Anchor Institutions and Local Economic Development through Procurement: An Analysis of Strategies to Stimulate the Growth of Local and Minority Enterprises through Supplier Linkages

by

Iris Marlene De La O

BA in International Development
University of California, Berkeley
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Department of Urban Studies and Planning
May 24, 2012

Senior Lecturer Karl F. Seidman
Department of Urban Studies and Planning
Thesis Supervisor

Professor Alan Berger
Department of Urban Studies and Planning
Chair, MCP Committee
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ABSTRACT

Anchor institutions, such as hospitals and universities are increasingly engaging in community and economic development initiatives in their host cities. Annually, these institutions spend millions of dollar on a variety of goods services. If these dollars were redirected to purchasing local and to minority-owned firms, the anchors’ purchasing power could have enormous impacts on the local and regional economies. The thesis examines two case studies of anchor institutions, the University of Pennsylvania and University Hospitals, which engaged in community and economic development in their cities. It particularly examines the strategies developed to successfully implement procurement programs that enabled the growth of local and minority-owned firms. The thesis seeks to understand how cities like Springfield, Massachusetts, with high unemployment and poverty rates, could utilize anchor institutions to stimulate local economic development.

Thesis Advisor: Karl F. Seidman
Senior Lecturer in Economic Development

Thesis Reader: Ceasar McDowell
Professor of the Practice of Community Development
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Chapter 1: Introduction

The North End is a largely low-income and minority community of Springfield. The most pressing challenges for the community are low rates of employment, high poverty levels, and stagnant growth for small, Latino-owned businesses. This neighborhood is also home to the Baystate Medical Center—the largest employer in the city of Springfield. Hospitals like Baystate tend to hire a large number of staff that are considered low-skilled or whose positions do not require a college education. Because of this, Baystate could become a major employer not only for the city and the surrounding suburbs but also for residents of the North End. As the largest employer, Baystate has an enormous impact on the earning capacity and income of Springfield residents, and thus a great impact on the local economy. Although anchor institutions like the Baystate Medical Center could be involved in the community and economic development of their host cities through a variety of activities, such as employment, the thesis will focus on hospitals and socially responsible procurement policies that could link the hospitals with minority-owned businesses. More specifically, the aim is to address one of the pressing challenges of the North End neighborhood, which is to link Latino-owned businesses to the mainstream economy of the city.

1.1 Anchor Institutions and Socially Responsible Procurement Policies

Deindustrialization has left many formerly manufacturing cities like Springfield, MA with a large unemployment rate, a high poverty rate, and low educational attainment (Kodrzycki, 2009). Because traditional export industries in manufacturing have been performing so poorly, anchor institutions, such as hospitals and universities, have become important stakeholders in the community and for the economic development of resurgent cities (Bartik and Erickcek, 2007). These institutions survive and reinvent themselves through research and development, which makes them critical actors in building a knowledge-based economy for these communities (Murphy, 2011).

Anchor institutions are often among the largest employers of their host city and can improve significantly the local economy through purchases and strategic development. Hospitals and universities can enable economic development by supplying quality jobs for a diverse workforce and by purchasing goods and services from local and regional businesses (Harkavey, et al., 1999; Nelson, 2009). Generally, both types of anchor institutions provide jobs in the
community that require a variety of skills and different levels of educational attainment. Hospitals, in particular, tend to need very specialized labor such as surgeons or neurologists, but they also need a large pool of labor with less expertise and lower educational requirements like janitors, administrative staff, or medical assistants (Adams, 2003). Additionally, anchor institutions purchase a variety of goods and services in large volumes on a daily basis. Many of the items on their procurement lists require high technology for production like medical equipment but many other items such as paper, food, or uniforms can be purchased locally (Harkavey, et al., 1999).

Hospitals' and universities' procurement policies can be instrumental in building a vibrant local economy. Anchor institutions spend millions of dollars annually on a variety of goods and services that could be produced in the same city or region, thus creating multiplier effects in the economy and enabling wealth to accumulate locally (Bartik and Erickcek, 2007). Socially responsible procurement policies can be especially beneficial to small and minority business owners who generally lack the networks to supply to large institutions. Building supplier/buyer relationships between small and minority owned businesses and anchor institutions, increases revenue potentials for the businesses and increases their ability to grow into larger firms that benefit the local economy (Wallace, 1999).

Although there are many benefits to anchor institutions, enabling economic development through these organizations has many challenges (Adams, 2003; Bartik and Erickcek, 2007; Hakavey, 1999). An economic development strategy that solely focuses on anchor institutions may create economic dependence on one particular industry. It may focus the activities of local businesses on the larger firm, thus potentially creating negative economic effects when the anchor institution is not doing well, or changes its procurement policies. Another possible challenge in using anchor institutions to encourage local economic development is to convince the institution to work with community and government stakeholders to build a more integrated local economy. The process may be particularly challenging for institutions that are physically isolated from their surrounding communities through the physical design of their properties or because of the institutions historical preference to remain isolated from community and political activity. It may be difficult to engage anchor institutions on local economic development, as they may not realize that a healthy, vibrant community only increases their competitive
advantage to recruit skilled labor, to win over clients, and to be a world class institution, which is particularly important for hospitals and universities.

Building socially responsible procurement policies can be very challenging for anchor institutions (Pearson, 1994; Wallace, 1999). Among the most challenging are, building the capacity of local, small or minority owned businesses and the ability to purchase local goods and services at a competitive market price (Wallace, 1999). Anchor institutions need to buy goods in large quantities; therefore they need local businesses to be able to supply goods in bulk. This is particularly problematic for small businesses that do not have equipment or labor capacity to produce in volume. Anchor institutions and other stakeholders have to be patient with businesses while they build their capacity to produce in large quantities or obtain the capital that will allow the small business to buy machinery to expand its production (Adobor, 2007). Selling goods at competitive prices is often challenging for small, minority owned businesses due to many factors. This is problematic for anchor institutions that want to implement socially responsible procurement policies without increasing costs (Wallace, 1999). Most recently, increase in costs has become particularly problematic for hospitals as they are under pressure from insurers and federal and state governments to manage their costs. The federal Affordable Care Act will significantly influence hospitals and their involvement with community economic development. A provision in the Act requires hospitals to assess the needs of their community and to report how the institution is meeting those needs (Dubb and Howard, n.d.). That will require hospitals to become knowledgeable and strategic community and economic development initiatives.

1.2 Context—North End Neighborhood in Springfield, Massachusetts

Western Massachusetts is New England’s second largest population, education and economic center and is divided into two regions—Berkshire County and the Pioneer Valley. Employment in these regions is diverse, with the greatest concentration in manufacturing, health care, and educational services. Some of the other sectors include retail trade, accommodation and food services, professional business services, construction, public administration, and finance and insurance (Western Massachusetts Electric, 2007).

