Strategic Planning for Community Economic Development

by

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A.B., Brandeis University (1975)

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June 1981

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FOR
COMMUNITY ECONOMIC DEVELOPMENT
by

JOSEPH W. CHOW

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on June 12, 1981 in partial fulfillment of
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ABSTRACT

This thesis is prepared for the Chinese Economic Development Council (CEDC), a community development corporation located in the Chinese-American community in Boston.

The purpose of this document is to provide the CEDC with a conceptual framework for initiating a strategic planning process within its organization and to make use of the concept of "portfolio analysis" as the basis upon which to analyze the position of CEDC's economic development project portfolio. Alternative investment strategies are proposed to improve the magnitude and timing of the portfolio's cash-flow in order for the organization to survive the expected federal fund cuts in the short-run and achieve self-sufficiency in the long-run.

In Chapter 1, a review of the corporate planning literature is provided. Chapter 2 describes the lack of, and consequent need for, a planning process at the CEDC and prescribes an iterative planning process suitable for the organization. Chapter 3 assesses the immediate problems and threats which the CEDC faces and illuminates relevant planning issues along the dimensions of the prescribed planning process. Finally, Chapter 4 presents a set of recommendations of strategic options for the CEDC which could improve the CEDC project portfolio's cash flow contribution to the organization in the face of expected federal funding curtailment.

Thesis Supervisor: Frank S. Jones
Title: Ford Professor of Urban Affairs
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With deepest gratitude and affection, I thank Selina Jung, my beloved wife, colleague, and friend, for her intellectual contribution and support, without which my task would have been much more difficult.
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Introduction

Formal strategic planning has been employed in the private sector for the last two decades. However, in the not-for-profit sector, it has not been tried extensively. A well developed body of literature has been accumulated over the years concerning long-range, strategic corporate planning, particularly with regard to diversified, multi-product corporations. Much of these experiences in private-sector corporate planning can be transferred for the use in a community development corporation (CDC).

A CDC is a community-based and controlled economic development organization utilizing both governmental and private funds to invest in businesses and other economic development projects to create jobs and income for the benefit of local residents. A CDC shares similar characteristics with a profit-seeking, multi-product company. Insofar as a CDC is a community-based organization, it must respond to community needs which are extremely complex and often conflicting. In addition, it must invest its scarce financial resources in a manner which best meets the community needs that the CDC chooses to address and, at the same time, returns to its invested capital a cash stream to be used to meet internal organizational objectives such as survival, growth and eventual self-sufficiency and external objectives such as capital
formation for reinvestment in future economic development projects.

This document is prepared for the Chinese Economic Development Council (CEDC), a community development corporation located in the Chinese-American community in Boston. The author's primary audience is the board of directors and the managers of the CEDC. Other readers not familiar with the concept of community economic development, the CEDC, or the Chinese-American community of Boston are referred to the materials appended to this thesis for background information relevant to the understanding of the text.

The text is organized into four chapters. In the first chapter a review of the corporate planning literature is provided. First, the predominant ways in which strategic or corporate planning have been defined are presented. Then, a discussion of how planning has evolved and why planning is important is given. Elaborations of Lorange and Vancil's iterative planning process, and the "portfolio analysis" methodology are provided to reveal the mechanisms and tools that are available for corporate strategic planning. Chapter 2 describes the lack, and consequent need, for a planning process at the Chinese Economic Development Council and prescribes an iterative planning process for the organization utilizing planning concepts discussed in the previous chapter. Chapter 3 assesses what the immedi-
ate problems, threats and opportunities which the CEDC faces and illuminates relevant planning issues along the dimensions of the prescribed planning process. These issues include the change in the CEDC's funding situation and its impact on the CEDC's goals and objectives. An examination of the mix, and an application of the portfolio concept to CEDC's economic development projects is discussed. Alternative strategies available to the CEDC, and the implications of each of these strategic options are also elaborated upon. Chapter 4 presents a set of recommendations of strategic options for the CEDC which could improve the balance of the CEDC project portfolio in terms of community benefits and cash flow generation.
Executive Summary

The purpose of this document is to provide the members of the Board of Directors and the management of the Chinese Economic Development Council (CEDC) a conceptual framework for initiating a strategic planning process within the organization and to make use of the underlying concept of "portfolio analysis" as the basis upon which to analyze the position of the organization's economic development project portfolio. Alternative investment strategies are proposed in order for the organization to achieve a better balance between cash flow and community benefits to be generated by its portfolio of projects. By modifying the mix of projects on the portfolio, thus the magnitude and timing of expected cash flows, it is hoped that the organization would survive the expected federal funding cuts in the short-run and achieve eventual self-sufficiency in the long-run.

The literature review is intended to provide an overview of strategic planning, its definitions, applications and methodology. The choice of literature to be included reflects the author's judgement of those concepts most illuminating to the CEDC given his assessment of the needs of the organization.

The CEDC needs to put in place a planning process. Stra-
tegic planning, as defined by many prominent authors involves an organizational process by which various levels of management participate in the formulation of the organization's goals and objectives; assess the organization's internal and external environments, threats, and opportunities; formulate alternative strategies; and allocate resources to achieve the organization's goals and objectives. The end product of a strategic planning system is not simply the production of a written planning document. Rather, strategic planning is a continuous process through which the organization seeks to weather internal and external changes.

The CEDC lacks such a process. Although the CEDC prepared and submitted to the Community Services Administration, Office of Economic Development (CSA/OED) in 1978 an Overall Economic Development Plan (OEDP), the preparation of which did not involve a planning process. The OEDP was primarily a staff level effort without significant board level input. Board level input in strategic planning is essential to the concept and spirit of community-based economic development because members of the Board represent the diverse interests of the community which the CEDC was created to serve. Without Board participation, the goals and objectives and the programmatic and investment directions of the CEDC could not be ensured to reflect the needs and interests of the community.
The need for strategic planning in the CEDC is also illustrated by Hax and Majluf who suggest that, upon review of empirical studies, managers of organizations generally focus excessively on operational matters of the organization and pay insufficient attention to strategic and policy issues with long-term impacts. By reviewing Board minutes, the author found that, indeed, the CEDC's Board of Directors tends to concentrate its attention on operational matters such as routine staff reports, the monitoring of projects, crisis resolution and other "house-keeping" tasks. Thus, the CEDC Board should expend more of its energy on broader and longer-term strategic considerations and play an active and explicit role in the organization's strategic planning process.

The Lorange and Vancil framework of an iterative planning process is appropriate for use by the CEDC. Hax and Majluf recognize two organizational hierarchical levels to be involved in the Lorange and Vancil iterative planning system. This process takes into account the corporate level and the business level of a corporation. The corporate level has overall corporate focus and coordinates resources among various businesses on a firm's portfolio. The business level has a narrower scope of attention and focused only on the concerns of the particular business.
Aside from the importance of the planning process itself, central to the framework of corporate strategy is the concept of "portfolio analysis". This concept, as exemplified by the Boston Consulting Group's growth-share matrix, is introduced in this document to illustrate the underlying idea of a "circulatory flow of resources". By carefully balancing the mix of projects on a firm's business portfolio along the dimensions of sales growth rate and relative market share, the firm seeks to balance the cash needs and cash returns of the businesses in its portfolio.

The CEDC can employ the concept of portfolio analysis on the basis that projects should not be assessed only on an individual basis. To keep cash resources in balance, the CEDC should carefully mix business investments which are at various developmental stages—start-up, growing, maturing, and declining.

Having proposed an iterative planning system for the CEDC and having introduced the concept of portfolio analysis as an integral part of the planning process, the author proceeds to trace through this process and illuminate planning issues relevant to the organization.

The changes in the CEDC's funding situation pose grave implications for the continued survival and viability of
the corporation. In recognizing this serious threat, the CEDC must unambiguously incorporate "self-sufficiency" into its overall goals. The corporation also needs to examine which programmatic directions to pursue in order to fulfill its broadly defined goals. The proposed planning process is intended to provide a formalized setting by which the goals and objectives of the CEDC could be considered explicitly and agreed upon by the Board of Directors of the CEDC. In a formalized planning process, the Board would have to consider the overall direction of the CEDC and resolve differences concerning courses of action. It is the opinion of the author that the three programmatic areas that the CEDC is presently engaged in--business development, housing development, and manpower development--represent the result of an evolutionary process wherein less appropriate program directions, such as social services, have fallen to the wayside. Thus, these three programmatic areas are compatible with the goals of the CEDC and complement each other. Furthermore, the CEDC has developed distinctive competence in the three areas within the community.

In order to achieve eventual self sufficiency, the CEDC's investments must return a cash flow stream sufficiently large to support the organization's operation as well as provide funds for future project capitalization.
However, an examination of the CEDC investment portfolio points to the fact that projects presently on the CEDC portfolio will not generate sufficient cash to the CEDC for operational support and reinvestment for the foreseeable future, even though the portfolio will generate numerous jobs, housing units, and manpower training opportunities to community residents. This situation is caused by the nature of the mix of investment projects on the CEDC's investment portfolio which is dominated by start-up businesses of which CEDC has less than 50% ownership. The implication of this portfolio configuration is that the CEDC will not receive any cash from these projects for several years. A start-up business usually experiences an initial period of losses and internally generated cash is usually plowed back into the company to finance growth. In addition, CEDC's minority equity interests in a business does not provide the CEDC control over the company's dividend policy. Thus the CEDC cannot expect a steady stream of cash flow even if the company were profitably operated.

Thus, the CEDC must seek to balance its investment portfolio with investments that have dissimilar cash flow patterns. There are six alternatives available to the CEDC: (1) majority equity ownership in start-up businesses, (2) minority equity ownership in start-up businesses, (3) majority equity ownership in existing,
healthy businesses, (4) minority equity ownership in existing, healthy businesses, (5) majority equity ownership in existing, failing businesses, and (6) minority equity ownership in existing, failing businesses.

Given the expected curtailment of CSA/OFD funds and the shortage of funds to be generated by CEDC's investment portfolio, the CEDC should invest its scarce resources in projects which would generate both community benefits and cash flow. Among the six alternatives, the investment of CEDC funds to take majority equity ownership in existing, healthy businesses is the most favorable option. This option would provide the CEDC with the most dependable stream of cash flow because majority ownership affords the CEDC control over a company's dividend policy. In addition, in searching for investment projects, the CEDC should target its efforts toward the identification of businesses with an existing stream of cash flow. Only a healthy business can provide such a cash stream.

If the CEDC should have enough of this type of projects in its portfolio, it would be better able to coordinate resources among them in order to meet the different objectives of the corporation. For example, the CEDC could make a choice of taking funds from a successful business project to finance a housing project. This is in effect, trading off the creation of jobs for the creation of
The CEDC, prior to achieving self-sufficiency, must obtain funds for operational support and the implementation of the proposed strategy that will enable it to achieve a better portfolio cash flow position. The options available to the CEDC for the obtainment of funds both from internal and external sources are discussed as follows:

The CEDC should consider the divestment of projects as a part of its overall strategy. Funds from project divestment can be used to support internal operations for short-term survival and/or to capitalize productive investment projects with long-term potentials. Particularly, it is beneficial to the CEDC and the community for the CEDC to divest projects which are not generating community benefits nor the much needed cash flow as a direct result of CEDC's equity involvement. The Advance Electronics, Inc. (AEI) is in such a category. The CEDC should divest its holdings in AEI and channel the proceeds to other productive uses. Sale proceeds could amount to approximately $100,000.

Aside from resources to be obtained from its investment portfolio such as project cash flow and proceeds from divestment, the CEDC should establish a Minority Enter-
prise Small Business Investment Corporation (MESBIC), wholly-owned by the CEDC, for the obtainment of investable equity funds. The purpose of the MESBIC is to leverage CEDC funds three hundred percent, making more funds available for equity investment into small businesses. Since the Small Business Administration which funds and regulates the MESBIC program limits MESBIC from acquiring majority equity ownership in any business, the CEDC should utilize the MESBIC to invest in existing, healthy businesses located in or willing to move to the CEDC Special Impact Area. Initial capitalization of a MESBIC will require $500,000.

The CEDC should seek to schedule early receipts of cash flow from its investment projects whenever possible. One such possibility is the Boylston Building Project. Initial negotiations between CEDC and Wang Laboratories Inc. calls for the sale of the building to Wang at the end of seven years after completion of the project. The CEDC could negotiate with Wang to borrow, against the purchase commitment, the amount of the agreed upon purchase price, discounted to the date of completion. Preliminary negotiations call for the sale price of the building to Wang at $4.0 million. Discounted at 12%, the CEDC could negotiate to borrow from Wang $1.81 million at the completion of the project.
In order to obtain funds for operational support and project investment, the CEDC should renew a vigorous fund raising effort aimed at charitable foundations, corporations, and non-CSA/OED governmental sources. Particular attention should be given to the activities of the Ford Foundation and the proposed Boston-based Local Initiative Support Corporation whose sole mission is to provide funding support to community-based economic development entities.

