 11.5% accounting or tax assistance, and 46.2% help in securing financing or preparing a loan application. These activities illustrate the emphasis that CBN places on one-on-one technical assistance and the development of different elements of entrepreneurs’ human capital.

CBN’s technical assistance and training had important impacts on the development of entrepreneurs’ human capital and subsequently the viability and growth of their businesses. Of the sampled businesses, the survey also revealed that CBN helped in the startup of ten

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businesses, prevented the closing of two businesses, increased the productivity of eight businesses, increased the sales of six businesses, and helped overcome a crisis at eight businesses.

One example of CBN’s development of an entrepreneur’s human capital is the story of a minority entrepreneur who had no prior business experience and wanted to start his own beauty salon and supply store. Technical assistance from one of CBN’s lead CDCs, the Jamaica Plain Neighborhood Development Corporation, enabled the entrepreneur to understand the process for applying and acquiring a loan, the details of starting and operating the business, and marketing his products. The entrepreneur is currently entering his third year in business and has plans to expand his business.

CBN performs a number of services that assist minority, low- and moderate-income entrepreneurs in effectively addressing their financial capital needs. One of the lead CDCs, the Dorchester Bay Economic Development Corporation, operates its own small business loan fund. This fund is available to qualified entrepreneurs. CBN provides loan packaging assistance to entrepreneurs who receive the appropriate technical assistance from a lead CDC. The business development staff at the lead CDCs have developed relations with major banks and other lending institutions to provide a source of financial capital to entrepreneurs. CBN’s lead CDCs work with an entrepreneur on developing sound business plans and financial documentation before submitting a loan application to the lending institution. The relationships are such that the lead CDCs understand what criteria that the lending institutions require in granting loan requests and facilitates the institutions’ loan review process. CBN leads have established a certain level of trust and confidence from various lending institutions through mutual understanding of each others’ goals and capacity. The network cultivates relationships with commercial and non-profit
lending institutions such as the CDC Tax Collaborative, Community Development Finance Corporation, and the Boston Community Loan Fund to provide access to flexible loans to CBN clients.

CBN secured over $2,000,000 in loans for its clients through June 1999 for uses such as working capital, equipment, construction, and real estate purchases. Of the 45 loans secured, 27 or 60% of the loans served minority businesses. Also, 79% of the total loan amount generated by CBN went to minority and women-owned businesses. Lending institutions state that the businesses would not have qualified for the loans without CBN’s assistance.\(^\text{27}\) In light of that statement, CBN has made a direct and important impact on businesses’ access to financial capital.\(^\text{28}\) The case of a minority immigrant entrepreneur who received technical assistance from Viet AID, one of the CBN “affiliate” CDCs, to open a laundromat provides an example of CBN’s impact in human and financial capital. Viet AID assisted the entrepreneur in preparing a business plan in English and a loan application to acquire startup capital from the Dorchester Bay EDC small business loan fund.

While CBN has been able to increase entrepreneurs’ social capital in terms of seeking out the appropriate financial capital, it has not developed as strong social ties amongst peer businesses and other organizations. A recent evaluation of CBN’s services indicated that a low percentage of clients are referred to outside organizations for technical assistance. CBN records indicate that 27% of the clients received referrals while 11% of the respondents to the survey indicated that they received referrals. These results indicate that CBN directly provides much of the technical assistance to its clients and has limited utilization of its contacts with other providers. Other non-profit technical service providers to which CBN staff occasionally refer

\(^{27}\) Interviews with lenders, Seidman, 1999.
clients include organizations such as the Jewish Vocational Services (JVS), This Neighborhood Means Business (TNMB), the Center for Women and Enterprise (CWE), and the Boston Empowerment Center, which provide business skill development training in basic business operations as well as information on the entrepreneur's specific industry or sector. CBN has not developed strong relations with these or other private or public service providers.

Even though its efforts are not as well developed as its focus on human and financial capital, CBN has the ability to augment the social capital of its clients by linking them with more extensive sets of associates, creating formal and informal ties to other businesses and customers. CBN has the infrastructure to utilize its CDCs’ existing set of relationships and work closely with entrepreneurs to match them with the appropriate contacts. As a function of the network, CBN can incorporate the extensive contacts of its CDC members in its structure and provide entrepreneurs with the opportunity to access a range of resources and support in and outside of their neighborhoods. One example of CBN’s potential is the case of a minority entrepreneur’s efforts to open an ethnic restaurant. Allston Brighton CDC was able to work with the entrepreneur on developing a business plan and loan application, but also draw upon its relationship with the local Main Streets organization for assistance in finding retail space and storefront improvements as well as its relationship with the local business association for additional assistance. More relationships of this nature would greatly enhance CBN’s social capital development function.