Springfield is located in Western Massachusetts and has a population of over 150,000 people (US Census). Labor force participation is one of the greatest challenges for the city of
Springfield. Low educational achievement, lack of job networks and lack of transportation to worksites, and child-care needs are some of the barriers that low-income and minority residents face to maintain employment (Kodrzycki & Muñoz, 2009). These are challenges that could be mitigated with proper workforce development programs through community colleges or technical institutions that enabled North End residents to build the skills needed to be hired by anchor institutions like Baystate Medical Center. Furthermore, recent studies of entrepreneurship in Springfield and other minority communities in the country state that self-employment may be the best alternative for salary and wealth generation in these communities (Muñoz, et al., 2011).

In Springfield, the percentage of Latino-owned firms is greater than the state and national average but worse than cities with similar shares of Latino populations in New England. According to the Federal Reserve Bank of Boston’s recent study on Latino businesses in Springfield, these businesses perform worse than other firms in Springfield when measuring sales and profits. But despite financing gaps and limited technical skills, Latino business owners in the city are always seeking opportunities for growth. The greatest barrier for growth is financing, as many Latino start-up entrepreneurs rely on their own savings. The study also noted that the economic downturn, lack of adequate space, and safety were some of the entrepreneurs’ greatest concerns (Muñoz, et al., 2011). Given that Latino-owned businesses are in dire need of business development training and tools, such resources could be mobilized to help these businesses grow and build their capacity and skills to become suppliers of large institutions like Baystate.

The North End has one of the highest poverty rates in the city of Springfield. Traditionally, the area has received the “newest arrivals” to Springfield. It is predominantly composed of Puerto Rican residents and other minorities (Browne, 2011). Baystate Medical Center, the largest health care employer in the city, is located in the Memorial Square neighborhood of the North End (Western MA Electric, 2007).

Although the hospital’s services have expanded, micro businesses in the healthcare industry have declined in the past decade (Muñoz, et al., 2011). Providing incentives to fulfill the new needs of the healthcare industry could be particularly beneficial for Latino and minority businesses for Springfield and residents of the North End.
Recently, Baystate Medical Center underwent a $296 million expansion for a new emergency department and a heart and vascular center, which was supposed to create 500 new jobs (Goonan, 2011; Western MA Electric, 2007). According to Baystate, one of the greatest accomplishments of the expansion was its contribution to local businesses and women- and minority-owned businesses. The hospital’s goal was to reach 15% participation rate from women, minority, and local-owned businesses, and it exceeded that goal by achieving a 55% participation rate (Craft, 2012). The Medical Center’s previous work on reaching out to minority owned businesses for construction presents an opportunity to the North End community and the city of Springfield for economic development and neighborhood revitalization. The city leadership could take advantage of the hospital’s preparation to date to reach out to minority businesses to secure economic opportunities for businesses in the North End.

1.3 Research Question
This thesis seeks to understand how cities like Springfield can utilize anchor institutions to complement and/or catalyze the economic development of the institutions’ surrounding communities. More specifically, it seeks to identify which procurement strategies and policies have worked to connect the economic activities of low-income and minority communities to the economic success of hospitals. For the North End neighborhood specifically, the thesis seeks to answer the question: In what industries could minority-owned businesses become suppliers of the Baystate Medical Center. What are the linkages and/or gaps between the needs of Baystate and established minority-owned businesses?

1.4 Methodology
The core of the research will consist of two case studies in the cities of Philadelphia and Cleveland that have use hospitals and universities to promote economic development in low-income and/or minority owned communities. The case studies were selected using the following criteria:
- The cities’ anchor institution involves a hospital or university
- The cities’ and anchor institutions’ host neighborhoods’ socio-demographics are similar to Springfield and the North End
• Preferably, the anchor institution's economic development strategies were implemented to benefit low-income communities

The case studies mainly involve using existing secondary research and census data collection for analysis. Additionally, I use the example of Henry Ford Hospital's minority procurement program in the city of Detroit to further highlight which procurement strategies are most successful in enabling the growth of minority businesses. The case studies are meant to be illustrative and to suggest possibilities for the North End neighborhood.

To inform a feasible plan that could create economic linkages between the North End neighborhood and the Medical Center, I have analyzed a list of goods and services currently purchased by the hospital and matched it with the existing minority-owned businesses and their production capacity. To obtain information I interviewed procurement specialists, minority businesses owners, and procurement staff from Baystate.

1.5 Research Outline

Chapter Two is a review of the literature on anchor institutions and on minority procurement. Knowledge about anchor institutions informs the broader social, political, and economic context in which institutions enable economic development. The literature on minority procurement illuminates the typical challenges that minority-owned businesses face when they become suppliers of large institutions present in their community.

Chapter Three is an analytical approach to procurement policies that provide challenges and opportunities to minority-owned businesses. It is a comprehensive review of previous studies of programs that strive to achieve socially responsible procurement policies. It is meant to serve as a basis for suggesting procurement policies and approaches that may be beneficial to the North End community in Springfield and other institutions seeking to work with minority business owners.

Chapter Four presents two case studies of procurement programs in Philadelphia and Cleveland and draws also from a procurement program in Detroit. The cases studies are descriptive and draw lessons and/or key findings on how to create procurement programs that successfully reach out to minority-owned businesses and low-income communities.
Chapter Five presents the case of the city of Springfield and the North End community. It identifies the issues facing minority-owned businesses seeking to become suppliers of large institutions like Baystate Medical Center, and thus achieve the growth of the businesses.

Chapter Six concludes the study and offers further insight regarding the context and strategies that enable the success of procurement programs intended to benefit minority-owned businesses.
Chapter 2: Literature Review

This chapter is a review of the themes central to the thesis—anchor institutions and minority procurement or supplier diversity. Anchor institutions, particularly universities and hospitals have a variety of goals that they fulfill for their local communities, their region, and the country. Therefore, the literature on anchor institutions is often dependent on the role the anchor institution assumes. The literature will offer some insight on the broader social, political, and economic context through which anchors may or may not enable economic development in their local communities. The literature on minority procurement will give an overview of the general challenges that minority-owned businesses (MBEs) are confronted with when they seek to become suppliers of large institutions, such as anchor institutions.