In considering the CEDC's position regarding projects in their planning stages, consistent with the proposed strategy, the CEDC should undertake only one of its three planned projects with internal resources. The Computer Service project should be undertaken because of its expected cash flow contribution to the CEDC and the project does not require CEDC's cash injection. The Cable Television and Revolving Loan Fund project should be undertaken only if external funds are made available, earmarked specifically for the projects.
Chapter 1: Corporate Strategic Planning: An Overview

Definition of Strategic Planning:

"Corporate planning" or "strategic planning" is a management term which has been in vogue for the past two decades. Management consultants peddle it. Corporate managers use it. Graduate business management students study it. Behind the mythical facade of fancy words, what is "corporate" or "strategic" planning?

Alfred Chandler, a historian of American corporate enterprises, defined strategy as "... the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of actions and the allocation of resources necessary for carrying out these goals."¹

According to Robert N. Anthony, "strategic planning is the process of deciding on objectives of the organization, on changes in these objectives, on the resources used to attain these objectives and on the policies that are to govern the acquisition, use, and disposition of those resources."²


He further suggests, "strategic planning is a process having to do with the formulation of long-range, strategic plans and policies that determine or change the character or direction of the organization." ³

Kenneth R. Andrews defines corporate strategy as "...the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the policies and plans for achieving those goals, and defines the range of businesses the company is to pursue, the kind of organization it intends to be, and the nature of contribution it makes to its shareholders, customers, employees, and communities". ⁴

While Chandler is less explicit in his definition, both Anthony and Andrews explicate that strategic planning involves an organizational process. Through this process, the organization sets its goals and objectives, evaluates the opportunities and threats in its external environment, assesses its internal strengths and weaknesses, formulates alternative plans of action, and selects the optimal courses of action.

³Ibid. p.24.

Evolution of Planning:
The concept of strategic planning is a recent development. During the early days of this country's industrial development, firms were usually owned and operated by its proprietor with a small work force. The proprietor generally relied on his intuition and experience in appraising the market for his single product firm. However, as the firm grew larger and its market place expanded, the organizational form of the firm became more complicated with departmentalized functional units such as marketing, finance and manufacturing units. Even at this stage of development, firms did not require formalized strategic planning because most of them were one or two product firms and their markets were usually small by today's standard. Management was able to continue to rely on unarticulated and intuitive strategies.

The advent of large, diversified businesses brought formalized strategic planning into the forefront of management practice after World War II. The multi-departmental, functional form of organization proved to be inadequate in the face of increased complexity in both organizational and product dimensions. The 1950's witnessed a large number of firms changing from departmental to

divisional forms of organization. By the 1970's, most large, multi-product firms were organized into the divisional form. With increased organizational complexity, rapid environmental changes and technological advancement, the concept of "corporate planning" became a popular notion.

According to Gluck et al., planning efforts in their more rudimentary level of sophistication have been predominantly financially oriented with a short-term planning horizon. Typically, planning was no more than the preparation of an annual operating budget. Strategies were only implicitly understood by the firm's managers. Predictably, this type of planning was soon found to be inadequate.6

Improvement was sought in the planning effort through the development of sophisticated forecasting methods such as regression analysis and computer simulation models. However, such technical improvements only increased the effectiveness of planning marginally. Forecasts were usually based on past trends with attempts made to predict the likely impacts of future environmental changes.

According to Gluck et al., this type of forecast-based planning, though far from being perfect, "forces manage-

ment to confront the long-term implications of decisions and to give thought to the potential business impact of discernible current trends well before the effects are visible in current income statements."\(^7\) The most significant contribution to strategic planning methodology at this level of planning sophistication was the introduction of the concept of a "circular flow of capital and other resources among business units" which shaped the basis of "portfolio analysis" that is currently practiced by some firms which are doing strategic planning.\(^8\) However, advocates of forecast-based planning regard "portfolio analysis" as an end rather than a means to perform a more dynamic analysis to achieve a desired business mix on a firm's portfolio. This "circular flow" concept is used in the well-known "growth-share" matrix developed by the Boston Consulting Group (BCG). The BCG matrix will be discussed in detail later in this chapter.

"Externally oriented planning" provides a higher level of planning sophistication, according to Gluck et al. Rapid changes in a firm's operating environment often render forecast-based planning ineffective. Instead of relying on current trends of events, externally oriented planners attempt to understand the underlying market and other

\(^7\)Ibid.

\(^8\)Ibid. p.156.

23
external forces which cause environmental changes. They also examine the behavior of their competitors objectively and attempt to shape their own organization's strategies in a pro-active manner. "Externally oriented planning" also attempts to shift resources within a firm's business portfolio to achieve a better balance. This is done "either by developing new business capabilities or by redefining the market to better fit their companies' strengths." 9

"Externally oriented planning" makes use of the concept of "strategic business units" (SBUs). In diversified companies, an SBU is "the formal grouping of related business or organizational entities large and homogeneous enough to exercise effective control over most factors affecting their businesses". 10 "The SBU concept recognizes two distinct strategic levels: corporate decisions that affect the shape and direction of the enterprise as a whole. and business unit decisions that affect only the individual SBU operating in its own environment." 11

9 Ibid.
10 Ibid. p. 157.
11 Ibid.
Thus, in a diversified company with SBUs or other autonomous product/market units, the process of implementing strategic planning would necessarily involve the various management levels of the organization.

Need for Planning:
In demonstrating the need for planning, Hax and Majluf examined two famous managerial taxonomies proposed by Herbert Simon and Robert N. Anthony. According the Hax and Majluf:

"The first one of these taxonomies is proposed by Herbert Simon, who distinguishes a sequential set of three stages in the decision-making process: intelligence (problem finding), design (generation of alternatives), and choice (selection of the best alternatives). The second influential taxonomy is from Anthony, who identifies three different levels in the planning process: strategic planning (the process of setting alternatives and relocating resources), management control (the process of obtaining those resources and defining specific tasks for their effective and efficient use), and operational control (the process of assuming that tasks are performed in an effective and efficient way)."12

Hax and Majluf further suggest that in order to perform the three levels of planning as proposed by Anthony, the completion of the three decision-making steps as proposed by Herbert Simon is required. The relationship between the two taxonomies were made apparent by Hax and Majluf

graphically when these taxonomies were plotted along two dimensions, as presented in Exhibit 1. The exhibit depicts nine cells, each of which demands managerial time and attention. Hax and Majluf further suggest that, upon their review of a number of empirical studies, a typical manager usually spends a disproportionate amount of work time on operational control matters which demand immediate attention, convey a sense of urgency, and produce short-term results. In addition, managers may feel more comfortable with making operational decisions because they are most familiar with them.\(^{13}\)

Hax and Majluf did not deny the importance of operational decisions for the proper functioning of an organization. Rather, they suggested that managers should also be concerned with long-term decisions, reflecting the strategic planning-intelligence region of the Anthony-Simon crossed matrix. These higher level decisions, though less immediate, impact upon the future course of the organization and ultimately, its ability to survive through adversity and prosper in the midst of opportunities. In stressing the need for formal planning, Hax and Majluf stated that: "when viewed against this framework, the primary contribution of a formal strategic planning process is the orderly identification of a well-structured

\(^{13}\)Ibid.
### Exhibit 1

**Crossed Matrix of Anthony's Planning Framework and Simon's Decision-Making Stages**

#### Simon's Decision Making Stages

<table>
<thead>
<tr>
<th></th>
<th>Intelligence</th>
<th>Design</th>
<th>Choice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Planning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Control</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational Control</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Anthony's Planning Levels

Source: Hax and Maluf, p.215.
set of tasks, their delegation to the proper individuals within the organizational structure, and their execution in accordance to a prescribed schedule. The final effect of this process is a coordinated effort that demands a better balance of time allocation to each managerial activity." 14

Planning Process:
As discussed earlier, strategic planning demands an organizational process for its performance. In Lorange and Vancil's view, every organization performs strategic planning in one way or another. Depending on the characteristics of the organization, the process of carrying out strategic planning may be very different. In a large, diversified company, a formalized system of planning is necessary and is usually very complex. In a small company that is not diversified, the process can be much less involved. Thus, "a strategic planning system is nothing more than a structured (that is, designed) process that organizes and coordinates the activities of the managers who do the planning." 15

The choice of a "simple" or "complex", "formal" or "inform-
al" strategic planning system depends on the level of environmental contingencies faced by the organization and also on the complexity of the internal structure of the organization.

In prescribing a planning process for complex, for profit, enterprises, Lorange and Vancil proposed an iterative, multi-staged, system for a formalized corporate planning process. Their suggested process promulgates the involvement of the various hierarchical levels of an organization in strategic planning.\(^{16}\)

Hax and Majluf, in adopting Lorange and Vancil's framework of an iterative planning process, recognize two hierarchical levels to be involved in an organization's strategic planning process: the corporate level and the strategic business unit (SBU) level.\(^{17}\)

In Hax and Majluf's view, there are three basic stages in the strategic planning cycle of an organization. They are 1. Objective Setting, 2. Strategic Programming, and 3. Budgeting.\(^{18}\) The two hierarchical levels of the organi-


\(^{17}\)Hax and Majluf, p. 216.

\(^{18}\)Ibid. p. 216-217.
ization would participate in the strategic planning process in an interactive manner through the three stages of planning as described above. First, the corporate level would set general guidelines for the firm's planning. These guidelines would be communicated to the SBU level managers from which they would formulate broad strategic action programs. These SBU action programs would then be submitted to the corporate level for review and consolidation. With the comments and recommendations from the corporate level, the SBU managers would further evaluate their action programs and make selection of strategic programs and submit the selected strategic programs for corporate consideration. The corporate level would then consolidate these strategic programs in accordance to corporate goals and objectives and the availability of corporate resources. After that, the SBUs would formulate their tactical plans and prepare budgets for the plans' implementation. Finally, the corporate level would consolidate the budgets submitted by all the SBUs and formulate a corporate wide budget. This process is shown in Exhibit 2.¹⁹

Planning Methodology:

Definition of Portfolio Analysis. Portfolio analysis is a technique advocated by the Boston Consulting Group (BCG)

¹⁹Hax and Majluf, p. 221.
Exhibit 2

The Basic Strategic Planning Cycle

<table>
<thead>
<tr>
<th>Hierarchical Levels</th>
<th>Objective Setting</th>
<th>Strategic Programming</th>
<th>Budgeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Level (Portfolio)</td>
<td>1</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>SBU Level (Business)</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
</tbody>
</table>

Major Tasks:

1. Formulation of general guidelines
2. Formulation of broad strategic action programs
3. Consolidation of action programs
4. Generation evaluation, and selection of strategic programs
5. Consolidation of strategic programs
6. Development of tactical programs and budgets
7. Consolidation of budgets
as a useful tool for guiding the formulation of strategies within an organization. Traditionally, portfolio analysis has focused on the "product" as the unit of analysis. However, as recognized by Abell and Hammond, "it is sometimes appropriate to have the unit of analysis be a business or even a division". For the purpose of discussing the portfolio analysis methodology, the business unit emphasis will be adopted.

Portfolio analysis is most suitably applied in multidivisional and multi-product companies where resources can be more readily channelled into their most productive business units. According to the Boston Consulting Group, an integrated strategic planning unit should determine each business unit's market growth and market share relative to its competition. The individual positions should then be integrated into a 'portfolio' framework. The objective of plotting the position of each business relative to its competitor and relative to each other, is to "get the best overall performance from the portfolio, while keeping cash flow in balance." The business portfolio approach attempts to analyze the


21 Ibid. p. 174.
differences in growth potential, relative market share and hence cash flow potential of each business unit to facilitate the determination of which businesses to invest more funds in, which to derive investment funds from, and finally which businesses to divest.

Growth/Share Matrix. The growth/share matrix was developed by BCG to facilitate portfolio analysis. The matrix enables the company to plot the market share and growth rate of its products relative to its competitors. See Exhibit 3.

The matrix is labelled "business sales growth rate" on the vertical axis, and "market share relative to main competitors" on the horizontal axis. The areas of the circle represent the relative "dollar sales volume" of different businesses.

Product Life Cycle. Once a company has plotted its portfolio of businesses in a matrix similar to Exhibit 3, it can analyze its portfolio to determine whether to increase, hold, harvest, or withdraw market share. Underlying the determination of which investment strategy to adopt is the important notion of "product life cycles". It is from an understanding that a business unit's product(s) generally evolves through four stages: the development, growth, maturity, and decline stages,
Exhibit 3

A Typical Business Portfolio Chart

(Growth-Share Matrix)

that the strategic options of increasing, maintaining, harvesting, or withdrawing market share is premised.

In the early stages of a product's life cycle, the cash flow needs are relatively high because advertising and promotional expenses, amongst other expenses, tend to be high. With greater product maturity, cash flow needs decrease as advertising and promotional expenses decline. An understanding of where a business is in terms of its products' life cycles provides also a picture of the cash flow needs of the business.

Strategy Development. The growth/share matrix can be divided into the four quadrants shown in Exhibit 4. Each quadrant can be described in turn as follows:

Quadrant I: "star businesses" represent high growth, high share businesses which may or may not be self sufficient in cash flow.