28 As a side note, according to the evaluation data, a total of 211 jobs were created or retained as a result of the loans. 55% of those jobs were located in minority-owned businesses.
CHALLENGES FACED BY CBN

While CBN has expanded the technical assistance services available to businesses in the CDCs’ service areas and the business development resources of individual member CDCs, CBN has realized that its capacity is constrained by some of the very same factors that CDCs had faced individually on a smaller scale—limited skills, capacity, and funding; its unclear role among other business development programs and services; and the need to develop effective collaborations with other stakeholders in business development. In addition to the organizational and operational nature of CDCs, the young age of the organization plays a factor in its level of organizational capacity and relationships with other business development organizations. As demonstrated in its recent evaluation, CBN faces challenges in its limited resources and capacity, underdeveloped relationships, and insufficient administrative systems and procedures. These challenges can be attributed at a basic level to insufficient funding and overextended business development staff.

CBN’s capacity is constrained due to the somewhat limited skills and capacity of its CDC members. Currently, the three lead CDCs provide the bulk of the technical assistance and the seven affiliate CDCs have limited capacity to provide direct technical assistance. The three leads’ business development staffs each consists of one full-time staff person responsible for CBN duties. However, the three of them can only handle on average seven to fifteen caseloads each, depending on the extent of entrepreneurs’ needs. The affiliate CDCs have either part-time business development staff or limited support for providing technical assistance. A concentrated effort by CBN and the CDCs themselves to develop the capacity of the affiliates would be one way to better meet the demand for their services. Funding for more full-time staff at the lead CDCs or at the affiliate level would need to be secured for such a staffing effort.
In theory, CBN should be able to provide assistance to more clients if they can tap into the services of existing service providers and link them into the network. Presently, the collaborations that exist are often underutilized or inconsistent. Referrals and better-defined relations with other non-profit and private technical assistance providers in the area would improve CBN’s capacity and services. The lead CDCs differ in their utilization and views on the value of their present relations with existing technical assistance providers. There is a strong preference on the part of the lead CDC staffs to keep the technical assistance function among themselves. The feeling is that current non-profit providers cannot provide the “hand-holding” that is needed with many of their clients. Leads will refer clients to specific training sessions and workshops sponsored by those providers when they feel that the clients have reached a certain level of business acumen. The use of private sector technical assistance providers, such as accountants and business consultants, also is not as prevalent.

Developing a roster of reliable providers, especially local providers, can also create another facet of community development by fostering connections within or between neighborhoods. The case of the New York Business Outreach Center Network in the next chapter illustrates ways of creating formal performance standards and agreements between the Network and outside technical assistance providers to enhance the development of entrepreneurs’ social capital.

Stronger relationships with other business development organizations such as the Initiative for a Competitive Inner City’s Boston Advisors, the local U.S. Small Business Administration’s Small Business Development Centers and its Minority Business Assistance Center not only can expand the resources available to CBN clients but also strengthen the advocacy component of CBN’s mission. Collaborative relationships with these organizations
have the potential to allow CBN to tap into their resources and funding through the development of new joint programs and services or more efficient coordination of existing services. A more collaborative relationship with these organizations can open the door for larger sources of funding, such as federal Small Business Administration funding. The same holds true for developing closer ties with the City of Boston’s Main Streets program and the Neighborhood Business Development Center. Developing collaborations among the business development organizations lessens competition for funding and at the same time can expand their services.

Chapter Four provides an insight into how other CDC-based business development networks overcome the same challenges that CBN faces. I present and evaluate within the social, human, and financial capital framework the experiences of the Business Outreach Center Network, which operates in the New York City metropolitan area, and the Western Massachusetts Enterprise Fund. Both networks offer relevant lessons in organization and operations for CBN, which may be able to adopt some of their approaches and methods.
CHAPTER 4: Other Models of Small Business Assistance

Other small business assistance provider networks operate with varying successes in addressing the needs of minority, low- and moderate-income entrepreneurs. CBN can draw from the experiences of other small business technical assistance providers for ways to address its challenges and constraints. Some of these comparable models in technical assistance provision are similar community-based networks such as the two networks that I profile in this chapter—the Business Outreach Center Network (BOC) in New York City and the Western Massachusetts Enterprise Fund (WMEF).\(^{29}\)

I analyze the collaborations and operations of these two networks with the intent of highlighting the specific aspects of each that may be applicable to improving CBN’s services. Specifically, I examine the practices of these two networks in the context of how they 1) assist minority, low- and moderate-income entrepreneurs overcome deficiencies in social, human, and financial capital and 2) address the same challenges that confront CBN as a business development program. I take into consideration that while part of the effectiveness of the two business development organizations stems from the different environmental factors under which they operate, their effectiveness lie in the strengths of their ties to other small business development stakeholder organizations in the region. This chapter concludes with my analysis of what CBN can learn from the organizational structures and operations of the two profiled networks—the BOC Network and WMEF.