2.1 Literature Review on Anchor Institutions

There are several sources that produce information on anchor institutions, such as academic writing and reports from various research institutions that may or may not be affiliated with universities. Understanding the source of the information is important because it determines the likelihood that the research was done for promotional purposes. For example, there are some organizations that produce reports on anchor institutions that are meant to justify their work in implementing and facilitating community economic development projects with anchor institutions. Although there is enormous overlap in the information provided by each of these sources, particularly in the examples and case studies used to provide evidence on a claim, the sources may also differ in their strategies and recommendations. The following literature review will begin by summarizing the academic literature review, then the reports by research institutions. The latter portion of the review will be further split by explaining the reports from the Initiative for a Competitive Inner City and reports by the Democracy Collaborative at the University of Maryland. The literature review specifically highlights these two sources because they are research initiatives that seem to be most readily available to the general public and because they have been doing a lot of research on cases where anchor institutions engaged in some sort of community economic development project.
The academic sources are also divided into two topics. There are those that focus solely on universities as anchor institutions and those that group hospitals and universities. I will begin by explaining the literature on universities because it has less to do with the behavior of education and medical anchor institutions. There is a substantial amount of literature on the economic development impact of universities on the regional economy through their research departments and technology inventions (Blackwell, 2002; Drucker and Goldstein, 2007; Taylor, et al., 2008). Although this particular literature describes an important function of universities on the overall economy the topic is not central to universities as anchor institutions. When thinking about eds and meds as anchor institutions, the concern is mainly with the institutions’ role in the local economy, such as being large employers or purchasers, and their potential to develop those functions in ways that provide direct benefits to the community. Research and development of technology does not have the direct impact on local residents that a workforce development program or neighborhood redevelopment could have. Among the academic literature that focuses on universities, there is some literature that focuses on case studies of universities as anchor institutions that have engaged in large redevelopment or revitalization projects (Kronewitter, 2005; Rodin, 2007; Strom, 2005; and Webber, 2005). Although not strictly academic, there is some literature that focuses on universities and community engagement strategies (Nye and Schramm, 1999; Ostander, 2004; Percy, et al., 2006; and Reardon, 2006). These two strands of literature are informative for the thesis because they highlight the political power and community engagement needed to take on large redevelopment projects that lead to favorable outcomes.

The academic literature that focuses on the universities and hospitals’ local economic development impact through their day-to-day operations and not the impact of their research inventions is the most informative for this thesis. The drawback is that there are very few articles that specifically speak to this topic. The article by Timothy Bartik is perhaps the most relevant; as it states the types of economic development impacts the anchors could have and determines whether there is evidence that anchor institutions truly have an influence in enabling the development of the local or regional economy. The only economic impact for which there is substantial evidence is in the anchor institution’s ability to generate and export-based demand stimulus, human capital development, substitution effects, and improvement in amenities for the host city or town. Other impacts, such as research and development spillovers, increase in
entrepreneurship, reduction in suburban and urban disparities, and model employer effects on labor market norms are still inconclusive (Bartik, 2007). Other academic literature parts from the assumption that anchor institutions tend to be one of the host region’s largest employers; therefore, they must have a positive impact on the local economies (Adams, 2003; Nelson, 2009). However, how the anchor institutions’ assets enable local economic growth is not addressed. For example, Marla Nelson focuses on the plausible economic impacts of hospitals. She suggests that hospitals contribute to the local and regional economy because they purchase goods and service locally (Nelson, 2009). This is a major assumption as not all hospitals purchase locally, particularly given the trend to reduce the number of suppliers. The only undisputable impact her article showed was that hospitals attract patients, which generate substantial revenue through Medicare (Nelson, 2009). However, the assumption in the previous statement is that the revenue enables local economic development through wages and local or regional purchases, which may or may not be true. This literature is more focused on anchor institutions’ impact on the local economy; however, information on local procurement is scarce and almost non-existent.

Another source of information on anchor institutions and their impact on community economic development are reports generated by foundations or other research institutions. These reports tend to focus on anchor institutions as assets for the community, on the anchors potential impacts, and sometimes give broad advice on how the anchors can create greater economic benefits for their local communities (Harkavey and Zuckerman, 1999; Murphy, 2011; and Webber and Karlström, 2009). A 1999 report by the Brookings Institution highlights the value and potential benefits that anchor institutions can provide to their communities. Anchor institutions are portrayed as being job creators, contributing to a more experienced and educated workforce, fostering entrepreneurial spirit through the institutions’ economic needs, and attracting additional economic growth (Harkavey and Zuckerman, 1999). In 2008, the Netter Center for Community Partnerships at the University of Pennsylvania published the “Anchor Institutions Toolkit: A guide for neighborhood revitalization.” The Toolkit is divided into different sections that enable the reader to think about the goals of the anchor institutions, the tools needed to achieve those goals, the leadership and support needed from within the institutions themselves, methods for engaging communities and local governments, and strategies specific to real estate development. The toolkit also covers economic development and
economic inclusion strategies but these topics are explained in merely two pages of the 125-page document. The toolkit is largely based around the University of Pennsylvania’s achievements as an anchor institution engaged in community economic development.

Many of the reports done by non-academic journals state that “anchor institutions tend to overstate the costs and understate the benefits...” of anchor institutions as community economic developers, which leads to “…less investment than would be optimal” (Webber and Karlström, 2009, p. 4). However, many of these reports tend to overstate the benefits to the communities too, since many of their arguments involve causal relationships and provide little evidence for their claims. For example, the 1999 Brookings Institute report states that the needs for goods and services from anchor institutions foster the local entrepreneurial spirit. This may not always be the case, as anchor institutions can simply purchase from national or international companies at an equally competitive price. Additionally, it is difficult to understand who would benefit from such a claim. There are many unanswered questions to assertions like these. For example, which communities would be impacted by such activities since this is highly dependent on the ability to access loans and the populations’ entrepreneurial skills? Additionally, this thesis is concerned with how anchor institutions might favorably impact low-income communities and/or communities of color. Some of the claims stated by the literature assume that these communities have the skills and networks to tap into the anchor institutions’ resources; however, this might not be always the case.

The Initiative for a Competitive Inner City (ICIC) is a widely trusted source of information about anchor institutions. Its reports are often cited by other institutions and academics in the field. The ICIC’s written material on anchor institutions tends to highlight their role in community economic development and on the shared values of the anchor institutions and the local communities. Through the shared value approach it seeks to show how community economic development initiatives can be beneficial to anchor institutions and compensate the institution in the long-run. For example, the report highlights the role of the anchor institution as a purchaser. Its recommendation for this role is to extend programs that purchase from locally-, minority-, and women-owned enterprises. A program like this should help the anchor institution purchase from a more competitive group of suppliers that are better able to meet specific needs. The program should help build healthier business communities and improve amenities for the surrounding neighborhoods (ICIC, June 2011). Again, claims by the
ICIC tend to suggest causation between an action and the outcome without providing enough information as to how the outcome should be achieved. Many of the examples of anchor institution’s engagement in community an economic development provided by the ICIC show impressive outcomes. Nevertheless, without a point of reference or a before-and-after assessment, it is difficult to understand the real benefits to the community.