Quadrant II: "problem children businesses" represent businesses with low shares of fast growing markets. Their low share is also generally indicative of low profits and weak cash flow positions. In order to maintain market share, they need large amounts of cash and even larger amounts of cash to gain share.
### Exhibit 4

#### Business Categories in the Business Portfolio Chart

<table>
<thead>
<tr>
<th></th>
<th>High</th>
<th>Low</th>
</tr>
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<tbody>
<tr>
<td><strong>High</strong> Cash Flow</td>
<td><strong>Modest</strong> + or - Cash Flow</td>
<td><strong>Large</strong> Negative Cash Flow</td>
</tr>
<tr>
<td><strong>Low</strong> Positive Cash Flow</td>
<td></td>
<td><strong>Modest</strong> + or - Cash Flow</td>
</tr>
</tbody>
</table>

Source: Adapted from "The Product Portfolio" (Boston: The Boston Consulting Group, 1970), Perspectives No. 66. Reproduced in Abell and Hammond, p. 178.
Quadrant III: "cash cow businesses" represent businesses that generate large amounts of cash which are in excess of what can be profitably invested.

Quadrant IV: "Dog businesses" represent businesses with low shares of slowly growing markets. They do not generate or require large amounts of cash. In order to maintain share, large amounts of cash flow from the operations and capital must generally be reinvested.

A business unit strategy will attempt to redistribute the cash generated from cash cows to problem children businesses which are in strong competitive positions. The cash provides problem children businesses with the resources to increase market share. If successful, this strategy generates new star businesses which will later be expected to turn into cash cows. Exhibit 5 depicts the optimal sequence for cash flow generation and deployment. A strategy should maintain problem children businesses which are in a weak position only if no cash inputs are required. Eventually these products will turn into dog products. Dog products should be maintained only when they contribute some positive cash flows and no opportunity costs exist (i.e. cash flow cannot be profitably utilized elsewhere).
Exhibit 5

Business Dynamics in the Portfolio Chart

Strategy Options. The company must evaluate the business' present market and cost position, the products' life cycle stage (i.e. the market growth rate), the firm's resources relative to its competitors, its time horizons, its other products, and the anticipated response by competitors. Upon evaluation of these factors, the company may choose to do one of four things: build market share, hold market share, harvest market share, or withdraw market share.

a. Building Market Share
For firms with a viable market share already, building market share is an attempt to increase company profitability. For firms without a significant share, a minimum relative market share must be attained to maintain the company's long run viability. It then becomes a choice of increasing market share or withdrawing from the market. Building share is at the sacrifice of short-range profits. It is achieved through price cutting or resources expended for improving delivery, quality or product support.

b. Holding Market Share
This action is preferred by mature businesses already enjoying strong or leading market positions. Mature businesses generally have more experience, lower costs, and higher profitability than their competitors
with lower shares. The best choice is to hold share and avoid the costs and time involved in building share. Increasing the share of mature businesses is generally met with great opposition and retaliatory action from competitors.

c. Harvesting
This strategy is utilized for businesses in poor competitive positions or declining markets. Companies can enjoy the short-term earnings and increased capital from such action. The company can divert the use of their cash flow to build up more promising and growing businesses.

d. Withdrawal
When a company's businesses lag too far behind in market share for them to remain competitive in the long run, and the expenditure to change the situation is too great, companies may choose to divest the business.

Summary:
Strategic planning is a relatively new concept. It is an organizational process by which an organization defines its goals and objectives, answers the question "what business are we in?", assesses its internal and external environments, formulates strategic alternatives, chooses
the optimal course of action, and mobilizes resources for effective and efficient implementation of desired actions. The need for strategic planning is evidenced by empirical findings that managers usually focus their attention on short-term operational decisions. Long-term strategic considerations are often inadequately attended to.

Firms are in different stages of planning sophistication. At the lower end of the spectrum, planning is no more than the preparation of an annual budget. An improvement upon the annual budget is the use of forecasting methods to lengthen the planning horizon of the budgeting effort. A yet higher level of corporate planning attempts to understand the underlying factors which determine the changes in a firm's internal and external environments and to formulate alternative strategies to weather those changes.

The planning process of a divisionalized organization with diversified business units needs be an iterative process through the corporate and business levels of the organization's structure. The corporate level needs to coordinate resources among the various businesses to form an optimal portfolio to most effectively and efficiently deploy the firm's limited resources. The BCG portfolio matrix is an attempt to do this. BCG promulgates the concept of a
"circulatory flow of resources" by balancing the expected cash flow patterns of the firm's businesses at different stages of their products' life cycles.

In the next chapter, the needs for a planning process at the Chinese Economic Development Council (CEDC) will be examined and an iterative planning process will be prescribed for the organization, taking into account the organization's specific characteristics and needs. In Chapter 3, the "portfolio analysis" concept will be applied to CEDC's portfolio of investments to determine its balance between cash flow and community benefit generations and to examine alternative strategies for portfolio improvement.
Chapter 2: Planning Process and the CEDC

Introduction:
The Chinese Economic Development Council needs a formalized planning process. The initial planning period that the CEDC had undergone in 1977 which resulted in the completion of the Overall Economic Development Plan (OEDP) did not provide the CEDC with a durable planning process for the continuous redefinition of goals and objectives, assessment of the CEDC's external threats and opportunities, evaluation of internal resources and capabilities, and consideration of strategic alternatives. Furthermore, since the initial planning period, the focus of CEDC's policy formulation and action planning has tended to be operationally oriented. That is, the CEDC has focused disproportionate attention to the "operational control and choice" level of the Anthony-Simon planning-management matrix as proposed by Hax and Majluf which was discussed in Chapter 1.

Inadequacy of the Overall Economic Development Plan:
The CEDC's transition from a technical assistance group to a community development corporation with resources and capabilities to carry out community development projects owes its origin to the imagination and energy of the executive director. It was he who proposed to the then five-member board of directors in 1976 that funding be
pursued from CSA/OED to make the programmatic transformation a reality. He was also the chief architect in structuring the expanded board with all its categories of membership and the array of advisory committees.

The Executive Director continued to be a major impetus throughout the preparation of the Overall Economic Development Plan (OEDP). He and his staff prepared a comprehensive needs assessment of the Boston Chinese Community. In order to meet the needs delineated in the OEDP, an equally comprehensive array of programs and policies were developed.

The initial planning efforts in 1977 were performed mainly by the staff of the CEDC with little board level participation. In fact, during the OEDP period, the expanded board was only in its embryonic stage of functioning. According to CEDC records on board meetings, as late as July of 1978, six months after the submission of the OEDP to CSA/OED, some of the advisory committees were still trying to define their roles in the organization and the scope of their work. Board level inquiry into the goals and objectives and the associated programmatic directions of the CEDC as contained in the OEDP was limited. The CEDC's preparation of the OEDP was performed more so for the fulfillment of a bureaucratic requirement for the receipt of funds from CSA/OED than as
a process through which the strategic course of the organization would be charted and board and staff commitment to the plan would be ensured.

The complex advisory affairs committees reflected an attempt on the executive director's part to structure the board to cover all areas of concern in the community. The executive director may have also done this in anticipation of the availability of funds for specific programs. An example is CEDC's request in the OEDP for community social service programming because of the availability of CSA Title II funds. In any case, the affairs committee structure of the board appeared to be a short-sighted, all encompassing solution to cover all programmatic directions.

Problems Associated with the Implementation of the OEDP: Even though the OEDP provided guidelines for CEDC's programmatic directions, the CEDC entered its operational phase without a well developed nor well understood investment focus. This was attributable in part to the inexperience of the staff in assessing investment proposals and a less than developed system of attracting investment deals to come into the CEDC. Most investment proposals were brought in by senior executives through personal contacts and many did not meet the broad investment guidelines set forth in the OEDP. For example,
a fishing company deal was brought in which clearly violated many of the requirements for CEDC investment consideration in that it was to be located outside of the SIA and that it would not create employment opportunities compatible with the community's labor force. Another example was a hamburger franchise to be located, again, outside of the SIA with proposed investment terms so unfavorable to the CEDC to warrant consideration. Deals such as these wasted much staff time. If the OEDP were understood and adhered to closely, investment proposals such as those mentioned could have been rejected readily without committing staff resources unproductively.

The staff was unclear and not well directed in its pursuits of investment opportunities because the investment focus of the OEDP was too broadly stated. Furthermore, many of the staff members who had participated in the preparation of the OEDP had since left. Due to staff turn-over, a continuity in comprehending the underlying rationale of the investment strategies mentioned in the OEDP was missing when the OEDP was implemented.

The lack of board involvement in the development of the OEDP was also an inherent weakness of CEDC's planning efforts at the time. Had the Board contributed more
directly into the OEDP, upon any changes in staffing, the continuity in CEDC's strategic pursuits could have been maintained.

To date, the Board still has not become involved in strategic issues. From reviewing board records, the matters which have come before the board have tended to be operational matters as opposed to policy or strategic concerns. Board discussions and decisions have focused on administrative house keeping, internal policies, project review and selection, and crisis resolution; matters with little strategic significance.

The fact that the CEDC ventured into social services reflected the absence of a planning process that might have otherwise unveiled the political volatility of CEDC's direct involvement in the provision of social services. The CEDC was over-zealous in its attempt to provide a broad range of services and to embark upon ambitious development plans for the community. The provision of social services was viewed by CEDC as a logical complement to the economic development efforts aimed to alleviate community distress associated with poverty, poor housing conditions, language problems, and underemployment and unemployment. However, opposition to these services from the existing human service agencies in the community brought CEDC unexpected political liabilities which can be
viewed as the CEDC's failure to assess the political environment of the community during its initial planning period.

Throughout the operational phase of the CEDC, the ideological and programmatic conflict between community economic development and community social service created tremendous tension among the staff and the board of directors of the CEDC. Insofar as some of the board directors were invited to participate on the CEDC board to represent particular areas of community concern such as social service, manpower, youth, among others, the abandonment of any programmatic emphasis would naturally create ill feelings by board members whose areas of concern were affected.22

Furthermore, the complexity of the board of directors has created many managerial problems. While a wide representation ensured high degree of community participation, it has also made the process of decision making cumbersome and the task of strategy formulation difficult.

The lack of management focus created much confusion among the CEDC staff as to the direction of the CEDC in spite of the existence of the voluminous OEDP. Aside from personality conflicts between corporate and divisional staffs, this situation, at least in part, was responsible for the resignation of five senior staff members in the summer of 1980, four of whom were division directors. As such, by the summer of 1980, with the exception of the executive director, all of the senior staff members who had participated in the initial planning process in 1977, had left the organization.

In retrospect, many of the problems cited earlier such as the lack of agreement on the board regarding the directions of the corporation, the lack of programmatic and investment focus, and the level of staff frustration could have been alleviated had the CEDC put in place a formalized strategic planning process involving the various levels of board and staff. Particularly, since most of the senior divisional staff who participated in the initial planning process have left the organization and there have been some changes in the board composition, the CEDC must institute a planning process to continuously chart the course of the organization to accommodate changes in its operating environment which include the changes in the corporation's funding situation.
Strategic Planning Process Needed at the CEDC:

In order to facilitate strategic planning at the CEDC, the adoption of an iterative planning process proposed by Lorange and Vancil and modified by Hax and Majluf, as discussed in the previous chapter, would be beneficial for the organization.

Consistent with the Hax and Majluf framework, a CEDC planning process should encompass two organizational levels of management: the corporate level and the business or SBU level. In the case of the CEDC, the corporate level includes the board of directors and the Office of the Executive Director; and the SBUs are the three product/program divisions: Business Development, Housing and Land Development, and Manpower Development. These divisions have considerable autonomy in their operations. They will be referred hereafter as Strategic Development Units (SDUs).

The design of the CEDC planning process should take the "middle-of-the-road" position in the "simple/complex", "formal/informal" dichotomies. The CEDC is a small corporation. At a first glance, it may not require a formalized, elaborate, and multi-staged planning process as is common in many large, diversified, multi product companies. However, under closer scrutiny, the CEDC, though small, is multi-purposed with diversified program-
ming. It has a rather complex organizational structure with a complicated board of directors and an array of board committees representing the diverse interests of the community as well as a matrix type staff organization with divisionalized product/program and functional operating units. This organizational complexity demands formality of process to ensure that the necessary planning tasks would be performed as required. However, the organization is sufficiently small to have some informal flexibility in its planning process without adversely impacting upon its effectiveness.

Role of the Board:
In any proposed planning process for the CEDC, the role of its Board in planning must be stressed and made explicit. Community-based economic development is, by definition, community controlled. The most important element in this control mechanism is the board of directors. However, research results show that CDC board members generally do not regard themselves as the "chief determiners of the policy and actions of the CDCs."23 They feel that the chief executive officers of the CDCs and the governmental funding sources have more influence. In the same study, chief executive officers of CDCs were found to think of

themselves as the most influential persons in shaping the policy and actions of the CDCs.