\(^{29}\) There are a number of other small business development programs that may provide CBN with insights into developing strategies around collaboration for small business assistance and obtaining program funding. The activities of the Greenpoint Manufacturing Design Center in Brooklyn, New York and the partnership between Covenant Community Capital and an equity capital program established by ENRON Investment Partners, Inc. in Houston, Texas merit closer examination.
THE BUSINESS OUTREACH CENTER NETWORK

The Business Outreach Center Network (BOC) in New York City provides one model of small business assistance. The mission of the BOC is to utilize small business development to preserve and stabilize low-income neighborhoods. The network differs somewhat in structure from the CBN in that while there is a central office to which each neighborhood BOC office (or referred to collectively as BOCs) is linked, no lead-affiliate relationships exists. The BOC follows a hub-spoke model of networking. Eight business outreach centers make up the BOC network—seven throughout New York City and one in Bridgeport, Connecticut. The success of the BOC network lies in its significant attention to developing relationships and connections to private, non-profit, and government small business technical assistance providers as well as to creating business-to-business connections.

BACKGROUND OF THE BOC NETWORK

The Council of Jewish Organizations (COJO), a multi-service community organization, founded the first Business Outreach Center in 1990 in Boro Park, New York in response to a need by existing and prospective local entrepreneurs who felt that they did not have access to technical and financial services. This need was uncovered in a survey conducted by COJO a few years prior to the establishment of the first BOC. This first BOC was conceived as an organization that would build upon the extensive business assistance services already existing in the area and fill the information gap between the technical assistance providers and the entrepreneurs who required the assistance. Boro Park had had a recent influx of new immigrants and the BOC sought to provide business development assistance to existing and new immigrant-

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30 This section draws from an interview with Nancy Carin, Executive Director of the BOC Network and from David Sweeny’s case study of the BOC in Networking Across Boundaries Volume 2 by Bennett Harrison and Marcus.
owned businesses. Developing relationships with key business and public leaders and agencies would be key to achieving this goal.

A funding request to the New York State Urban Development Corporation resulted in an impetus by the state to replicate and expand the BOC services to other neighborhoods. A second BOC was established in the Far Rockaway neighborhood with the coordination of the Rockaway Development and Revitalization Corporation (RDRC). The success and impact of these first two BOCs led the way for the establishment of five more offices in ethnically diverse neighborhoods in New York City and one in Bridgeport, Connecticut.

**Organizational Structure of the BOC Network**

The BOC Network consists of the eight individual BOC offices located in different low-income ethnic neighborhoods. The original BOC office, the Boro Park BOC, also houses the central administrative staff of the network. The central staff is responsible for the administration, management, coordination, funding, and advocacy for the BOC Network. The individual BOCs are sponsored by community organizations that have a solid base to support the small business development activities of the BOCs. Unlike CBN, not all of the sponsor community groups are community development corporations.

BOCs are set up as separate entities from their sponsor organizations. The BOC administration encourages sponsoring organizations to staff BOCs with personnel that are independent from the organizations’ own staff. This arrangement creates an important advantage in that it allows staff to be dedicated to carrying out the small business assistance operations of the BOC without the ambiguity or distraction of other programs and obligations of the sponsor organizations. The separation of the BOC business assistance activities from the sponsor

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organizations also creates a clearer correlation between funding, program activity, and impacts, which can be important to existing and potential funders. However, one disadvantage of this separation of the BOC from the sponsor community organization can be the loss of direct connections to non-business development services provided by the community organization, such as those described in the case of CDCs. This drawback can be minimized as long as the BOC and the sponsor organization communicate effectively with each other.

The BOC Network headquarters has a full-time management staff that coordinates the operations of each local BOC and network connections among the BOCs themselves. Networking takes place on two levels for a BOC. On one level, a BOC office maintains connections with other BOCs so that it can share or obtain information from its sister BOCs. On a second level, the BOC creates and manages relations between entrepreneurs and a set of technical service providers and business peers. Each local BOC office works as a broker between their women, minority, and immigrant clients and established business service providers, facilitating and developing social connections between the two parties. BOCs may also refer clients to existing businesses in the same industry or have faced similar needs in the past in order to establish relationships among peers.

One of the more important aspects of the BOC relationships with technical assistance providers is the linkage agreement, which outlines the responsibilities of the BOC office and the provider. This linkage agreement creates a more formal structure to the network and the provider becomes active in the Network on the Advisory Board or Committees.

These agreements spell out the service provider’s responsibility to educate BOC staff on their services, to provide BOC staff with outreach materials, to take in BOC referrals, and to provide them with services. The linkage agreement itself is a critical network builder. It seems less important as a document than as a process of facilitating discussion and building trust.  