The Democracy Collaborative at the University of Maryland has done extensive research on the topic of anchor institutions. The organization’s research normally revolves around case studies of anchor institutions that engage in successful community economic development strategies. In “Leveraging Anchor Institutions for Local Job Creation and Wealth Building,” the report also focuses on the role of anchor institutions in community economic development. In this report, the Democracy Collaborative organization agrees with ICIC on the roles that anchor institutions play in the community and it presents similar examples as well. In contrast with other reports, Democracy Collaborative’s research is often based on extensive interviews with the various actors involved in a given case. Successful cases tend to be considered a success based on their ability to meet self-imposed goals, which limits the ability to assess the true impact of these programs. However, this limitation is not unique to Democracy Collaborative, as it is a limitation found in most of the literature that utilizes case studies. Unlike other reports, including many academic articles, Democracy Collaborative generally addresses the challenges and limits of anchor institutions as community economic developers (Axelroth and Dubb, 2010 and Dubb and Howard, n.d.).

2.2 Literature Review on Minority Procurement

Literature on anchor institutions does not focus enough on the anchors role in local purchasing and in minority procurement programs, which are programs developed by the institution’s purchasing departments to ensure that MBEs become part of the supply chain. Many of the well-known cases of hospitals and universities involve some type of local and minority procurement program. However, the written information on these programs is scarce; consequently, the thesis will engage with minority procurement literature to better understand how minority procurement programs function. This literature is also not extensive and the cases center on large corporations that have different incentives for engaging in minority procurement
programs. However, much of the information in this literature is relevant for anchor institutions, as it tends to focus on the challenges that MBEs face when seeking to become suppliers of large institutions.

The early literature on minority procurement focused on the significant challenges that MBEs face as suppliers, such as managerial and technical skills (Guinipero, 1980). Guinipero then attempted to identify how to develop minority procurement programs successfully. The author identified a positive correlation between the size of the purchasing firm and the amount of minority-owned firms supplying to the company (Guinipero, 1981). During the 1980s, the literature on minority procurement focused on building the case on the need for more effective procurement policies towards minority businesses (Bates, 1985 and Spratlen, 1979).

In the early 1990s, Dollinger and Daily focused on the perspective of both the corporation and the MBEs on their relationship as buyers and suppliers. In their research, corporations tended to highlight the lack of qualified MBEs to supply the goods and services needed, while MBEs tended to emphasize the difficulty in doing business with large corporations (Dollinger and Daily). Similarly, Pearson et al focuses on understanding the relationship between MBE suppliers and buyers. The authors identify topics in which there are significant disagreements between the firms and the MBEs regarding their ability to develop fruitful business relationships (Pearson, et al., 1993). Krause et al examines solely the perspective of MBEs on minority procurement programs. The study found that there tended to be a large disparity, based on the MBEs’ sizes, on how MBEs experienced minority procurement programs: larger MBEs tended to find the relationships more beneficial than the smaller firms (Krause et al., 1999).

The Carter and Jennings article takes a more positive approach and identifies the factors that have led to successful minority procurement programs with large corporations in the US. The article also identifies a shift in the purchasing managers’ views on minority procurement programs. The shift involves a more positive understanding of the role of minority purchasing initiatives on their firms (Carter and Jennings, 1999). Research by Worthington et al and Adobor and McMullen speak more broadly on the challenges that affect large corporations and MBEs when engaged in minority procurement program. The two articles attempt to provide theoretical recommendations to overcome those challenges. The most recent literature focuses on case
studies to identify "best-practices" in minority procurement programs (Edmondson et al., 2008 and Min, 2009).

The subsequent chapter will focus on the details of the minority procurement literature to identify typical challenges and recommendations from the literature to overcome those challenges.
Chapter 3: Challenges to Achieving Socially Responsible Procurement

This chapter examines the challenges to achieving socially responsible procurement from the institutional (buyer) viewpoint and from the minority-owned enterprise (seller) perspective. Whenever possible, the chapter draws from examples in the literature that have been successful in overcoming obstacles specific to minority procurement. The chapter serves as a basis for understanding possible challenges of minority-owned enterprises (MBEs) in Springfield, Massachusetts and serves as background knowledge to suggest procurement policies that may be beneficial to institutions seeking to work with MBEs. The first section focuses on the challenges institutions or large corporations encounter when striving to achieve socially responsible procurement. The second section focuses on the challenges MBEs confront when attempting to become suppliers of large institutions or corporations.

As was highlighted in the previous chapter, there is limited information on anchor institutions and their local economic development impact on their surrounding communities through procurement. A few case studies in the minority procurement literature give more detailed information on the large corporations and their strategies to diversify their supply chain. However, the literature in minority procurement is limited with most authors citing a small number of academics’ work and using similar corporations as examples of “best practices.” The literature tends to speak broadly about challenges and gives vague recommendations. For example, much of the literature states that mentor-protégé programs, where the purchaser mentors the MBE, are successful in enabling the growth of minority firms but details about the programs and strategies that work best are not available. Additionally, recommendations are given in the context of large corporations that can achieve socially responsible purchasing by finding qualified MBEs throughout the country. However, this strategy contradicts the main role that anchor institutions, according to the literature, should play: to solve the socioeconomic problems existing at the local level by bolstering the local economy through purchasing the needed supplies from MBEs. At the same time, purchasing from MBEs from places outside of their host city might be the only choice for anchor institutions if the supplies they require are not provided by the MBEs located in their city.
3.1 Institutional Challenges

3.11 Opposition to Socially Responsible Purchasing

One of the most basic and crucial challenges to achieving socially responsible procurement, and a problem often cited, is confronting general opposition to what may be viewed as preferential treatment at all levels of an institution (Adobar and McMullen, 2007; Shah and Ram, 2006; Worthington et al., 2008). Socially responsible procurement can disturb the status quo and create an organizational change that may cause discomfort in the actors involved with the institution’s procurement department (Worthington, et. al., 2008). The resistance towards change may be due to a misunderstanding of the goals and the importance given to achieve diversity in the company’s supply chain. Opposition may also come from the company’s traditional suppliers who may feel their business is threatened by the new competition or perceive that the MBEs are being privileged over other businesses (Carter and Jennings, 2000).

There are several solutions to general oppositions that are identified in the literature. A suggestion offered by the Worthington et al. article states that institutions should strive to create an internal culture that is supportive of programs established to achieve diversity in the supply chain. A company or institution can create a supportive culture by articulating the vision of the program(s). Institutions should create clear goals for each department and/or individuals’ in charge of achieving socially responsible procurement.

Shah and Ram give examples of large corporations that were able to overcome this challenge. For example, UNISYS, an information technology company, provided training and education to all employees on the importance of a socially responsible procurement program to overcome general opposition. The company also provided training and education on the process of implementing and monitoring a minority procurement program in order to achieve favorable results. JP Morgan, a leading financial service company had a different approach. The company obtained full commitment and support from top management at all levels in order to reduce opposition. Part of demonstrating total commitment was to create committees and councils to oversee the minority procurement program. JP Morgan had an executive committee in charge of measuring and monitoring the company’s progress towards achieving supplier diversity.
Additionally, JP Morgan had a supplier diversity advisory council responsible for planning and controlling the application of the minority procurement program (Shah and Ram, 2006).