Writing about for-profit corporations, Kenneth R. Andrews suggests:

"Many chief executive officers, rejecting the practicality of conscious strategy, preside over unstated, incremental, or intuitive strategies that have never been articulated or analyzed—and therefore could not be deliberated by the board."24

In private, for-profit corporations, many board members are "outside" directors; that is, board members not employed by the corporation but for specific reasons are invited to participate on the board; they are usually officers and directors of other corporations. Many executive officers feel that "outside" directors have neither enough time nor knowledge to make significant contributions to the shaping of strategies of their corporations.25 The CEDC must safeguard itself from this kind of executive thinking. It is tempting to put forth this argument by the management of a CDC for the reason that low-income residents occupy a significant number of the seats on a CDC board and they are, by definition,


25 Ibid.
"outside" directors. Management may feel that it is impractical to expect low-income representatives on the board to have either the time or the technical and business training to participate fully on the board of the CDC on matters pertaining to the corporation's strategies. When this kind of thinking is translated into action, the strategic action programs of the CDC may no longer be consistent with the needs, desires, and priorities of the community which it is to serve.

More detrimental to the purpose of the CDC and the concept of community control through board participation are executives who "may keep discussions of strategy within management to prevent board transgression onto management turf and consequent reduction of executives' power to shape by themselves the future of their company."26 Only under the direction of the board whose members are indigenous to the CDC's target group and its STIA that the CDC can be thought of as community-based and controlled. Thus, a responsible and effective community represented board of a CDC "should require of its management a unique and durable corporate strategy, review it periodically for its validity, use it as the reference point for all other board decisions, and share with management the risk

26Ibid.
associated with its adoption".27

In sum, the board directors of a CDC represent the diverse interests of the community in which the CDC operates. Board participation in the strategy formulation process is essential in ensuring that the strategies developed by management are consistent with community needs and interests. The board must play an active and explicit role in the strategic planning process to avoid management domination in shaping the strategic course of the CDC. Board involvement in strategy development also provides divisional managers and staff with the sense and direction of corporate commitment to strategic areas. Staff members can be expected to have a clearer focus of the organization's charter. Board members might also be in a better informed position to accept staff recommended policies and programs that are consistent with established goals and objectives, and reject those (such as the social service programs in the past) which would be considered "out of line" with the strategic focus of the CEDC.

A Proposed CEDC Planning Process:
As shown in Exhibit 6, the CEDC planning process should begin with an assessment of the problems and needs of the community and its target group. The board and the

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27Ibi.
Exhibit 6

Proposed CEDC Planning Process

CORPORATE LEVEL

Board of Directors
Assess Community Needs
Issue Board Goal Statements

Corporate Planning Committee
Assess Divisional Goals

Executive Director
Evaluate Corporate Portfolio and Div. Action Programs

Integrate Action Plans With Budgets

BUSINESS UNITS LEVEL

Development Divisions
Formulate Divisional Goals

Prepare Oper. & Action Program Budgets

Formulate Divisional Action Programs
executive director would be responsible for such assessment. The board and the executive director should also assess the availability of resources coming from within and outside the corporation. Resources from within entail the receipt of cash from the CEDC investment portfolio and those from outside of the corporation would include CSA/OED and other public and private funding sources. From this assessment, the corporate management would issue broad goal statements and communicate them to the divisional managers—Director of Housing and Land Development, Director of Business Development, Director of Manpower Development and the Comptroller. It is important for the board of directors to define the scope of work of the corporation. That is, to provide the answer to the question, "What business are we in?" The board must exert willingness to resolve differences among its members regarding the strategic directions of the corporation. This is particularly important in the case of CEDC where the "affairs" committees' chairpersons must reconcile their loyalty to their constituent advisory committees with their responsibility to chart the most desirable course of direction for the corporation.

After the board has set the corporation's goals and objectives and determined its programmatic and investment directions, the SDU managers would draw up a set of goals for their divisions and communicate them to the executive
director. This can be done by holding a series of planning meetings between the executive director and the SDU managers. These meetings would sharpen the focus of the compatibility of SDU goals with corporate goals. With this corporate-SDU goal congruence, each of the SDU would formulate a set of action programs for corporate review.

Divisional managers must work closely with the board committee whose area of concern coincides with the division's work; for example, the manpower committee and the manpower development division should work closely. However, this should only be done after the board has clearly and explicitly stated the programmatic and investment directions of the CEDC. This type of informational exchange would allow Board level input into the planning process at the divisional level where specific information regarding a division's work is needed. These discussions between divisional managers and advisory committee chairpersons are needed to ensure inputs from specialized areas of community concern, as represented by the advisory committees, to be incorporated in the divisional goal setting and strategic programming process. However, these informational exchanges should not be formalized. Formality could create the problem of confused loyalty; that is, divisional staff may not have a clear sense of whether to follow over-all corporate directions or the advisory committees' policy recommendations and
programmatic preferences.

A corporate planning committee should be established by the Board to work with the Executive Director on corporate-wide (as opposed to divisional) planning. The corporate planning committee should be a working group with the responsibility to participate in the deliberation of corporate-wide goal setting, evaluation of strategic alternatives, and capital budgeting for project selection. This committee should work closely with the Executive Director and his staff who have corporate-wide responsibilities and management focus. The planning committee should be composed of a significant number of relatively new members of the board to ensure the injection of new perspectives and ideas.

After the board has set corporate-wide goals, objectives and programmatic directions, the work of planning should be left to the planning committee, the executive director and the divisional managers. The board should resign itself to a role of reviewing and examining strategic options presented by the executive director and the planning committee at regular board meetings. Analyses for planning support should be totally a staff level function.

After the divisional action programs have been prepared,
the executive director and the planning committee should deliberate on the goodness-of-fit of the proposed divisional programs to overall corporate goals and objectives. In order to do so, the corporate level would need to examine the composition of the existing program and investment portfolio to evaluate whether the portfolio is in balance with the various objectives of the organization. For example, the corporate level must have a clear idea regarding the cash flow, the number of housing units, and the nature and quantity of jobs to be generated by all of the projects on the portfolio.

If the divisional strategic programs were found to be acceptable by the executive director and the planning committee, the divisions would be required to prepare projected operational and investment budgets. The corporate level, having reviewed the expected cash flow contribution from the corporation's investment portfolio and the expected availability of outside financial resources such as CSA/OED and foundation funds, would determine whether the consolidated corporate action program would be feasible.

This budgeting process within the CEDC is expected to contain high levels of uncertainty. Whereas a large, for-profit corporation is able to raise funds in the capital market, the CEDC has no such ability. This is an
inherent weakness of a non-profit, community oriented development entity which lies outside of the control of the CEDC. However, the CEDC must attempt to minimize budgetary uncertainty by carefully assessing the organization's operational budget needs, the cash-flow position of its portfolio, the availability of outside funds, and investment funds required to capitalize potential projects.
Chapter 3: Strategic Planning at the CEDC

Introduction:
The planning process as described in the previous chapter depicts a normative framework for strategic planning for the CEDC and a planning process suitable for the organization. This section will discuss actual planning issues relevant to the corporation. The normative, multi-staged, planning process as described in the previous chapter has not yet been practiced by the corporation. Specifically, the board of directors of the CEDC has not been involved in the examination and review of the strategic issues described in the present analysis. Thus, the analysis presented herein represents the view of the author reflecting inputs obtained from the executive director, his immediate staff and the divisional managers.

Reassessment of the External Environment:
The present strategic planning effort of the CEDC should begin with an assessment of the problems and needs of the community and the political changes which affect the organization's funding situation. A thorough and in-depth analysis of the community was performed during the CEDC's initial planning period in 1977 which resulted in the completion of the OEDP. Since the initial planning period, however, the conditions and needs of the community have remained rather constant. As contained in various reports
and the OEDP, the characteristics and the problems of the community are well documented.\textsuperscript{28}

Changes in Federal Funding:
The first planning effort undertaken by the CEDC (the OEDP) was essentially an externally focused one with the assumption that operational and investment funds would be made available by CSA/OED for all administrative and investment needs throughout the planned period from 1978 to 1984. However, in 1981, this assumption is no longer valid given the present federal administration's policies and proposed budget cuts. The election of Ronald Reagan as President exerts a profound impact upon community-based economic development. The changes as presently proposed in the domestic policies and the corresponding federal budget cuts will certainly hamper the survival and growth of many community-based economic development groups across the country. This situation represents a drastic change in the CEDC's external environment which impacts upon the corporation so adversely that its very existence is threatened. The CEDC had not expected this situation to arise during its initial planning period as reflected in

\footnote{See Appendix IV for a brief discussion of the problems and characteristics of the CEDC's Special Impact Area (SIA) and target group. For a more detailed discussion, refer to the CEDC document "Description of the SIA." January, 1978.}
the absence of emphasis on the corporation's self-sufficiency in its initial goal statements. The CEDC must renew its planning effort taking into account resources outside of CSA/OED, other traditional economic development agencies, and internally generated cash-flow from its existing investment portfolio to position the corporation through a period of austerity and organizational shrinkage. The CEDC must use its resources effectively in achieving the goals and objectives of the corporation and to ensure continued survival and capability to undertake future economic development projects in the community.

Modification of Goals:
In addition to the goal statements issued as a result of the first planning period, the CEDC needs to add explicitly "self-sufficiency" to its overall goal. By self-sufficiency, the CEDC seeks to become independent of outside sources of financial support which include CSA/OED, state and local governments, charitable foundations, and corporate donations. This does not mean that the CEDC should refuse to receive such funds. What it means is that the CEDC should eventually be freed of its reliance on outside funding sources for operational support and the obtainment of investable funds as soon as it is practical. This could be achievable only if internally generated funds from CEDC's investments would return sufficient cash to
the corporation to support its operation and enough surplus funds for future project capitalization.

Redefinition of Objectives:
Given the incorporation of the goal of "self sufficiency" into the original, broadly defined, goals of the CEDC, the CEDC must redefine the objectives of the organization. The CEDC must learn from its initial planning efforts the weaknesses associated with attempting to do everything that the corporation could identify as needed and/or desired by the community. The CEDC must assess the strengths and weaknesses of the organization and choose the areas of concern that the corporation should address. The corporation should not target its program direction to areas simply on the basis of the availability of funds. Rather, the CEDC should make strategic decisions as to the areas that it should be involved in and cultivate resources to further its objectives consistently and persistently.

Since the discontinuation of CSA Title II funds which supported the CEDC's social service programs, the Board of Directors has not made an explicit policy decision to retreat from social service programming and to focus on other areas of work (or to redirect CEDC's efforts into other areas). However, though not explicitly considered and decided upon, through the evolutionary process of the organization, the CEDC is now operating in three program-
matic areas: business development, housing development, and manpower development. The CEDC, through its strategic planning process, should determine whether these are the program areas that the corporation should concentrate its pursuit. There is compelling evidence that the CEDC has reached a stage of the organization's evolution that it has recognized that these three areas of programming are most appropriate for the organization while other less valued programs have fallen to the wayside. The reasons are as follows:

1. There are strong needs in the community for jobs, low and moderate income family housing, and manpower training.

2. There are no other agencies in the community engaged in business development for job creation, manpower development through the provision of skill and language training, and housing development for low and moderate income families.

3. The CEDC has acquired valuable experience in these areas of programming.

4. The three program areas are complementary in that positive synergy can be created in their implementation.
Analysis of Present Programs and Projects:
Before the CEDC can formulate its overall programming and investment strategies, the corporate staff must first examine the mix of projects contained in its present portfolio. Insofar as the CEDC is concerned with its short-run survival and long-run growth, it needs to have a clear picture of the cash-flow positions of its investment projects. Though the generation of profits and cash-flow is not the only concern of the CEDC, in order for the corporation to survive the expected federal budget cuts and continue to function effectively in generating community economic benefits, it must receive cash-flows from its investment projects for use as administrative budget and investment capital for future project capitalization. Thus, a balance must be achieved between the generation of community benefits and the contribution of cash-flow to the corporation. At a first glance, community benefits and cash-flow generation may seem to be incompatible goals for a CDC. Upon closer examination, however, these goals need not be mutually exclusive if the CEDC's investment portfolio were properly balanced to accommodate both sets of concerns. This section will begin with a description of the projects that the CEDC has in its investment portfolio and those which the CEDC is actively pursuing that are in different development stages. Since the CEDC is seriously considering these latter projects, it would be appropriate to include them for the present analysis.
Next, the total portfolio will be analyzed in terms of its balance between cash contribution and community benefits generation. The cash flow and community benefit implications of the structure of equity ownership and management control of investment projects on the portfolio will also be examined.

Existing portfolio:
The CEDC has accumulated various assets in its investment portfolio and a number of projects are presently in progress. The following projects are on the CEDC portfolio:

1. Advanced Electronics, Incorporated, (AEI) -- The CEDC holds a small, minority-shared equity interest in this electronics component assembly company. The company obtains work, as a contractor, from the area's major electronics equipment firms. Presently, it employs approximately one hundred workers, most of whom were previously unemployed community residents with limited English-speaking ability. The company provides on-the-job training and English language classes to its employees. AEI is in an expanding mode and is contemplating the acquisition or development of a proprietary product. The company received help from the CEDC in 1976 during its early organizational stages. In return for the services rendered to the company, the CEDC was compensated with an equity position in the company without any cash consider-
ations. The company is now operating profitably and pays small, but regular, dividends. The market value of the company's stocks owned by the CEDC amounts to a significant sum. The author estimates it to be worth approximately $100,000.