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31 Sweeny, BOC case study.
The BOC Network emphasizes networking and referrals. Its priority is to link those groups who have traditionally been underserved or disadvantaged with access to quality business development assistance. Much of the strength of the BOC Network is the time spent on creating and developing relations with service providers, the main assets in its social capital development services. BOC operations require dedicated time to not only screen clients but also to review the quality of services provided by their service partners. Regular face-to-face personal interaction with providers and clients allow the BOC staff and the service providers to clarify each other’s needs and services and establish trust among themselves. In essence this is analogous to the development of social capital for the entrepreneurs, but in this sense the BOC Network itself is developing its own “social capital” so it can expand its services for its entrepreneur clients. This investment of time creates a mutual benefit for the clients, BOCs, and the service providers.

Entrepreneurs benefit from the BOCs understanding their needs and the service providers benefit from having the BOC refer clients that are knowledgeable and prepared to take advantage of their services.

Sponsor organizations and technical service provider partners act as outreach for the BOCs, directing clients to BOC services. BOCs screen entrepreneurs and assess the type and extent of services that they require before making a referral. The BOC Network draws upon an extensive array of small business assistance providers and meticulously takes measures to ensure quality control over its services through frequent meetings and follow-up with the providers and its clients.
Each BOC, as well as the main BOC Network headquarters, includes an Advisory Committee that is comprised of the technical assistance providers with whom the BOC has relations. The local Advisory Committees consist of service providers in the neighborhood who agree to serve as regular partners while a more regional selection of service providers forms the BOC Network Advisory Board, which is associated with the BOC Network headquarters. Figure 4.1 illustrates the organizational structure for the BOC Network and Figure 4.2 shows the structure for an individual BOC.

The central BOC office controls the amount of funding for each BOC, which dictates that each BOC office and its sponsor adhere to strict agreement to the BOC operational methodology as outlined in the next section where I describe BOC's services. In his 1996 case study of the BOC Network, Sweeny reports that the BOC headquarters funded each of the original six BOC
offices at approximately $150,000 each in annual operating support. The BOC network as a whole was sponsored by COJO for $200,000 per year. Together, the annual operating budget for the network was about $1 million. Funding control was and continues to be an important tool in assuring the quality and consistency of the BOC services.

The BOC Network has established procedures that the central office has been able to orchestrate among all eight of the BOCs. The BOCs are electronically linked to share a common intake, referral, and reporting system. The Business Outreach Center Handbook outlines the common operational and administrative guidelines for the BOCs and serves as a guide for other community organizations, which are interested in sponsoring their own BOC and joining the network. The BOCs allow some flexibility to adjusting procedures to handle ethnic and cultural differences, yet the overall operating procedures remain consistent with the basic BOC operating guidelines.

**BOC SERVICES AND IMPACTS**

The BOC Network’s strength lies in its emphasis on developing entrepreneurs’ social capital. Its infrastructure facilitates and focuses on the development of social capital through its network of service providers and neighborhood BOCs. In turn, as a result of its emphasis on directly building social capital, the BOC Network indirectly also addresses the human and financial capital development of its clients.

The network’s operating procedures play an important role in creating the ability to focus directly on the development of social capital. Each local BOC office benefits from its relationship to its sponsor organizations, which have close ties to their communities. Through its network affiliations and sponsor organizations, BOC was able to reach out and serve a total of
1053 clients and make 1400 referrals in 1994. Internal BOC records indicate that each office serves between 50 to 250 clients per year. An internal BOC survey sample of 7% of its clients illustrates the impact on entrepreneurs’ social capital. The survey revealed that 75% of the client sample identified new resources through the BOC referral system. The level of satisfaction with BOC services was high with 95% saying they were satisfied with the BOCs’ assistance.

The BOCs establish formal relationships specifically with service providers who can contribute to the strength of the business development assistance available through the Network. The BOCs make a conscientious effort to maintain informal relations instead of formal ones with entities that do not provide direct business assistance but may still benefit the Network and its clients in another way. Political, advocacy, or social service agencies perform an occasional role with the BOCs. This practice of keeping informal versus formal relationships with some organizations keeps the BOC Network focused on business development assistance and creates a sense of cohesion and common purpose in the Network structure.

Through its emphasis on developing social networks, the BOC Network provides entrepreneurs access to organizations that can develop their human capital. The BOCs adhere to the principle of avoiding replication or competition with established business assistance providers and only provide limited, necessary technical assistance directly to an entrepreneur when needed. This is similar to the “hand-holding” that CBN leads provide their clients. This technical assistance allows the entrepreneur to acquire basic business skills and knowledge in order to take advantage of additional technical assistance from one of the BOC network service provider partners. Accordingly, BOC clients receive most of their human capital development through BOCs’ linkage partners. Almost 50% of the sampled clients in a BOC self-survey stated that BOC services, both direct assistance from BOCs and referrals, improved their business
management skills. Also, 162 new businesses were started, out of a client pool of 500 entrepreneurs in the startup and pre-startup phases, with the help of BOCs’ services in 1994. The majority of these clients had no previous business ownership experience.