3.12 Commitment from the Leadership

Obtaining commitment from the leadership of an institution seeking to achieve socially responsible procurement can be a major challenge. Overcoming this challenge is key as in many instances attaining the support and commitment from senior management can be a solution to the general opposition that may be encountered when trying to implement minority procurement programs (Adobor and McMullen, 2007; Min, 2009; and Worthington et al., 2008). According to Adobor and McMullen, the dedication and enthusiasm of senior management is critical to the success of a minority procurement program for two reasons, legitimacy and resource accessibility. Because minority procurement is sometimes seen as contrary to industry standards, such as increasing the number of suppliers to a company rather than reducing the number of suppliers, the program can often be seen as unnecessary or lacking legitimacy. Commitment from senior management can help legitimize the program and ensure that all employees react positively to the program and commit to its successful implementation. Moreover, minority procurement programs will involve the need for resources in training procurement officers and empowering employees who are in charge of implementing a successful program (Adobor and McMullen, 2007). There are no silver bullets for obtaining commitment and absolute support from an institution’s leadership. Nevertheless, studies have shown that senior management support and shared values amongst the leadership are central to implementing a successful minority procurement program (Min, 2009).

3.13 Going against Supply Chain Rationalization

Recent trends in procurement focus on streamlining the supply chain through consolidation and downsizing. Research shows that companies prefer to purchase in high volumes from few suppliers. MBEs are generally not large companies therefore supplier diversity is directly contrary to the supply chain rationalization of consolidation. Furthermore, the downsizing in buyers has a direct effect on the increase in average contract size. The increase in size of contracts is another trend that poses an obstacle to MBEs that tend to produce in smaller volume (Adobor and McMullen, et al., 2007). Adobor and McMullen suggest that solving this problem relies heavily on understanding the relationships between large corporations and the MBEs that supply them. According to the authors, the relationship between an
institution and its suppliers is strategic. Both the purchaser and the supplier tend to value long-term relationships rather than transactional relationships or pure business relationships. Long-term relationships are perceived as relationships that are founded in trust and cooperation. All these elements become important for long-term relationships. The value that corporations put on long-term relationships becomes an advantage for MBEs as this is something they can provide. However, even when a company prefers to establish a long-term relationship with its suppliers, the costs of goods and services provided should remain competitive in order for the relationship to continue and to flourish. Therefore, MBEs should continue to build their capacity to produce quality products at a competitive price to remain or become a viable supplier for anchor institutions (Adobor and McMullen, 2007).

3.14 Familiarity with Minority-Owned Enterprises

Another crucial obstacle to implementing a successful minority procurement program is the lack of understanding that potential anchor institutions have on MBEs and their competitiveness and reliability. Often procurement staff is not familiar with MBEs and much less familiar with the minority business’ ability to perform and provide goods and services with the quality that is expected (Worthington, et al., 2008). A seemingly simple solution to this problem is providing a vendor list of MBEs to all departments and staff in charge of purchasing. Additionally, institutions can attend trade shows and outreach specifically to minority owners to learn more about their businesses (Pearson, et al. 1993). Shah and Ram provide the example of UNISYS and Ford Motor Company. Both companies participated in a national and regional opportunity fair hosted by the National Minority Supplier Development Council (NMSDC) specifically to meet MBEs. They also presented at seminars and conferences where they met other MBEs and talked to their representatives about supplying to large institutions. Moreover, they organized in-house business fairs where they got to share their expertise and meet potential suppliers (Shah and Ram, 2006). Other companies have utilized referrals to minority-owned businesses from other large corporations (Min, 2009). All these different approaches allow large corporations to become familiar with the minority-owned businesses.

3.15 The Need to Meet Quotas

While laws requiring firms to contract MBEs and established goals from corporate leaders have helped create business opportunities for MBEs, the need to meet quotas has harmed relationships between large corporations and MBEs. A study on corporations and MBEs perception on socially responsible
procurement shows that minority businesses perceive that corporations are more invested in meeting MBE quotas rather than establishing long-term relationships and helping MBEs grow. MBEs felt that buyers were not committed to diversifying their supply chain. Many MBEs felt used in order to meet mandated federal government quotas or as a means to improve the buyer's corporate image. As indication of the sentiment that buyers are only interested in improving quotas, MBEs indicated that large corporations tend to grant small-volume or non-essential contract to MBEs, which further hampers their ability to grow (Pearson, et al., 1993).

Although there is no direct solution to solving this problem in the literature, the case study of Caterpillar, a manufacturer of construction and mining equipment, written by Hokey Min, offers a self-monitoring approach for buyers, which leads to a more fruitful and meaningful outcome in minority procurement programs. Caterpillar set SMART goals or Specific, Measureable, Action-Oriented, Realistic, and Time and Resources-constrained goals. At the beginning of each fiscal year, Caterpillar sets goals to increase its purchases among MBEs. To set these goals management team reviewed each of the goods or services it purchased and established how it could improve its outreach to MBEs on product-by-product basis. As an indicator of its performance, the company used what the staff called a Goal Development Matrix (see table 1). In the matrix Caterpillar kept track of the total dollar amount of purchases, the current dollar amount of purchases for MBEs, the percentage of total dollars spent going to MBEs, and it measured the opportunity of purchasing from MBEs in dollar amounts and percentages. In the same matrix the firm stated its goal and identified the gap between its goal and the current amount being purchased from MBEs. Using the matrix as a road map for improvement, Caterpillar then chose to focus on the commodities with a high “opportunity percentage” in order to increase its overall minority procurement goals. For example, “100 percent of the [MBE] opportunity for food services indicates that all current food service requirements can be provided by an [MBE] supplier thus Caterpillar has an opportunity to increase its purchases in this area” (Min, 2009: p. 169).

As the commitment to buy from MBEs increases within big corporations, the self-monitoring approach will be key to understand through which areas big corporations could have the most impact in facilitating the growth and development of MBEs.
### Table 1: An example of the Goal Development Matrix

<table>
<thead>
<tr>
<th>Commodity or Service</th>
<th>Total purchases (in $ million)</th>
<th>Current MBE purchases (in $ million)</th>
<th>MBE purchase opportunity (in $ million)</th>
<th>MBE opportunity (%)</th>
<th>MBE purchase goal (in $ million)</th>
<th>MBE purchase goal (%)</th>
<th>Gap between MBE goal and the current purchase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolt</td>
<td>50</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Fastener</td>
<td>30</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cable</td>
<td>10</td>
<td>0.5</td>
<td>5.0</td>
<td>2</td>
<td>20</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Pipe</td>
<td>8</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>25</td>
<td>0.5</td>
<td>6.3</td>
</tr>
<tr>
<td>Metal</td>
<td>6</td>
<td>2.0</td>
<td>33.0</td>
<td>2</td>
<td>33</td>
<td>2</td>
<td>33</td>
</tr>
<tr>
<td>Food Service</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>100</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>Janitorial</td>
<td>2</td>
<td>0.5</td>
<td>25.0</td>
<td>1</td>
<td>50</td>
<td>0.7</td>
<td>35</td>
</tr>
<tr>
<td>Total</td>
<td>110</td>
<td>3.0</td>
<td>2.7</td>
<td>11</td>
<td>10</td>
<td>5.2</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Source: Min, Hokey, 2009: p. 169