2. Cathay Foods, Incorporated--Cathay Foods is a start-up business to be engaged in the manufacturing, packaging, marketing and distributing of Chinese food products. The company's main product line will be Chinese noodles and related food items such as egg roll and won-ton wrappers. It will utilize automated machinery to achieve higher production efficiency than existing producers. It does not intend to compete in the Boston market, which is consistent with CEDC's policy of avoiding competition with local community businesses. The CEDC will own 45% of the company's common shares. The company is expected not to return a cash flow to CEDC through dividend payments for the initial two years of operation. It will operate at a loss in its first year; second year's projected profit will be plowed back into the company to make cash available for the company's growth. The CEDC can expect a significant stream of cash flow coming from the company beginning with the third year of the company's operation. The community benefits to be generated by this investment will be primarily new job opportunities.
3. Boylston Building Project-- The Boylston Building is a commercial development project that the CEDC is currently partaking. The project entails the purchase and renovation of a historic building. Total project cost will be $6.0 million. The CEDC has requested grant funds from the Economic Development Administration and the Community Services Administration totalling $3.0 million as an equity injection into the project. The remaining $3.0 million of the project's cost will be financed through the Massachusetts Government Land Bank and the First National Bank of Boston in the form of an industrial revenue bond.

The building is located in the heart of Boston's adult entertainment district commonly known as the Combat Zone at the fringe of the Chinatown commercial core area. The CEDC has reached a tentative agreement with Wang Laboratories, a Lowell based computer and word processor company, for Wang to lease 92% of the net rentable space of the building. Wang plans to put a manufacturing operation in the upper five floors of the building. The ground floor will be converted to a commercial arcade with Chinese-American businesses as its targeted tenants. The project will generate a significant cash flow to the CEDC. The Wang-CEDC agreement calls for the sale of the building to Wang at the end of seven years at a pre-determined price, net of debt, of approximately $4 million.
The Wang manufacturing operation will generate 300 new jobs which will pay wages higher than those prevailing in the area in similar industries. These jobs will also require higher skill levels than those available in the area's companies. Wang will provide on-the-job and classroom training to area residents who will be employed by the company. One hundred temporary construction jobs will be created during the building's renovation phase. An additional fifty persons will be employed by the ground floor retail businesses.

4. 31 Beach Street Building-- The CEDC Realty Corporation, a wholly-owned subsidiary of the CEDC, acquired this commercial building in January of 1979. The building is located at the corner of Harrison Avenue and Beach Street, in the heart of the Chinatown commercial district. The building houses the Harrison Beach branch of the Shawmut Bank on the ground floor, the CEDC computer training program and the Vocational English Education Program run by the Chinese Consolidated Benevolent Association on the second floor, and six garment manufacturing operations on the nine remaining upper floors. The CEDC has tentatively planned to convert the building into moderate income housing units. However, no definitive plan has been drawn at present. The building is operating at a positive cash flow.
5. Oxford Place Housing-- The CEDC Realty Corporation has acquired the land and building with plans to convert the building into 38 units of low income, federally subsidized housing units. An adjacent lot will be converted to a park for use by the project's tenants. The project's total cost will be $2.5 million. A limited partnership will be established wherein CEDC will be a 2% general partner and the rest of the project's equity interest will be syndicated to private-sector investors as limited partners. Due to high construction costs, the syndication proceeds from the limited partnership will be used to supplement the project's front end equity needs. A modest stream of cash flow from operation will accrue to the CEDC Realty Corporation. The project will provide much needed housing for the benefit of low income community residents.

6. Computer Programming Training Program-- The CEDC operates this computer programming training class on a not-for-profit basis. The project is funded by the City of Boston's Employment and Economic Policy Administration. Fourteen students are enrolled in the program free of all charges. A supplementary living stipend is also provided for each of the students. The program is funded on a six-month basis. The operation of the program beyond the presently funded period will depend on the availability of continued public funding or alternative method of support will have to be explored.
English Language Training Program--This program is operated on a fee basis. There are currently three classes in operation with a total enrollment of thirty students. The morning and afternoon classes are designed for restaurant workers and most of the participants are male restaurant workers. The evening class is geared toward the needs of garment workers most of whom are females. The curriculum consists of two components: everyday survival English and regular English-as-a-Second-Language.

Planned Projects:
In addition to projects presently on the CEDC portfolio, a number of others are being developed at present. They are:

1. Computer Services Company-- The CEDC plans to enter into a joint venture with an existing small computer consulting and service company. The CEDC will own 40% of the common stock of the new company and lease to the company CEDC's in-house mini-computer system. The CEDC will not be required to invest any cash resources in the proposed venture. The proposed joint-venture will receive staff time contribution from CEDC during its early stage of operation. Initially, the company will hire four persons and is expected to hire more community residents as the business expands. The projected cash-flow from the company to the CEDC is expected to be substantial.
2. Cable Television Project--The CEDC is a partner of Boston Community Cable Association which plans to invest in the Boston cable television franchise. The Association wishes to acquire up to 20% of the common stock of the prospective winner of the Boston cable television franchise. The franchise is not expected to throw any cash back to the CEDC for approximately seven years. The CEDC is interested in the franchise primarily for investment return and secondarily for community cable television programming and the availability of jobs during the construction and operation of the system.

3. Revolving Guaranteed Loan Fund Project - The CEDC plans to establish a revolving guaranteed loan fund in order to increase the availability of loan funds from commercial banks to community businesses. The CEDC expects no cash flow return from the project.

Portfolio Cash-Flow:
In examining the corporate investment portfolio, the total expected cash flow from all of the corporation's investments should be assessed both in terms of magnitude and timing. As illustrated in Exhibit 7 (Project Cash Flow Projection), the expected cash-flow from all of the projects on the CEDC investment portfolio will amount to only $25,000 in 1981; $150,000 in 1982; gradually rising
Exhibit 7

Seven-Year CRDC Project Cash-Flow Estimates
(1981-1988)

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existing Projects</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boylston Bldg.</td>
<td>0</td>
<td>75,000</td>
<td>75,000</td>
<td>75,000</td>
<td>75,000</td>
<td>75,000</td>
<td>75,000</td>
<td>4,000,000</td>
</tr>
<tr>
<td>AEI</td>
<td>INS.</td>
<td>INS.</td>
<td>INS.</td>
<td>INS.</td>
<td>INS.</td>
<td>INS.</td>
<td>INS.</td>
<td>INS.</td>
</tr>
<tr>
<td>Cathay Foods</td>
<td>0</td>
<td>0</td>
<td>13,500</td>
<td>19,100</td>
<td>21,000</td>
<td>23,100</td>
<td>25,400</td>
<td>28,000</td>
</tr>
<tr>
<td>Oxford Place</td>
<td>0</td>
<td>0</td>
<td>19,000</td>
<td>19,000</td>
<td>19,000</td>
<td>19,000</td>
<td>19,000</td>
<td>19,000</td>
</tr>
<tr>
<td>31 Beach Bldg.</td>
<td>25,000</td>
<td>75,000</td>
<td>75,000</td>
<td>75,000</td>
<td>75,000</td>
<td>75,000</td>
<td>85,000</td>
<td>85,000</td>
</tr>
<tr>
<td>Computer Training</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>English Training</td>
<td>INS.</td>
<td>INS.</td>
<td>INS.</td>
<td>INS.</td>
<td>INS.</td>
<td>INS.</td>
<td>INS.</td>
<td>INS.</td>
</tr>
<tr>
<td><strong>Total Cash-Flow</strong></td>
<td>25,000</td>
<td>150,000</td>
<td>182,500</td>
<td>188,100</td>
<td>190,000</td>
<td>192,100</td>
<td>204,400</td>
<td>4,132,000</td>
</tr>
<tr>
<td><strong>Planned Projects</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer Serv.</td>
<td>0</td>
<td>175,000</td>
<td>192,500</td>
<td>211,750</td>
<td>233,000</td>
<td>256,000</td>
<td>282,000</td>
<td>310,000</td>
</tr>
<tr>
<td>Computer Lease</td>
<td>72,000</td>
<td>72,000</td>
<td>79,000</td>
<td>87,000</td>
<td>96,000</td>
<td>105,000</td>
<td>116,000</td>
<td>128,000</td>
</tr>
<tr>
<td>Cable TV</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Revolving Loan</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

72,000 247,000 271,500 298,750 329,000 351,000 398,000 438,000

INS. = Insignificant
to $204,000 in 1987. Some critical assumptions were made in this projection. First, the Rovlston Building project will be completed by the end of 1981 at the latest, with the present financing scenario. Second, the Oxford Place housing project will also be completed by the end of 1981. Third, the $4,132,000 projected for 1988 include the expected proceeds from the sale of the Boylston Building to Wang Laboratories as agreed by Wang and the CEDC.

Community Benefits:
Exhibit 8 (Benefits) shows the various community benefits to be generated by CEDC's economic development projects. The majority of the projects' contributions to the community is in the creation of jobs. These projects include the Boylston Building, AEI, and Cathay Foods, which, together will generate over 450 new permanent jobs and 100 temporary construction jobs. Oxford Place, the only housing development project on the CEDC investment portfolio, will produce 38 units of subsidized, low-income, housing which are much needed by community residents. The computer programming training program prepares low-income community residents to capitalize on job opportunities.

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29 Cash flow projection was prepared with information given by the CEDC comptroller, and other divisional managers.
## Exhibit 8
Short-run and Long-run Community Benefits to be Generated by CEDC Investment Projects

<table>
<thead>
<tr>
<th>Community Benefits</th>
<th>Short-run (1-2 years)</th>
<th>Long run (5 Year Projection)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Projects</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boylston Building</td>
<td>300 Manufacturing Jobs</td>
<td>350 Manufacturing Jobs</td>
</tr>
<tr>
<td></td>
<td>100 Construction Jobs</td>
<td>50 Retail Jobs</td>
</tr>
<tr>
<td></td>
<td>50 Retail Jobs</td>
<td>Skill Training</td>
</tr>
<tr>
<td></td>
<td>Skill Training</td>
<td>Commercial Space</td>
</tr>
<tr>
<td></td>
<td>Commercial Space</td>
<td></td>
</tr>
<tr>
<td>AEI</td>
<td>100 Manufacturing Jobs</td>
<td>200 Manufacturing Jobs</td>
</tr>
<tr>
<td></td>
<td>Skill Training</td>
<td>Skill Training</td>
</tr>
<tr>
<td>31 Beach Building</td>
<td>Retention of Garment Jobs</td>
<td>Housing Units Commercial Space</td>
</tr>
<tr>
<td></td>
<td>House CEDC Manpower Training Programs</td>
<td>Commercial Space</td>
</tr>
<tr>
<td>Cathay Foods</td>
<td>15 Manufacturing Jobs</td>
<td>45 Manufacturing Jobs</td>
</tr>
<tr>
<td>Oxford Place Housing</td>
<td>38 Units Subsidized Family Housing</td>
<td>38 Units Subsidized Family Housing</td>
</tr>
<tr>
<td>Computer Services</td>
<td>5 professional Jobs</td>
<td>25 professional Jobs</td>
</tr>
<tr>
<td></td>
<td>Computer Services for Community Businesses</td>
<td>Computer Services for Community Businesses</td>
</tr>
<tr>
<td>Computer Training Program</td>
<td>Programming and English Training for 14 Community Residents</td>
<td>Uncertain Depending on Funding</td>
</tr>
<tr>
<td>English Training Program</td>
<td>English Training for Community Residents</td>
<td>English Training for Community Residents</td>
</tr>
</tbody>
</table>
resulting from the booming high technology industries in Metropolitan Boston and the region. The English training program is one of a few offered in the community and is much needed by non-English speaking immigrants.

Project Cash Flow and Community Benefit Balance:
As shown in Exhibit 9 the existing and planned projects of the CEDC are plotted on two dimensions. On one axis is the measure of cash flow to CEDC and on the other is the amount of community benefits generated by each of the projects as perceived by the author. While the measure of relative cash flow among projects can be rather objective subject only to projection errors, the measure of relative community benefit generation, on the other hand can be extremely subjective, biased by the author's assessment of the relative weight to be assigned to the different categories of community benefit. The position of each of the projects on the matrix is projected to its position five years from now.

Exhibit 9 shows that, among the seven projects that the CEDC has on its portfolio at present, four projects measure high on community benefits. They are Boylston Building, Oxford Place Housing, Computer Training, and English Language Training. Among the four, only one project, Boylston Building, measures high both in terms of cash flow and community benefits contribution. Oxford
Exhibit 9

Community Benefit and Cash-Flow Matrix

Community Benefit Contribution

<table>
<thead>
<tr>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
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<tbody>
<tr>
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</tr>
</tbody>
</table>

Present Position

----- 5-Year Position

------------- Planned Project's Initial Position

------------- Planned Project's 5-Year Position
Place Housing contributes a medium level of cash flow while the two training programs generate no cash flow at all. At the opposite end from the Boylston Building is AEI which measures low both in incremental community benefits and cash flow contribution. In between the two extremes are Cathay Foods and 31 Beach Building. The former lies in the medium to low region of the matrix on both measures, with five-year projected improvement on both dimensions. The latter project displays a more dynamic posture with a projected position into the high-high zone in five years. This is due to expected increases in rental income and anticipated reuse for housing conversion which is greatly needed in the community.