The BOCs’ impact on entrepreneurs’ financial capital has not been as significant as on their social and human capital. During the first year of operation where the network handled 733 technical assistance clients, only 14 of those clients seeking financial assistance were referred to lending institutions and received loans. In 1994 when the BOCs dealt with 1053 clients needing technical assistance, 57 loans were secured. BOCs screen and refer entrepreneurs who are not ready for a loan to other technical assistance providers before referring them to a bank.

The success of the BOC Network lies in a number key operating procedures as well as circumstances. The key operating procedures include the level of interaction between the client and BOC office and between the BOC offices and the service providers. BOCs perform a high level of client management from the needs assessment process through referrals and post-referral follow-up and evaluation. This concentrated client management takes the one-on-one technical assistance to another level. It works due to the existence of the formalized service agreements, the Linkage Agreements, which provide a standard of service and understanding between the BOCs and the service providers in addition to their regular and informal meetings. The level of networking and management of the process to identify those organizations that would add value to the Network and its clients also plays a critical role, as does the outreach that the Network performs to assert its importance in the minds and operations of the existing service providers.

As a whole, the BOC Network draws upon its resources and relationships to improve the social, human, and financial capital of its clients.
WESTERN MASSACHUSETTS ENTERPRISE FUND (WMEF)

Another model for small business development collaboration is the non-profit Western Massachusetts Enterprise Fund (WMEF). WMEF consists of a collaboration of ten CDCs in Western Massachusetts and was first started in 1987. Its mission is to “create a climate of economic opportunity” for low and moderate-income people, businesses and communities in western and north-central Massachusetts. Similarities exist to CBN in that the main entities in the organization are CDCs themselves and function in a hub-spoke network model. The WMEF seeks to draws upon its regional influence to support the activities of the local CDCs and has implemented changes in its operations, such as becoming a community development financial institution, to better carry out its mission.

BACKGROUND OF THE WMEF

WMEF serves a five county area of western Massachusetts with a population of 560,000. The consortium had its beginnings in 1987 when the region was experiencing severe unemployment and disinvestment. Five CDCs—Valley CDC, Hilltown CDC, Millers River CDC, Franklin County CDC, and North Adams CDC—decided to collaborate to obtain capital and technical assistance funding on a regional level. The underlying principle of the consortium was to connect the strengths of the local community organizations with a larger regional organizational focus that could advocate and solicit resources on a broader level. As part of a larger organization the CDCs hoped to be able to attract new funding, technical assistance, and training resources to their communities. The CDCs decided to pursue microenterprise or small business development as a strategy to turn their communities around and meet the demands of

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their constituents. The collaboration has since grown to ten member CDCs with the addition of Twin Cities CDC, Greater Holyoke, Inc., Pittsfield Economic Revitalization Corporation, Nueva Esperanza, Westfield CDC.

**Organizational Structure of WMEF**

The WMEF has its central office working in conjunction with the ten CDCs. The ten CDCs each act as outreach and intake points as well as perform business counseling and assistance. The CDCs refer the client to WMEF whenever financing is needed. WMEF employs a full-time executive director, loan fund director, CDC coordinator, and office manager. Part-time staff also include an operations director and a loan analyst.

The WMEF also contains a board of directors who represent the CDCs, funders, public official, and business owners. This board oversees the operations of WMEF and provides guidance for its services. Two loan committees, one each for WMEF’s Microenterprise Loan and the Enterprise Growth Fund Loan, and a strategic planning committee complete the WMEF organizational structure. Board members comprise the strategic planning committee and make up half of each loan committee.

**WMEF Services and Impacts**

WMEF’s emphasis is on addressing the financial capital of entrepreneurs through the operation of its loan fund. The organization addresses the issues of social and human capital through its member CDCs’ various business development programs and its own technical service capabilities as they relate to preparing entrepreneurs for acquiring and supporting financial
capital. WMEF also provides technical support and training to its member CDC business development programs in an effort to build their program capacities.

WMEF has built up an infrastructure delivery system based on regional and local ties. It has realized that “A strong microenterprise program is not a series of unconnected individual transactions. A strong program depends upon support groups, access to market programs, and incubators just as much as training, technical assistance and loans.” The services available through WMEF and its CDCs reflect this philosophy.