### 3.2 Challenges for Minority Business Enterprises

#### 3.2.1 Competitive Disadvantages

The greatest challenge for MBEs is the lack of physical and human capital to produce at a scale that is price-competitive and will help the businesses compete with large vendors (Krause, et al., 1999; Pearson, et al., 1994; Wallace, 1999; Worthington, et al., 2008). There are many factors that affect MBEs ability to produce goods and services that are price-competitive and at a level of quantity that anchor institutions like hospitals seek. The first is the lack of direct access to products or materials to make the goods requested from MBEs. Challenges with obtaining raw materials at the appropriate volume and price can raise the overhead costs of minority businesses significantly. The second challenge is that most MBEs do not have the capital for long-term investments and it’s very likely that these enterprises need to depend on timely payments for the day-to-day operations of their business. This makes it all the more difficult to work with large corporations, institutions, or government agencies that often wait thirty to forty-five days to make their payment (Wallace, 1999). Challenges like these, prevent many of these businesses from securing contracts with large firms because they don’t have the resources, material, or employees to produce at the volume that is often required from the buyer (Krause, et al., 1999; Wallace, 1999). Furthermore, MBEs are often narrowly focused on selling particular goods or a small range of goods and services in very few industries, which becomes an impediment to exploit all opportunities to supply to large firms. Finally, MBEs lack the
specialist skills to cater to large vendors with specific needs (Worthington, et al., 2008; Shah and Ram, 2006).

To help MBEs with one of their greatest challenges, the literature offers a broad set of recommendations to improve their internal capacity and quality of products. One of the recommendations is for MBEs to build operational ability. This includes improving the organizational structure of the enterprise, improving upon decision-making skills, improving management, increasing the use of technology, refining marketing skills, and increasing human resources. The second recommendation involves understanding the large corporations customers, in order for the MBE to build client-specific skills. That is, MBEs should be able to deliver their product or services in a way that caters to its customers—the corporations. MBEs’ understanding of their client’s specific needs are built through constant interactions with the client and active engagement in the client’s needs. Through this process, MBEs become familiar with their buyer’s supply chain, which could be beneficial for exploiting opportunities in the future (Adobor and McMullen, 2007). Furthermore, becoming familiar with the buyer’s needs helps MBEs become more cost-effective and price-competitive—leading to greater profit margins for both the buyer and the MBEs (Adobor and McMullen, et al., 2007).

In their case studies, Shah and Ram demonstrate how large buyers can help MBEs build the capacities aforementioned. For example UNISYS, developed a mentor-protégé program and mentored MBEs to help them obtain contracting and subcontracting projects with UNISYS and other firms. MBEs received training to develop bids for projects with the U.S. Department of Defense and NASA. Ford Company offered a similar mentoring program. The goal of the program was to increase technical abilities in the manufacturing industry and the financial abilities of MBEs (Shah and Ram, 2006).

3.22 Inability to Attract Qualified Managers and Other Professionals

Another major challenge that MBEs face is the inability to attract managers and other professionals that are highly qualified (Krause, et al., 1999). The literature does not explicitly explain why MBEs may face these challenges at a greater rate than other businesses. However, it can be conjectured that MBEs do not have the income needed to hire at competitive wages. Pearson, et al. explain that the most effective training to build managerial capacity could come from the large businesses that are purchasing from the MBEs. Based on this assumption, the authors emphasize how corporations using their resources can help businesses become more
competitive (Pearson, et al., 1994). One way that corporations could help develop the capacity of MBEs is by having high expectations of the enterprise. For example, companies could increase the volume at which they purchase from MBEs at an annual basis to push and induce the enterprise to grow. The buyer and the supplier should establish together a realistic goal and a concrete action plan detailing how this new goal will be achieve. Through this process, the buyer could help further develop the managerial skills already existing in the MBE at a pace that is healthy for its economic success. At the same time, the buyer’s needs are fulfilled.

3.23 Insufficient Knowledge of the Procurement System

An often-cited challenge is the MBEs’ lack of knowledge of the large suppliers’ procurement preferences and processes (Krause, et al., 1999; Pearson, et al., 1994; Wallace, et al., 1999). Minority businesses have often had difficulty finding their way through the bureaucracy of large corporate buyers (Pearson, et al., 1994). MBEs tend to have a challenging time obtaining information about the bidding process. Additionally, MBEs find that initial opportunities to communicate with large firms are difficult to obtain, and MBEs find advertising their products to large firms equally difficult (Krause, et al., 1999). One way that large corporations have been able to help minority businesses solve this challenge is through outreach and through actively publicizing information about purchasing process to MBEs. For example, JP Morgan Chase put on in-house trade shows, seminars, and information sessions specifically to MBEs. The events were specifically customized for the MBE audience and shared knowledge on procurement strategies (Adobor and McMullen, et al., 2007).

3.24 Breaking the “Old-boys” Network

More often than not, MBEs have a difficult time obtaining the attention of procurement specialist or those in charge of purchasing within large corporations. This is due to the existence of long-term established relationships that corporations have with current suppliers—relationships that are part of a status quo that have historically excluded MBEs (Shah and Ram, 2006). Purchasing is often not solely restricted to the procurement department, but also done by other staff within the buyer’s company whom may have built a five-, ten-, or twenty-year relationship with suppliers. For these reasons, minority procurement programs are often met with opposition from staff. Eliminating the internal resistance to diversity the supply change and
allow MBEs to break into the established procurement process can be very difficult for any large firm (Shah and Ram, 2006).

The literature mentions a few methods that corporations have used to help MBEs break into the existing procurement networks. The first is to educate staff about the benefits of supplier diversity and purchasing from MBEs (Shah and Ram, 2006). Identifying the “business case” for establishing minority procurement programs becomes very important. However, the “business case” has to be about more than being a “good” company. In fact, the benefits of establishing minority procurement programs need to be link to maintaining or increasing the competitive advantage of both the buyer and the supplier (Worthington, et al., 2008). Mentor-protégé programs like the one mentioned previously can also help MBEs give a competitive edge in building relationships with staff in charge of purchasing. Intermediary organizations like the National Minority Supplier Development Council can be the liaison between MBEs and large corporations, helping MBEs to break the “old boys” network (Adobor and McMullen, 2007).