As for planned projects, the Computer Service project will contribute excellent cash flow to the CEDC while its contribution of benefits to the community is expected to be low in the short-run. Its five-year projected position points to an increase in community benefit generation through increased job creation as the company expands and an even better cash flow contribution. The other two planned projects, Cable TV and Revolving Loan Fund will contribute no cash to the CEDC. The Revolving Loan Fund is intended to be a service operation and therefore, will not generate any cash. The Cable TV project will have no cash flow contribution for seven years while the
contribution to community benefits over the projected five year period will remain the same, consisting of jobs and community television programming.

Ownership Balance:
Unlike divisionalized corporations whose "strategic business units" are wholly owned and managed by the corporation, many of the CEDC's investment projects are only partially owned by and without significant management input from the CEDC. As shown in Exhibit 10, in business development, both of the existing projects, AEI and Cathay Foods, and a planned project, Computer Service, are less than 50% owned by the CEDC. As such, the CEDC has less than controlling interests in these businesses and fewer than majority represented on their boards.

The CEDC has full management control on its real estate projects, Boylston Building, 31 Beach Building and Oxford Place, however. In the Oxford Place project, even though the CEDC will only own 2% of the equity investment in the limited partnership, as a general partner, the corporation will retain total management control of the project. However, ownership control in real estate projects do not impact on the cash flow stream to the CEDC as with business projects. This is due to the difference in their legal structures. A real estate project is usually organized as a limited-partnership and the cash flow from the
Exhibit 10

Ownership Structure of CEDC Investments

<table>
<thead>
<tr>
<th>Project</th>
<th>% Equity Ownership</th>
<th>Management Input</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boylston Building</td>
<td>100%</td>
<td>Total</td>
</tr>
<tr>
<td>AEI</td>
<td>5.6%</td>
<td>None</td>
</tr>
<tr>
<td>31 Beach Building</td>
<td>100%</td>
<td>Total</td>
</tr>
<tr>
<td>Cathay Foods</td>
<td>45%</td>
<td>Medium</td>
</tr>
<tr>
<td>Oxford Place</td>
<td>2%</td>
<td>Total</td>
</tr>
<tr>
<td>Computer Service</td>
<td>40%</td>
<td>Medium</td>
</tr>
<tr>
<td>Computer Training</td>
<td>Non-profit</td>
<td>Total</td>
</tr>
<tr>
<td>English Training</td>
<td>Non-profit</td>
<td>Total</td>
</tr>
</tbody>
</table>
project will flow through the partnership to its investors directly without being controlled by a board of directors as in a business corporation.

Balance of Projects' Business Stages:
All of the existing projects on the CEDC investment portfolio have been start-up projects. Among planned projects, only one, the Computer Service company, is an investment to be made in an existing company.

Summary of Present Portfolio Position:
CEDC's present investment portfolio is unbalanced between cash flow generation and community benefits contribution. While the CEDC projects will generate significant community benefits through the creation of jobs, housing, and manpower and English training opportunities, they will not contribute sufficient cash flow to the CEDC to achieve self-sufficiency within the next five years.

This shortage of cash flow can be attributable to the imbalance in the projects' stages of development and the ownership structure of the businesses on the CEDC investment portfolio. Specifically, all of the CEDC business investments are start-up businesses and the CEDC holds only minority equity interests in them.
Strategic Alternatives:
Given the present portfolio position of the CEDC which indicates that there is a shortage of cash flow to be generated, the CEDC must devise strategies to remedy the situation. The CEDC must examine the level of control it has over the cash flow contributions of projects in each of the three areas of programming: business development, housing development, and manpower development.

The CEDC has virtually no strategic alternatives in ensuring a stream of expected cash flow from future housing development projects. The cash flow of a project is a function of land and building costs, construction costs, and interest rate. The CEDC has very little control over these cost factors and thereby safeguarding a stream of cash flow to itself. Housing and other real estate projects can only be evaluated on a case-by-case basis as to their cash flow positions. In addition, the development of housing is stringently constrained by the availability of developable sites. In the CEDC Special Impact Area, such sites are extremely limited. The CEDC has no alternative but to try to lower the total project cost whenever a potential project becomes available. Aside from that, not much strategizing on housing projects could be done to contribute to a better cash balance of the CEDC's total project portfolio.
The CEDC does not have many strategic choices in structuring manpower training projects to contribute cash to the unbalanced portfolio either. Manpower projects are usually funded by outside governmental sources. The best the CEDC can hope for is the continued availability of outside funding sources for manpower program support until such time that the CEDC investment portfolio is able to generate sufficient cash to operate manpower training programs with internally generated funds.

The CEDC does have control over the choice of business investment projects it can undertake. As such, its cash flow deficient portfolio position can be remedied through a modification of the mix of business investment projects to be incorporated in the portfolio. There are virtually limitless numbers of business investment possibilities which could generate quality job opportunities for community residents and good cash flow streams to the CEDC; that is, projects which would fall in the upper left hand region as depicted in Exhibit 9. Thus, the CEDC must search for a business investment strategy which would create a better cash flow and community benefit balanced project portfolio.

Exhibit 11 depicts six strategic alternatives for CEDC business investment along the dimensions of the stages of
### Exhibit 11

**Alternative Forms of Investment Ownership**

<table>
<thead>
<tr>
<th></th>
<th>Start-Up</th>
<th>Acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Successful</td>
</tr>
<tr>
<td>Majority Ownership</td>
<td>Alternative 1</td>
<td>Alternative 3</td>
</tr>
<tr>
<td>Minority Ownership</td>
<td>Alternative 2</td>
<td>Alternative 4</td>
</tr>
</tbody>
</table>
development and ownership structure of investment projects. The CEDC could invest in start-up businesses on a majority ownership or minority ownership basis. Alternatively, the CEDC could acquire majority or minority equity interest in existing companies. If the CEDC should decide to acquire equity interests in existing firms, it must further consider whether to act on healthy or failing businesses.

Thus, the CEDC needs to consider six options in formulating its investment strategy:

1. Majority equity ownership in start-up companies;
2. Minority equity ownership in start-up companies;
3. Majority equity ownership in existing successful companies;
4. Minority equity ownership in existing successful companies;
5. Majority equity ownership in existing failing companies;
6. Minority equity ownership in existing failing companies.

---

As discussed earlier, the CEDC investment portfolio as it stands now is heavily dominated by minority-shared, start-up businesses which, according to the Exhibit 11, fall under "Alternative 2". This portfolio imbalance creates grave implications for the CEDC. The CEDC must examine the limitations posed by its investment portfolio configuration and seek to improve the portfolio's cash flow contribution to the corporation by balancing the projects on the portfolio. Simultaneously, the CEDC should keep in mind the portfolio's continued contribution of economic benefits to the community. This can be accomplished by the following:

I. Analyze the cash flow and community benefits implications of the present portfolio;

II. Examine the other options delineated above;

III. Evaluate the availability of resources for CEDC investment; and,

IV. Devise investment strategies by recommending options compatible with CEDC's desired portfolio balance and integrating them with the availability of resources.
Cash Flow Implications of Present Portfolio Configuration: Investment into start up companies are inherently more risky than on-going businesses. That is, a high percentage of start-up businesses fail within their initial years of operation. However, if the start-up business should become successful, the CEDC could receive handsome returns. In most cases, start-up businesses would not return any cash to its investors for quite some time due to the company's need for cash to finance growth. It is not uncommon for a start-up business to operate at a loss during its initial period of operation and gradually build itself up into a profitable enterprise. After the initial start-up phase, the company generally enters a cash-starved growth stage. The CEDC can not expect to receive any significant dividend payments for a period of time. The actual amount of time would, of course, depend on the individual firm and the nature of its business. For example, the CEDC has had shares in AEI for five years and the company has only just begun paying insignificant dividends last year.

Minority ownership position in a company affords the CEDC no control over the dividend policy of the company. Since all of the companies in which CEDC has minority equity holdings are small, closed corporations, it would be
difficult to ensure a high dividend pay-out, if any, from the companies even in situations where they have excess cash. Again, ABEI is a good example. AEI made substantial profit last year and the payment of dividend was insignificant because the management of the company had decided to retain earnings for other purposes.

Since all of CEDC's business investments were in start-up companies wherein the CEDC has only minority equity interest, the corporation cannot expect any major cash flow streams through dividend payments in the foreseeable future.

Community Benefit Implications of Present Portfolio Configuration:

From the point of view of maximizing economic development impact with the available resources of the CEDC, minority shared ownership in businesses is acceptable. Insofar as the rationale for CEDC's investment into private sector businesses is to stimulate the creation of jobs and income available for community residents, the CEDC needs not control the management of these businesses through majority equity ownership. By opting for minority ownership, the CEDC could spread the use of its scarce resources to invest into more ventures thereby increasing the job and income generation effects of its investment.
Since investing in start-up businesses are more risky than investing in existing companies. The CEDC must determine whether it would be wise to use its limited resources to take such risk. It can be argued that for the generation of jobs and income for community residents, investment in expanding businesses would have the same effects.

Examination of Other Alternatives:
Given the fact the the CEDC investment portfolio is dominated by "Alternative 2" projects which are start-ups and minority-owned by the CEDC and given the associated weaknesses, what other investment options among the six suggested would remedy the cash flow inadequacy problem posed by CEDC's present portfolio?

In the previous section, the cash flow disadvantage of investing in start up companies and minority ownership was discussed. Before proceeding to analyze each of the remaining five options as suggested, an analysis along the remaining dimensions of Exhibit 11 is in order; that is, "majority ownership", "acquisition", and "successful" versus "failing" companies.

Majority Ownership
Majority equity control in an investment project is important to the CEDC because it has direct impact upon the cash flow timing and actual returns to the CEDC.

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Insofar as the CEDC has majority ownership in a business, it would have control over the company's dividend policy. Thus the CEDC can be assured a cash flow return through dividend payments if the company were operated profitably with surplus cash. Thus, investment into businesses where CEDC has majority interest would give the CEDC more control over the expected dividend cash-flows of the businesses. As such, the CEDC could exert more influence over the combined cash flow of its corporate investment portfolio.

Acquisition
As opposed to start-up business investment, the CEDC could acquire ownership positions in existing companies. The advantage of acquiring ownership positions as opposed to investing in start-up companies is that the former is much less risky than the latter. In addition, the acquisition of an existing company may provide the CEDC with a stream of immediately available cash-flows.

Successful Versus Failing Businesses
If the CEDC should decide to acquire ownership interests in existing businesses, it must decide whether to invest in failing or healthy businesses. There are compelling reasons for each of the two options. The argument for investing into a failing business essentially centers on the saving of jobs which would otherwise be eliminated if
the business should fail. In addition, it would avoid having to retrain displaced workers to assume new jobs for those fortunate enough to find jobs in other industries. However, arguments against such investments are also convincing. These arguments question the wisdom of investing limited resources of a CDC into a dying business, particularly if it were in a declining industry. It is even more compelling if the cause of the firm's or the industry's demise is found in changes in the underlying national and international economic factors which are outside the control of the firm. The case in point is the garment industry in New England whose decline has been caused by regional and international cost factors.

The acquisition of equity interests in successful businesses in healthy industries appears to be a better use of the CDC's resources and is more beneficial to the community in the long-run. Investment in a healthy business affords a better chance for the CDC to obtain the much needed cash through dividend payments in the short run once the company has reached its mature stage both in terms of product and market. It would be even more attractive if the existing healthy company is in a growth industry. This is because a growing market provides expansion opportunities for the firm and will, in turn, increase job opportunities for the community.
Specific Alternatives:

Having discussed the various attributes contained in the remaining five suggested alternatives, each of these alternatives will be evaluated based on its advantages and disadvantages.

"Alternative 1", which is to take majority ownership position in start-up businesses subjects the CEDC to the same start-up risks and the lack of short-run cash flow as discussed earlier.

"Alternative 3", which is to take majority positions in existing, successful businesses, affords the CEDC a better chance of receiving a steady stream of cash flow with a lesser level of risks than investing in start-up companies.

"Alternative 4", which is to take minority equity position in existing, successful businesses, provides the CEDC the possibility of early cash flow from an existing successful company. However, the CEDC cannot ensure that the company would pay dividends.