WMEF became a certified Community Development Financial Institution in 1997 as part of its strategy to provide itself with more financial stability and capacity to carry out its mission. Through the loan funds that it administers, WMEF directly provides financial capital to entrepreneurs looking to establish or expand their own businesses. The Enterprise Growth Loans began in 1998 as a subordinate lending program. Through a partnership between WMEF and lending institutions, the Enterprise Growth Loans enable an entrepreneur to borrow a larger amount than through conventional means.

WMEF serves two sets of “clients”. On one hand it provides direct services to small business entrepreneurs and on the other it services and complements CDC business development activities. For small business entrepreneurs, WMEF provides technical assistance and training to potential borrowers, addressing their human capital in terms of preparing them to handle increases in their financial capital. It was responsible for cooperating with the U.S. SBA Small Business Development Centers, the CDCs, and the University of Massachusetts in developing a state-wide training program which includes consistent training for entrepreneurs in existing or start-up businesses and certification of business assistance trainers. The services that WMEF provides its CDC members include the development of partnerships, training programs for CDC
economic development staff, support for individual development accounts (IDAs), and marketing of CDC business development services. The WMEF office is also responsible for the financial administration of the consortium and the development of client tracking systems. One of its funding programs is a “point-reimbursement system”, whereby a CDC receives funds based on achieving certain performance goals with regards to lending, referral, and quality of technical assistance.

CDCs vary in the extent of their business assistance capacity. At a basic level, CDCs perform the needs assessment and some of the direct technical assistance. When a loan is needed the CDC turns over the technical assistance to the WMEF personnel. Some of the CDCs sponsor workshops and training sessions. Others have developed the use of individual development accounts to help entrepreneurs acquire the equity capital needed for a start-up. Incubators are also run by other CDCs.

WMEF has made 225 micro loans in ten years of its existence for a total loan amount of $1,589,100. Average loan size was $7,062, with 65% to women and 90% to low to moderate-income people. WMEF’s region-wide entrepreneurial training courses have averaged twelve courses annually over three years and have served approximately 190 entrepreneurs.

The keys to the WMEF operations lie in its belief of the strategic role that a strong central organization plays in a successful business assistance network. WMEF deems that a well-defined and established service delivery infrastructure system facilitates partnership development with local community organizations and allows efficient use of centralized technical assistance capabilities. Local organizations that provide the outreach and understand the needs of local entrepreneurs can work with the central organization to develop and provide the appropriate technical assistance.

WMEF has sought to implement changes to provide more consistent services across the network. WMEF has been moving towards lessening the direct technical assistance provided by the CDCs to more technical assistance being provided by the WMEF. This is in part due to what WMEF perceives as CDCs’ attentions being drawn away from understanding the needs of their communities when they are directly engaged in providing technical assistance. This understanding of the needs of the communities is vital to the network’s ability to respond and provide the appropriate assistance and resources. One of the potential benefits of a strong centralized organization is the development of the CDC business development staff through WMEF. Centralized resources provide the necessary consistent training of business development personnel and control over the performance of the different CDCs through performance-based funding. CDCs are also more free to concentrate on the larger strategies for community revitalization through partnership building.

WMEF operations do not seem as sophisticated as those of the BOC Network in terms of their referral activity, but instead maintain in-house technical assistance. The shortage of other existing small business assistance providers in the region may account for this fact. WMEF’s challenge is to integrate its services within the framework of its CDCs’ other services.

LESSONS AND RECOMMENDATIONS FOR CBN

The two case studies that I reviewed in this chapter, the Business Outreach Center Network and the Western Massachusetts Enterprise Fund, may provide some guidance to CBN as it searches for ways to increase its capacity and improve its services for minority, low- and moderate-income entrepreneurs. I have attempted to analyze these small business assistance networks under the framework of how well they address the deficiencies in social, human, and
financial capital as I laid out in Chapter 2. As CBN examines these two networks for alternative organizational structures and operational approaches, it is important for CBN to first understand its own priorities in addressing the three types of capital and then understand the two networks’ strengths and limitations in improving these same three types of capital.

CBN has had varying success in its attempts to overcome its own operational challenges and in addressing aspects of the social, human, and financial capital deficiencies of its entrepreneur clients. In Chapter 3, I showed that CBN has had better success in addressing the human and financial capital deficiencies of its clients more so than their deficiencies in social capital. I also expound CBN’s main challenges—limited skills, capacity, and funding; its unclear role among other business development programs and services; and the need to develop effective collaborations with other stakeholders in business development. In this section I present several specific lessons from the two other small business assistance networks to improve CBN’s approaches in addressing the three types of capital and overcome its own organizational challenges.