3.25 Uneven Power Relationship with Buyer

It is important to understand that a characteristic of the MBE and large corporation relationship is the uneven distribution of power (Adobor and McMullen, et al., 2007; Krause, et al., 1999). MBEs are small and are the unequal partners of large corporations. The differences in power often make it difficult for MBEs to negotiate contracts that are favorable to both parties (Adobor and McMullen, 2007). As Adobor and McMullen mention, research by Michael Porter in the 1980s demonstrated that only when there are few substitutes for the good or services that small suppliers provide, then, these small firms can become powerful in the relationship. In turn, the buyer corporation becomes powerful when it purchases a large percentage of the MBEs goods or services. Addressing uneven power relationships is important because as Social Exchange Theory states perceived fairness is important for performance. According to this logic, MBEs will continue to deliver timely and quality products as long as they see the relationship as being beneficial, fair, and equitable. In order to gain the trust and commitment needed for good performance, corporations can help MBEs develop their operational, managerial, and/or other skills. Although this may seem like added costs of doing business for corporations, the benefits of providing that mentorship accrue in the form of commitment, cooperation, and enhanced performance (Adobor and McMullen, 2007).
3.26 Industry Shifts to Large Contracts

Perhaps one of the greatest challenges to MBEs is the overall shift in procurement to purchase in large volume through the least amount of suppliers as possible. Minority procurement programs that diversify the supply chains are contrary to the trends seen in procurement, which is to streamline the process and downsize the supply base. The reliance on a few good suppliers by large corporations further hurts MBEs and their ability to compete for contracts (Adobor and McMullen, 2007). Although the minority procurement literature does not offer examples to overcoming this challenge, many institutions across the country have found methods to help MBEs. The next chapter, on case studies about the procurement programs of anchor institutions shows that large institutions can break down large contracts to sizes that help MBEs overcome challenges of producing at great volumes.

3.3 Achieving Socially Responsible Procurement

Despite the challenges that the minority procurement literature presents, such as providing limited information on anchor institutions’ procurement programs, as well as limited examples in the minority procurement literature and lacking of specific recommendations to overcome existing challenges, the literature allows us to understand the key challenges that both buyers and suppliers involved in minority procurement programs face. This is a crucial starting point, since understanding the challenges that MBEs face will help us better design, plan, and implement minority procurement programs. For example, anchor institutions may expect MBEs to simply reach out to them in order to become vendors. However, as was learned under the challenge of “Breaking the ‘Old-boys’ Network,” opposition from staff to minority procurement programs can be a difficult obstacle for MBEs to overcome. The buyer organization’s commitment to including MBEs in purchasing practices is also crucial. Awareness of these challenges will help those leaders who are seeking to diversify their supply chain to be able to develop preemptive plans that can address problems or communications gaps that might exist between the buyer and the MBE vendors.

The minority procurement literature demonstrates that companies who respond to challenges through action create the most successful minority purchasing programs. For example, it is important that any institution establishing a minority procurement program develops a strong business case and creates clear expectations for the department of individuals...
responsible for achieving supplier diversity. Those companies that took direct action to achieve internal support, such as providing training and education to all employees performed the best. Those companies also actively sought MBEs by attending trade events as well as developing and providing MBE vendor lists for their employees. Companies like Caterpillar developed an evaluation system that measures their goals and the company’s potential to further impact MBEs. Other companies engaged in mentor-protégé programs specifically to work through some of the internal problems that could be affecting the MBEs growth and development.

To implement a successful minority procurement program, it is important to part from the idea that both, the buyers (anchor institutions) and the suppliers (MBEs), will have challenges of their own but those challenges are not mutually exclusive and they affect one another. In planning and implementing socially responsible procurement programs, it can be extremely easy to focus on business development and other challenges that MBEs face and ignore the institutional challenges that come with implementing minority procurement programs. Different plans can be set in place to help MBEs overcome disadvantages in price, competitiveness, and other challenges like limited knowledge on procurement process. Nevertheless, these plans will have a limited effect on increasing anchor institutions ability to outreach to MBEs, as long as institutional challenges, such as internal opposition to minority procurement programs are overlooked. Educational programs, training, and new strategies to engage MBEs need to be developed within the potential anchor institution if minority procurement programs might have a chance to flourish. Lastly, when drawing lessons from the minority procurement literature, it is important to keep in mind that contrary to anchor institutions, the firms studied in the literature are not place-based and can seek MBEs located in any part of the country to achieve supplier diversity.
Chapter 4: Anchor Institutions and Minority Procurement Case Studies

This chapter will cover two case studies of anchor institutions committing to minority procurement initiatives in Philadelphia and Cleveland. Each case study starts with an overview of the anchor institution and the social, economic, and spatial inequalities of the institutions’ surrounding communities at the time when the redevelopment project or minority procurement program begins. Then there is an overview of the broad community economic development project through which minority procurement is embedded. From there, each case study will describe each anchor institutions’ minority procurement program. In addition to the case studies, the chapter describes the Henry Ford Hospital’s minority procurement program in Detroit to highlight the strategies that enable the most successful supplier diversity outcomes. The chapter ends with a section on the lessons learned about minority procurement. These lessons are presented around similar themes to allow for comparisons.

The reader should be aware of the shortcomings of the case studies. First, there is limited written work on “best practices” or simple case studies on anchor institutions and minority procurement, which makes second hand research difficult. Secondly, few people from the chosen anchor institutions were available for interviews; some were no longer working at the institutions. Lastly, the only tool available to measure the anchor institutions’ impact provided in the literature is whether the institution met the goals it set for itself. Understanding the meaning of these goals implies understanding the business environment among MBEs of the anchor institutions’ city or region. Unfortunately, no anchor institution is evaluating its minority procurement program or impact in such a way.

Given that these anchor institutions are in cities with similar social and economic environments as Springfield, Massachusetts, or were when the institutions decided to engage in community and/or economic development, these case studies serve to give a better understanding of what strategies could be used by anchor institutions like Baystate Medical Center to support and help the growth of Latino-owned businesses in the North End neighborhood and Springfield.
4.1 University of Pennsylvania Case Study (Philadelphia, Pennsylvania)

4.11 Background on Penn and the Surrounding Communities (1980’s & 1990’s)

The University of Pennsylvania (Penn) is located in West Philadelphia in an inner-city neighborhood known as University City. Since the 18th century, Penn has been an Ivy League university that admits highly-accomplished students from various regions of the United States and the world (Strom, 2005). As of 2001, Penn had a total of 24,832 students enrolled and employed over 16,500 faculty and staff. During the 2011 Fiscal Year the University’s total budget was $6.007 billion, including a payroll of $3.266 billion (Penn website, 2012). Penn’s economic impact on Philadelphia is substantial, as it is the largest private employer in the City of Philadelphia (Kromer and Kerman, 2005).

In the late 1980’s, Penn began to experience the consequences of the economic deterioration of the communities surrounding its campus. However, the economic degradation has its history in deindustrialization, a nation-wide phenomenon that led to the continual weakening of Philadelphia’s economy. The weak economy led to disinvestment and a drop in the City’s population, which became the direct cause of a weak housing market. Inner-city neighborhoods like University City were severely affected by the decline in the housing market, which was manifested in an increase in housing vacancies and abandonment. Local retailers also suffered since a drop in the population and weak economy meant less income for purchases (Kromer and Kerman, 2005).