"Alternatives 5 and 6", which are to acquire majority or minority interest in existing but failing companies respectively, are unacceptable because of the high risks of capital loss and are inferior to investing in successful businesses in terms of job and income creation.
Financial Resources Available:
The CEDC will need approximately $350,000 annually to maintain a core staff to manage the existing portfolio and to develop new investment projects. This projected operational budget includes staff salaries, space cost, supplies, and other operating line item expenses. The current belief among CEDC corporate staff and officials in CSA/OED is that operational funds will be available to the CEDC for Fiscal Year 1982 (FY82) which will provide support to the corporation from October 1981 to September 1982. However, equity funds for investment will not be available as of the present. It is assumed that the needed level of operating funds will come from CSA/OED for FY82. However, for FY83, the CEDC will have to rely on internal and other non-CSA/OED funding sources. The present cash-flow analysis reveals that the CEDC will have an expected cumulative cash-flow of $175,000 for FY83 operation which is $175,000 short of the necessary level.

For each of the years between FY83 and FY87, the CEDC will need between $150,000 to $200,000 in addition to internally generated cash per year to operate at a minimum expense level to maintain an effective operation.

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31 Figures supplied by CEDC comptroller.
Funding for housing development is also going to be limited. It is expected that the Section 8 rental subsidy program will be cut substantially or phased out altogether by the federal administration which will severely hamper the ability of the CEDC to develop low income housing. The only source of funding which would allow the CEDC to develop housing units which community residents could afford and are within the financial capabilities of the CEDC is the Massachusetts Housing Finance Agency (MHFA). MHFA provides 90% of a project's total costs in mortgage financing and allows the developer to receive 10% of the project's cost as a developer's fee. Thus, the equity requirement of a housing development project would be minimal. However, predetermined, front-end cash would have to be provided by the CEDC.
Chapter 4: Recommended Strategic Action Program

In Chapter 2 the author recommended to the CEDC the adoption of an iterative planning process. In this chapter, given the strategic investment alternatives and financial resources available to the CEDC as discussed in the previous chapter, a set of strategic recommendations can now be formulated.

1. Financial Strategies:
Beyond surviving with a professional staff and its product/program divisions, the CEDC must seek to obtain investment funds to continue to invest in economic development projects. The most difficult sources of capital to obtain are those that the CEDC can invest as equity for the acquisition of ownership positions in businesses. For many years, CSA/ORD has been one of the limited sources of equity funds available to CDCs. With the demise of CSA/ORD and the lack of internally generated funds available for investment, the CEDC must look elsewhere.

There are principally two ways by which CEDC could raise capital for it to invest equity into businesses: 1) The CEDC could request grants from governmental agencies and charitable foundations at no cost to the corporation; and/or, 2) The CEDC could borrow to finance its equity
The CEDC has thus far relied totally on CSA/OED for all of its business and real estate investments. Other financial mechanisms have not been developed and put into place which, in retrospect, can be considered the foremost weakness of the CEDC's corporate strategy to date. It is imperative that the CEDC develop wholly owned and controlled financial mechanisms for future project investment for economic development purposes and the generation of cash flow to the corporation. One such mechanism is the Minority Enterprise Small Business Investment Corporation (MESBIC), a program administered by the U.S. Small Business Administration (SBA). The program allows the MESBIC to invest in the forms of debt and/or equity into small businesses. For every one CEDC dollar injected into the MESBIC, the SBA will lend the MESBIC three dollars. However, a MESBIC can only be used to acquire less than 50% of the equity of any one business. The initial capitalization of a MESBIC will require $500,000. 32

The CEDC should establish a MESBIC as soon as it is practical. The purpose of the MESBIC is to invest in minority

ownership positions in existing, successful companies; that is "Alternative 4". The MEABIC is the only source of structured equity that is available to the CEDC. Although it does not permit the CEDC to invest in majority ownership of existing successful businesses which is the best option among the six alternatives suggested in terms of cash flow positioning, it is the second best option. It is also a highly desirable strategy to leverage investable funds in contributing economic benefits to the community.

In addition, the CEDC should renew its fund raising efforts from private foundations for internal operational support and project investment. A particularly attractive possible source of funds is the Ford Foundation which has focused its resources to combat urban poverty through the provision of financial help to urban economic development entities. The foundation's new direction was shaped by its new president, Franklin A. Thomas, who headed the Bedford-Stuyvesant Restoration Corporation, the nation's oldest and most established CDC funded by CSA/OED. The Ford Foundations supports the Local Initiative Support Corporation (LISC) which directly channels funds into CDCs for operational and investment support. LISC has planned

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33 "Ford Foundation Shifts Its Focus to Disadvantaged", Boston Globe, 6 April 1981, p. 3.
to establish a support organization in Boston to aid Boston area CDCs. The Boston LISC has received $500,000 from the Permanent Charity Fund of Boston which is to be matched by $1,000,000 of corporate contributions which together will provide $1,500,000 available to assist CDCs in the area. The CRDC stands an excellent chance in receiving support from the Boston LISC since the total number of CDCs in the area is limited. The CEDC should pursue this source of funding vigorously for both operational support and for investment project capitalization. However, notwithstanding the possibility of receiving funds from LISC and other charitable sources, foundation funding is unpredictable and difficult to plan for. Therefore, these efforts should be viewed as only complementary to the more structured financial vehicles owned and controlled by the CRDC such as a MESBIC.

Fund raising emphasis should also be placed on state and local governmental sources due to the change of federal direction to channel resources to state and local governments.

2. Positioning of Cash from the Sale of Boylston Building:

In addition to the financial resources to be obtained from sources outside the corporation, the CEDC should attempt to negotiate for an earlier return of cash from the sale of the Boylston Building to Wang Laboratories as agreed by both parties. Present negotiations call for the sale of the building to Wang at the end of seven years from the date of the project's completion at an agreed upon price of $4.0 million to the CEDC, net of all project debts. The CEDC could seek to borrow from Wang the discounted value of the $4.0 million to be received at the completion date of the project instead of seven years down the road. The present value of $4.0 will be approximately $1.81 million assuming a discount rate of 12%. The borrowed funds can then be used to augment the CEDC's operational funding needs and to capitalize the much needed MESBIC.

3. Divestment of Holdings in AEI:
The CEDC should divest its equity interests in AEI. As depicted in Exhibit 9, AEI is positioned in the "low low" region along the cash flow contribution and community benefit dimensions with little expected improvement on cash flow and no improvement on incremental community benefit generation over a five year projected horizon. There is no purpose for the CEDC to keep AEI shares on its portfolio. Proceeds from the sale of CEDC's holding in the company's common shares can be better used for intern-
al support and project investment.

The objective of assisting a start-up business is well served as soon as the business is established and becoming mature. At the point when the business is able to generate sufficient internal funds for its continued operation and growth, CEDC's participation would no longer be necessary from the point of view of job and income creation for the community. That is, regardless of whether the CEDC maintains an equity position in AEI, jobs will be created as the business is successfully operated by its management. The question then becomes, "Should the CEDC maintain its equity position in the business or divest its holdings?" The answer would depend on the level of cash-flow available to the CEDC through dividend payments from the project and the liquidity needs of the CEDC both for internal operation and reinvestment possibilities at the time. If one or both of these needs were paramount, divesting would be appropriate. If the CEDC does not need the cash proceeds from divestment and the projects throws out a significant cash-flow stream, then it would be beneficial to keep it on the CEDC portfolio of investments. However, the CEDC is in need of cash and the expected cash flow from AEI is low. Thus, divestment is recommended.

4. Investment in Majority Ownership of Successful Firms: The CEDC should utilize funds from portfolio returns and
corporate and/or foundation donations to acquire majority ownership positions in existing, successful companies in growth industries. These companies should preferably have existing cash flow streams with the possibility of relocating or expanding its operations into the CEDC Special Impact Area.

5. Development of Low and Moderate Income Housing:
The CEDC should pursue mortgage funding from the Massachusetts Housing Finance Agency for market rate, low and moderate income housing development. This source of funding could lower the front-end equity required in developing housing because of the availability of 10% developer's fee to the CEDC as the project developer in addition to the receipt of traditional syndication proceeds.

6. Establishment of Manpower Training Projects:
The CEDC should seek outside funding sources to support its manpower training activities whenever possible. Training to be provided should complement the efforts of the business and housing development projects of the CEDC. In the long-run, when funds become available, the CEDC should support manpower training programs internally.

7. Encouragement of Private Sector Involvement:
The CEDC should encourage private sector involvement into CEDC initiated investment projects. Particularly, since
the CEDC has a shortage of investable funds, equity participation on the part of private sector investors would help to create the desired economic benefit contribution to the community.

8. Provision of Technical Assistance:
Renew efforts in providing technical assistance to aid businesses to start in or relocate to the CEDC Special Impact Area. Technical assistance can include financial packaging, site location, business planning and market research. In return, the CEDC could request for consulting fees and/or a small share of the company's equity.

9. Undertaking of Planned Projects:
The CEDC should proceed forward with the computer service joint-venture since the project requires only the contribution of the CEDC in-house computer facilities and staff time and the cash flow return to the CEDC is expected to be substantial.

The CEDC should only invest in the Cable Television project and the Revolving Loan Fund project if funds were available from outside sources earmarked specifically for these projects. No CEDC internal funds or non-project-specific corporate or foundation grants should be used to capitalize either of the two projects.
Appendix I: Definition and Brief History of Community Economic Development

Community economic development is a relatively new concept. In the aftermath of the urban riots of the Sixties, minority communities in central cities were looking for avenues to alleviate the problem of urban poverty. The feeling of individual helplessness in the midst of adverse economic conditions banded together residents of depressed communities in search of a more collective solution. As a result, the concept of community-based economic development was crystallized and a new type of community organizations known as community development corporations (CDCs) flourished.

It is difficult to put forth a definition of community development that would receive consensual agreement among professionals in the field. According to Stewart Perry,

"...community economic development is the creation or strengthening of economic organizations (or, more technically, economic institutions) that are controlled or owned by the residents of the area in which they are located or in which they will exert primary influence. The institutions that are owned or controlled locally can include such forms as business firms, industrial development parks, housing development corporations, banks, credit unions, and the cooperatives and CDCs themselves as the most broadly general-
ized, guiding institutions. They might also include organizations (or services) that upgrade the human and social environment in such a way as to increase the economic value and energy of the community."

The economic organization referred to above, a CDC, is a locally organized, non-profit, corporation controlled by residents indigenous to the community that the CDC is formed to serve. The local community, through the selection, in part or in whole, of the board of directors of the CDC, controls the corporation's direction and operation. Because of it being community based and controlled, community economic development is fundamentally different from ordinary economic development programs undertaken by state and local governments. Three criteria need be met for community-based economic development to fit its definition:

1. A definable community in terms of a geographic area and some or all the residents in it.

2. A non-profit community development corporation with the explicit goal of fostering economic development within the community.

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3. Some form of control by the community, usually through a board of directors at least in part selected by the community to represent its interests. 36

Depending on the nature of the problems and needs in a community, the process of community economic development usually encompasses attracting outside resources into the community with the community's approval, improving the physical attractiveness and livability of the area, improving and expanding the community's housing stock, creating new jobs and maintaining existing jobs with upward mobility potentials, increasing entrepreneurial and training opportunities for community residents; and creating channels by which the community can participate in and benefit from economic development activities. 37

Under the non-profit corporate shell, a CDC seeks to invest in for-profit enterprises which would increase job opportunities and other economic benefits for local residents. There are two reasons why a CDC should invest in profit-making enterprises:

1. Profitable business operations within the

37Stewart E. Perry, p. 16.
community generate jobs and income for community residents. Jobs will be created through business expansion and increased purchasing from community businesses. They also provide opportunities for skill training and upward mobility.

2. Profitable CDC owned businesses generate resources for CDC reinvestment into other economic development projects and provide operating funds for continued operation. It would also allow the CDC to be independent from governmental agencies and enables the CDC to invest in projects not well-received by governmental agencies but are consistent with the goals and objectives of the CDC and the needs and desires of the community.38

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Appendix II: Description of the Chinese Economic Development Council, (CEDC)

Introduction:
The Chinese Economic Development Council (CEDC) is a community development corporation located in the Chinese-American community in Boston. Its major funding comes from the federal Community Services Administration, Office of Economic Development (CSA/OED), under Title VII of the Economic Opportunity Act of 1964 as amended. Currently, CSA/OED supports thirty-eight CDCs across the country.

According to the legislative mandate of CSA/OED, a CDC funded by the federal agency must have the capability to exert considerable impact upon a designated depressed community termed a Special Impact Area (SIA). The CEDC's SIA includes an area commonly known as Chinatown/South Cove and part of the South End in the City of Boston. The CEDC further defines a target group which includes the approximately 5,000 Chinese-Americans in the SIA and the more than 15,000 Chinese-Americans in New England.

Presently, the CEDC has a staff of eighteen employees. Aside from the chief executive officer and his staff in the Office of the Executive Director, the remaining staff is organized into four divisions: Business Development,
Housing and Land Development, Manpower Development and the Comptroller. The three development divisions are program/product divisions while the comptroller heads a functional division with fiscal control responsibilities.

The CEDC is governed by a twenty-six member board of directors with seventeen supporting committees. There is also an Advisory Investment Board composed of business leaders outside of the Chinese-American community. The board structure reflects the corporation's desire to obtain a wide representation of the Chinese-American community.