ENVIRONMENTS AND CONTEXTS

An analysis of the applicability of the business assistance models presented by the Business Outreach Center Network and the Western Massachusetts Enterprise Fund to CBN must take into account the certain unique contexts in which they operate. The BOC Network operates in an environment where an abundance of technical assistance service providers exist. BOCs are able to broker the services of these providers with the needs of entrepreneurs. The network would not have as great an impact on social capital development without the existence of the numerous technical assistance providers and the profusion of motivated entrepreneurs.
On the other hand, the Western Massachusetts Enterprise Fund operates in a rural environment where there is a scarcity of small business technical assistance providers and lenders. This environment fosters collaboration among the member CDCs who realize that they can attract and advocate for more resources as a regional collaboration than as individual organizations.

LESSONS IN ADDRESSING SOCIAL, HUMAN, AND FINANCIAL CAPITAL

CBN’s emphasis on one-on-one technical assistance has been instrumental in developing entrepreneurs’ levels of human and financial capital. However, while this type of service delivery has been shown to be valuable, it may not be the most effective approach to improving social connections between entrepreneurs and a wider array of stakeholders in small business development since the CDCs perform the bulk of the technical assistance. The evidence from the case studies indicates that improvements to all three types of capital benefit minority, low- and moderate-income entrepreneurs.

Taking into account the context in which the two organizations operate, CBN can infer a number of “best” practices to address social, human, and financial capital needs of minority, low- and moderate income entrepreneurs that are relevant to CBN’s organization and operation. In order to improve its social capital development and consequently its breadth and depth of human and financial capital development components, CBN should look to the BOC Network’s efforts in social network maintenance. Through intensive network maintenance the BOC Network has created an effective small business assistance network infrastructure with its various linkage partners and individual BOC offices. The BOCs invest a great amount of time in developing and maintaining relationships with its service partners. The formal Linkage Agreements enable the BOCs to indirectly provide quality technical services to their clients. On
the other side of this approach is the time the BOCs spend on client relations, especially conducting follow-ups with entrepreneurs. The deliberate efforts in creating and maintaining relationships among service providers and clients enhance the opportunities for human and financial capital for BOC clients. An additional benefit of the network maintenance is the opportunity to create business-to-business networking opportunities among peer or complementary businesses.

CBN’s services and the organization itself would benefit from stronger development of its social capital networks. Granted, CBN operates in a different environment from the BOC Network in terms of the number of quality technical service providers in the region and available funding resources. However, CBN can adapt BOC’s deliberate approach to develop and maintain relations with key technical service providers. CBN may be able to seek additional funding from its current resources to specifically pursue this enhanced social network building.

One initial strategy for CBN is to target a particular business sector or industry and focus efforts on building relationships with relevant organizations in that sector. This targeted approach allows CBN to focus its resources and conduct a “trial” expansion of its social network capacity and subsequently target other sectors as CBN gains more experience in maintaining its social networks. Relevant organizations may be trade associations, equipment suppliers, and industry-specialized technical assistance service providers. For example, if CBN chooses to pursue a strategy around the restaurant sector, it should develop relationships with relevant organizations such as the local restaurant owner associations, restaurant management programs at local educational institutions, the local U.S. Small Business Development Center, the City Inspectional Services Department, the local Main Streets program, and restaurant food and equipment supplier associations. This mix of government, not-for-profit, and private sector
partners provides CBN clients with access to a variety of services and resources and integrates their clients more into the mainstream economy.

An alternative initial strategy is for CBN to identify one or two technical skills and develop a social network around this particular set or sets of technical skills through a similar mixture of government, not-for-profit, and private sector service providers. One example may be the development of CBN’s social network around accounting and bookkeeping. CBN’s strategy can be to develop closer relations to educational institutions, government small business assistance programs and private accountants. This strategy accomplishes two main goals. First, it expands CBN’s repertoire of technical assistance partners and potentially increases its own capacity if it can develop consistent relations with these partners. Second, an emphasis on linking entrepreneurs with private sector service providers creates a valuable connection to the conventional marketplace for these entrepreneurs.

An expanded social network of service provider partners also creates a potential benefit in terms of having more stakeholders in the operations of CBN. Formal and informal relations, through Linkage Agreements or advisory board meetings, can potentially result in financial benefits for CBN. Once the organization’s role and importance among the other small business assistance providers are clarified and substantiated, CBN may be able to attract more funding from stakeholders and funders.

**OPERATIONAL LESSONS**

In order for CBN to best decide how it can overcome its issues of limited capacity, its role amongst other service providers, and its relationships with stakeholders in small business development, it must prioritize or clarify the extent that it will focus on each of the social,
human, and financial capital deficiencies. The BOC Network and WMEF provide CBN a few alternatives in organizational structure and operations that may guide CBN in overcoming its challenges.