There are two categories of board membership: "Low Income" and "Business and Finance". The "Low Income" category is further divided into three sub-categories: 1. Representatives of non-profit community organizations, 2. chairpersons of advisory "human affairs committees", and 3. representatives from low income residents of the SIA. The "Business and Finance" category of board membership is divided into two sub-categories: 1. Representatives from community-owned business organizations, and 2. chairpersons of the advisory "development affairs" committees. Low income residents' representation on the board is a prerequisite for CSA/OED funding, and is needed to ensure
that "grass-root" community input will be received. The board was carefully composed to ensure that a proper balance would be maintained between community representation and the availability of technical and business expertise needed for the organization's effective functioning. There are five categories of membership on the board as stipulated in the CEDC By-Laws:

I. Low Income Representatives

A. Non-Profit Community Organizations
Members of the board in this category represent community organizations which are concerned with the interests of the low income residents of the Chinese-American community in Boston. These organizations may have the following concerns: welfare, housing, education, elderly, immigration, and family needs. Each organization selects its own representative to serve on the CEDC board.

B. Labor and Employment Groups
Members on the board who fall into this category must be low-income, non professional, nonmanagerial workers residing in the CEDC's Special Impact Area.

C. Affairs Committee Chairpersons
CEDC's By-Laws stipulates that the following areas
of concern be represented on the Board:
Educational affairs, youth, manpower, social services, community, health and elderly, and cultural affairs. An advisory committee was created to address each of the above concerns and the chairperson of the committee elected by its members serves on the CEDC Board.

II. Business and Finance

A. Representative of Community-Owned Businesses and Financial Organizations
This category consists of two organizations, the Chinese-American Finance Corporation and the Chinese American Investment Corporation. These are independent organizations in which CRDC has no ownership interests.

B. Development Committee Chairpersons
These members represent the six development areas which CEDC has identified as representing the most urgent priorities of the Chinese-American community: technology and industrial development, finance and trade, housing and land, commercial, legal and accounting, and information systems. These members are to provide a broad base of expertise for the effective and efficient functioning of the Board.
Aside from the advisory "affairs" and "development" committees, the board has also designated a number of standing committees. They are: 1. Executive Committee, with the authority to act on behalf of the full board in between regular monthly board meetings; 2. Nominating and Rules Committees, with the responsibility to nominate candidates for board membership and to ensure board structure conformance to CSA/OED requirements; and, 3. Loan and Investment Committee, with the responsibility to screen investment proposals submitted by the staff for CEDC investment consideration.
Appendix III: HISTORY OF CEDC

Technical Assistance Phase (1975 to 1977):
The CEDC was incorporated in 1974 as a non-profit corporation. It received its first governmental funding from the Economic Development Administration (EDA) of the Department of Commerce for the purpose of providing technical assistance to small businesses in the Boston Chinese-American community. Additional funds were provided by the Commonwealth of Massachusetts through the Comprehensive Employment Training Act (CETA) discretionary funds.

During this period, the work of the CEDC was mainly to provide assistance to businesses which included counseling small businesses in the procedures of obtaining debt financing; drafting business plans and financing proposals for businesses owned by Chinese entrepreneurs; searching for sites for businesses to locate in the community; and referring clients to other available services.

Two events of major significance to the future development of CEDC occurred during this period. First, the CEDC participated in the creation of an electronics component assembly company. For the CEDC's role in providing assistance, it was compensated with a small share of the company's equity, which has remained a part of CEDC's investment portfolio to this date. This marked the first time
for the CEDC to have an equity interest in a private, for
profit business. Second, the CEDC decided to apply for
financial support from the Community Services Administra
tion, Office of Economic Development (CSA/OED) in Washing
ton, D.C. If CEDC's application were approved by CSA/OED,
the organization would receive funds for operational
support and for equity investments. This represented a
drastic change in CEDC's direction in that the corporation
would change from a technical assistance provider to that
of an investor in businesses and other development pro-
jects. CEDC's business investment projects would generate
direct economic benefits for the community residents.
Thus, the CEDC was enroute to becoming a full-scale commu-
nity-based economic development corporation.

In order to qualify for CSA/OED funding, the CEDC needed
to expand its then five-member board of directors to
encompass a much wider community representation such that
the corporation would be community based and controlled.
The initial board was composed of representatives from
five community organizations. The expanded board included
seventeen members representing a wide variety of community
organizations, businesses, low-income residents, and
professionals which eventually evolved into the present
board with twenty-six members.
The staff of the CEDC also went through a transition between 1975 and 1976. The CEDC started with seven staff members in 1975. By mid-1976, due to EDA funding cuts, the staff was reduced to two persons. It was a difficult period in trying to maintain the corporation as a viable entity. This instability of funding also contributed to the corporation's decision to try and become a part of the CSA/OED family both for operational support and the prospects of building an asset base that would enable it to impact more positively upon the economic development needs of the community.

Planning Grant Phase:
The process of obtaining designation from OED/CSA was a very political one. There were more than sixty applicants from all parts of the country knocking on CSA/OED's door. As it turned out, only six CDCs were finally funded. At times the staff of the CEDC, as well as other community economic development professionals, felt that it was next to impossible for CEDC to be designated. Their reasoning was convincing. Of the thirty-six CSA/OED funded CDCs in the country in 1976, two were in Massachusetts. There was little political incentive for the officials of CSA/OED to support the funding of yet another CDC in Massachusetts given the fact that virtually all of the state's congressional delegates were already in support of the CSA/OED economic development programs. The funding of applicants
from states without CSA/OED supported CDCs was more politically beneficial to the federal agency and its programs.

In the Summer of 1977, after more than a year of garnering political support from Chinese-American communities nationwide, Asian-American congresspersons, and influential politicians from Massachusetts and other states, the CEDC was designated a planning grantee by CSA/OED.

One of the prerequisites for the CEDC to become a CSA/OED funded, mature community-based development corporation was that it go through a planning period. During this stage the CDC was designated a "planning grantee" and was required to produce an "Overall Economic Development Plan" (OEDP) delineating the goals and objectives and program activities for the organization. Upon CSA/OED's approval of the OEDP, the CDC would be designated a "transitional" CDC, and would receive funds to expand its staff and operationalize the economic development programs specified in the plan. The CDC, at that time, would also be eligible to receive investment capital on a project-by-project basis.

The OEDP was submitted to OED/CSA in January, 1978. In it was an ambitious economic development plan with a six-year planning horizon, from April 1, 1978 to March 31, 1984. According to the OEDP, the CEDC had identified five areas
of needs in the Chinese-American community. They were as follows:

1. Housing and land development,
2. Technology and industrial development,
3. Commercial development,
4. Development finance, and
5. Social development needs.

In recognition of the above stated needs of the community, the CEDC set forth its goals in the OEDP as follows:

"Goal 1: To develop the human capital potential of the Chinese residents of Boston.

This means to increase investment into education, language training, on-the-job training, management and entrepreneurial development of Chinese residents.

Goal 2: To generate and to distribute income among Chinese residents.

This means to increase the income stream of and to redistribute the income among residents. This may be done through increasing wages, benefits, and income transfers such as social services.

Goal 3: To redistribute and to increase the wealth of Chinese residents.

This means to increase the ownership of businesses, housing, and real estate by Chinese-Americans. This may be done through subsidized development finance, profit sharing, cooperatives and so on.

Goal 4: To establish and develop institutions that will increase the social development, economic growth and political improvement of the Chinese community.

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This means to establish the CEDC as a viable development organization. In addition, CEDC will expand existing and/or start-up spin-off financial and social institutions in order to develop the family and community organizations as well as the businesses and political influence of the Chinese community.

Goal 5: To develop the physical land in order to increase its use for community purposes; to reduce conflicting uses and to increase the net benefits of the boundary developments to the community.

This means to undertake land development in the SIA and influence both private and public development to increase net benefits to the community."

- CEDC Overall Economic Development Plan -

Operational Phase (July, 1978 to Present):

The completion of the Overall Economic Development Plan brought the CEDC into its operational phase which served to designate it as a "transitional grantee". It was in this period that the CEDC became eligible to receive investment funds from CSA/OED.

In accordance to the OEDP submitted to CSA/OED, CEDC received funds to operate its economic development program and a multi-faceted social service program. The CEDC expanded its staff and organized the corporation into five divisions: Administration, Business Development, Housing and Land Development, CDC Operations, CDC Development, and Community Development.
The Administration Division included the Executive Director and an Assistant Executive Director with overall corporate responsibilities. The CDC Operations Division was a functional division in charge of fiscal affairs. The CDC Development Division was responsible for research and public relations. The Business Development Division was comprised of a divisional manager, an assistant manager and two business analysts. The division had the responsibilities of attracting investment proposals from the private sector, performing feasibility studies on potential business investments, negotiating deals, recommending business venture proposals to the Loan and Investment Committee and the Board for approval, and implementing the projects.

The Housing and Land Development Division was charged with the responsibilities of analyzing the availability of real property in the STA, identifying parcels suitable for housing development, performing financial and physical feasibility studies, recommending projects for board approval, securing land control, and actually developing housing.

The Community Development Division received funds from Title II of CSA (separate from the CSA/OED Title VII monies which fund CEDC's economic development programs) to operate a social service center. The center was to carry
out a multitude of social service programs including a Newcomer Service Center servicing the needs of newly arrived immigrants to the community from Hong Kong, Taiwan, and Indochina, a language training program, a community "hot-line" for crisis intervention via telephone, and a Center for Chinese Arts and Culture. The division also administered the Chinese Chef Training School which was funded independently by the State Department of Education.

In January of 1979, the CEDC undertook its first investment project, the purchase of a commercial building located in the heart of the commercial district in Chinatown. The purpose of this investment was to house the CEDC Community Service Division and for future reuse for housing conversion.

In mid-1980, the CEDC received words from CSA that the social service component of the CEDC would not receive continued funding from CSA under Title II. As such, all social service programs, with the exceptions of the man-power and language training programs, were dropped by the CEDC. In addition, the CEDC lost its funding support for the Chinese Chef Training School and was forced to discontinue its operation.
In June of 1980, five senior staff members resigned from CEDC. Among them were the divisional managers of the social service division, housing and land development division, research and planning division, and the comptroller's division.

Also in June of 1980, the CEDC completed negotiations with an entrepreneur to invest in a start-up company to manufacture and distribute Chinese noodles and other food product.

In September of 1980, the CEDC hired new staff members to replace those who had resigned in June.

In December of 1980, the CEDC purchased a parcel of land and building located on Oxford Street, in the Chinatown commercial core area, with plans to convert the building into 38 units of subsidized rental family housing units.

In January of 1981, the CEDC purchased the Boylston Building located in the "Adult Entertainment District". The building will be renovated to house an electronics component manufacturing facilities on upper floors and a Chinese commercial arcade on the ground floor.

In April of 1981, the CEDC received funding to establish a computer programming training school.
The CEDC Special Impact Area and Target Group:
The Chinese community of Boston is the sixth largest concentration of Chinese population in the United States. According to a 1970 report by Action for Boston Community Development, the Chinatown community was reported to have the lowest median family income among Boston's anti-poverty neighborhoods. With the influx of immigrants from Asia, the median family income level in the community is judged to have worsened in recent years.

The Chinatown economy is driven by two major industries: the Chinese foods and related industry and the garment manufacturing industry. Approximately 77% of all Chinese males in the labor force are employed by the Chinese restaurants in Chinatown and those scattered throughout New England. 72.9% of the Chinese female workers, on the other hand, are employed by the garment manufacturing factories in Metropolitan Boston. The Chinese community has a concentrated number of garment factories located within or near its boundaries. Unfortunately, however, while the garment industry in Boston and New England has been on the decline for the recent decades, the Chinese restaurant industry has also approached its saturation.
These two industries have been particularly important to Chinese workers because they do not require high level English skills and educational and vocational attainment. The two industries also share the unfortunate similarities of lack of upward mobility, harsh working conditions, long hours and low wages.

The lack of English speaking ability and barriers posed by foreign credentials have, to a great extent, caused serious underemployment problems for Chinese residents of the SIA. Many Chinese immigrants are relegated to jobs in the traditional industries such as Chinese restaurants and laundries due to the lack of English skills even though their previous trainings would qualify them for higher skilled jobs in the old country.

The housing shortage in the SIA has approached a crisis situation. Development projects in and around the Chinese community have limited the availability of physical sites for housing development. As far back as the 1950's, the community was encroached upon by the construction of the Surface Artery. A large portion of the original Chinatown was torn down to make way for highway construction. More recent was the construction of the Massachusetts Turnpike in the 1960's which cause a further loss of the community's housing stock. At present, the planned development of downtown shopping facilities, the expansion
of medical and educational institutions and the revitalization of the theater district all contribute to the ever worsening housing problem in the Chinese community. This situation is further aggrevated by the increase in the community's population through the influx of immigrants from China and Hong Kong since the 1960's.

In sum, the Chinese community is beset with a severe housing shortage, underemployment, lack of upward economic mobility, limited economic diversity, language and social barriers, saturation of the dominant restaurant industry and decline of the crucial garment industry.
Bibliography


"Ford Foundation Shifts Its Focus to Disadvantaged." Boston Globe, 6 April 1981, p. 3.