One operational lesson that CBN can learn from these two case studies is the role of the central organization in the network. The BOC Network relies on referrals to outside technical assistance providers while WMEF has tended to be a more centralized model. Both models require different amounts of time and capacity. In the case of the BOC, the central agency acts as a coordinator and facilitator of the network. The central BOC ensures that each individual BOC adheres to the specific performance standards and operating procedures of the network. On the other hand, WMEF’s central agency has undertaken a more centralized role in performing technical assistance and emphasized the direct development of its member CDCs’ capacities. The central staff at WMEF engage in direct capacity building of its member CDC programs and staff through workshops and one-on-one and group training sessions. This activity may be worthwhile for CBN to explore in developing its own member CDCs’ program capacities. This would entail setting performance standards and goals for each CDC and providing the necessary training and resources to build the CDC’s ability to reach those standards and goals through central CBN staff or other means. CBN needs to decide on the extent to which the network needs a strong central organization to coordinate its network operations and/or act as a technical assistance provider itself and develop the capacity of the member CDCs. The latter strategy entails some restructuring of CBN.

It may be beneficial for CBN to adopt some combination of its current one-on-one technical assistance approach with either of the models, depending on what resources are available to CBN. One approach would be along the WMEF model and have the lead technical
assistance staff as solely CBN staff and independent of the CDCs. This would allow for more
dedicated time to CBN services. Separating the small business technical assistance staff from
other duties at the CDC and committing to a more deliberate approach to building social
networks could help increase CBN’s capacity and resources as well as aid in advancing its
mission of providing greater access to the larger regional economy for minority, low- and
moderate-income entrepreneurs.

The central organization can act as the main agency to coordinate and facilitate the
development of CBN’s social networks as well as adopt measures to ensure performance of the
member CDCs. Funding based on set performance goals can act as an incentive for CDCs to
develop and maintain their involvement in the function of the network. This is similar to the
WMEF “point-reimbursement system” that I described in an earlier section.

The question that CBN must decide for itself is whether CBN should further develop its
referral relationships with other technical assistance providers or whether CBN should develop
its own “in-house” expertise. While these are not mutually exclusive activities, I encourage
CBN to seek out new resources specifically to better develop their social network with outside
technical assistance partners in order to fulfill their mission of best utilizing the limited resources
and capacity that are available to them advance their mission of community revitalization
through the provision of small business assistance.
CHAPTER 5: CONCLUSION

This thesis set out to accomplish two goals. The first was to explain the barriers that minority, low- and moderate-income entrepreneurs face and the roles for community-based organizations in providing small business assistance to this group. The second goal was to develop an effective model of small business assistance from analyzing and comparing existing business assistance organizations.

Chapter 2 laid the framework for understanding the challenges for minority, low- and moderate-income entrepreneurs in terms of deficiencies in social, human, and financial capital and related small business development to the goals of CDCs. Chapters 3 analyzed the case of the CDC Community Business Network’s efforts in assisting minority, low- and moderate-income entrepreneurs overcome their barriers to small business development. Chapter 4 similarly analyzed two comparable case studies for small business development organizations, the Business Outreach Center Network and the Western Massachusetts Enterprise Fund, and concluded with applicable lessons for CBN.

Community-based organizations are in a unique position to assist minority, low- and moderate-income entrepreneurs in overcoming barriers to starting and operating their own small businesses. In this thesis I laid out three elements that I deem critical to success of these entrepreneurs. These are social, human, and financial capital. Any effective small business development organization must address these three basic elements.

As this thesis has illustrated, there are alternative approaches to addressing these three types of capital, and their success varies depending on the extent to which or on the context that they are addressed. The CDC Community Business Network can draw lessons from the organizational structure and operations of the two case studies. CBN’s services and organization
would benefit from the development of its own social capital through a more concentrated effort to establish and maintain relationships with other small business technical assistance providers. Given its constraints, I presented two strategies for CBN to pursue. One strategy relies on the development of a social network around a particular industry or business sector. The second strategy involves the development of a social network around specific sets of business skills. As CBN gains experience in developing a specific social network, it can expand its efforts to another business sector or set of skills.

The important issue remains for CBN to decide how and if it wants to expand its capacity and what role a central organization and its members will play. I hope that this thesis has shed some light on alternative approaches to addressing this issue. Further research of alternative case studies of small business development organizations and their funding structures would give greater insight into building the capacity of such organizations and may open the doors to more innovative small business assistance programs.
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Luz Torres, Jamaica Plain Neighborhood Development Corporation, 4/18/00
Cristo Banda, Dorchester Bay Economic Development Corporation, 4/6/00
George Craddock, Allston Brighton Community Development Corporation, 4/4/00
Alvero Lima, Boston Advisors/Initiative for a Competitive Inner City, 4/10/00
Marcus Weiss, Economic Development Assistance Consortium, 4/27/00
Nancy Carin, Business Outreach Center Network, Inc., 4/10/00
Hank Turner, Small Business Development Corporation-Minority Business Assistance Center, 3/24/00