The neighborhoods surrounding Penn also suffered from many of the social and economic ills of inner cities across the country. The population in the five census districts surrounding the university was composed of 42.1% white, 46.2% African-American, and 11.2% Asian, including a significant population of Asian and African immigrants. The median family income was $27,657 and 15.7% of all families lived below the poverty level (Kromer and Kerman, 2005). Social problems like crime and low-performing schools along with spatial and economic problems like vacant housing and failing business corridors became difficult challenges to overcome (Kromer and Kerman, 2005). These serious and chronic problems were not spread evenly across the city. Together, urban renewal and the socioeconomic challenges of the city, aided the uneven development of the City. Deteriorated and vacant housing were more
prominent the Walnut Hill and Cedar Park neighborhoods. Demolition of vacant housing led to the unimproved vacant lots in these communities. During the urban renewal era of the 1960s, Penn’s construction and development created pronounced divisions between the campus and its surrounding communities. On the north side of the campus, Penn constructed office and residential buildings in such a way that they discouraged interaction between the campus and the communities by blocking off streets that previously connected the neighborhoods with the campus. Additionally, 40th Street, a street that runs north to south, became an unwelcoming zone for both the campus community and the surrounding neighborhoods. Residents perceived the street as a buffer zone that separated the city from the Penn’s campus (Kromer and Kerman, 2005). Penn was not oblivious to the challenges of its surrounding neighborhoods and became involved in the development of these communities and the improvement of their physical environment as early as the 1980’s.

4.12 Brief History of Penn’s Involvement in West Philadelphia

During the early 1980’s, Penn’s academic reputation began to rise, particularly the academic environments involved in research and development. The university began to secure large amounts of funding for its faculty researchers and was receiving international attention (Strom, 2005). As Penn began to attract more students and professors from different parts of the U.S. and the world, inevitably, the attention was no longer solely on the university but on the livability of its surrounding neighborhoods. At this time, the university leadership begins to realize that the competitiveness of Penn and its reputation as a respected global academic institution depended not solely on its academic rigor and research facilities, but also on the appeal of its surrounding neighborhood (Strom, 2005). President Sheldon Hackney began to build connections with local organizations and worked to strengthen Penn’s relationship to the West Philadelphia community. During this decade, Penn’s relationship to its surrounding community can be best described as one of educational outreach. Programs used to strengthen the institution to its neighbors were focused on improving the local public schools (Axelroth and Dubb, 2010).

During the 1990s Penn became much more invested in its surrounding communities putting more human and capital resources to help revitalize neighborhoods. In 1992, the university established the Center for Community Partnerships with the purpose of institutionalizing Penn’s work in the community. During this time, Penn also began its first
efforts to promote socially responsible procurement, meaning it began to award contracts to local and minority-owned businesses. The new leadership, spearheaded by President Judith Rodin, worked with the surrounding communities on the following community-wide concerns: public safety, housing, retail development, business development through procurement, and public school partnerships (Axelroth and Dubb, 2010).

There are many reasons for Penn’s increased efforts in community involvement and revitalization. However, there are two influential reasons that compelled Penn’s comprehensive and intensive involvement in the revitalization of West Philadelphia. The first is that the University realized that the worsening socioeconomic conditions of the surrounding neighborhoods would become a threat to the institutional sustainability because it could deter potential high-achieving students and renowned faculty from considering Penn and Philadelphia as a place to live and work (Kromer and Kerman, 2005). The second was the tragic murder of a member of the Penn community in 1996. Following the murder, other highly publicized events involving Penn students as victims of crime led to an outcry from students’ parents demanding that the university and the City improve neighborhoods and the safety of the students (Kromer and Kerman, 2005). As Axelroth and Dubb explain, “tragedy has shaped both the size and direction of [the university’s] engagement and efforts.” “In the immediate crisis aftermath…efforts have involved major resource commitments, not only in terms of budget, but also in leadership energy and administrative support” (Axelroth and Dubb, 2010: p. 70).

4.1.3 The University and Its Revitalization and Economic Development Plan

When Penn embarked on a development plan for West Philadelphia, it relied on existing revitalization plans due to the relative swiftness with which the public demanded that the university change the security problems in its surrounding neighborhoods. The West Philadelphia Initiative (WPI), an urban revitalization plan, covered five broad goals—improve the neighborhood services and capacity, provide high-quality and diverse housing choices, revive commercial activity, accelerate economic development, and improve the quality of local public schools (Kromer and Kerman, 2005).

Penn chose not to engage communities in the formation of the WPI but it sought regular feedback from local civic organizations, elected leaders, and other community leaders. Penn decided to consult communities on specific problems that arose throughout the process rather than to try to secure approval for the development proposal from the community. The latter was
thought to delay the revitalization process significantly (Kromer and Kerman, 2005). Penn did communicate regularly with community residents and other stakeholders. Leadership from the university met regularly with community organizations and government agencies, and Penn staff was readily available to organize meetings to address problems and concerns as they arose. Among Penn’s communication strategies were regular communication with public officials, including local politicians and representatives at the state and national levels, as well as monthly meetings with neighborhood organizations and semi-annual meetings with area-wide coalitions like the NAACP, Urban League, and the Black Clergy of Philadelphia (Kromer and Kerman, 2005).

To implement the WPI, Penn decided to administer the initiative itself rather than use an outside partnership because the University recognized that only Penn had the political and institutional power to succeed with the implementation within a short period of time. High ranking leadership, such as the trustees and the president, took full responsibility for the initiative. Unlike previous project with the surrounding community, the WPI was not an academic project; rather, it became a top development project for the University. Penn delegated the new responsibilities created by the WPI to all major administrative departments to ensure that the initiative would be implemented as planned (Kromer and Kerman, 2005).

The delegation of responsibilities was divided into four categories—policy, administration, operations, and academic partner. The University’s Board of Trustees formed the Standing Committee on Neighborhood Initiative, a committee that would oversee the implementation of the WPI and address all policy issues. The administration of the initiative was managed by the President of the University and two Vice Presidents who conducted community relations and supervised the implementation of the WPI. Under the supervision of the Executive Vice President were various administration offices in charge of the operations of the WPI. The Office of Real Estate along with the Office of Facilities Administration consolidated and became the Office of Facilities and Real Estate Services to amalgamate all responsibilities having to do with real estate acquisition, development, management, and maintenance of properties. The staff at the Division of Public Safety coordinated with the Philadelphia Police Department to establish security and patrol the University City District. The Vice President for Business Services designed and administered a socially responsible procurement program that targeted local and minority-owned businesses. The Office of Community Housing focused its attention on housing
need for the surrounding neighborhoods and managed homeownership incentive programs for university staff. Lastly, the Graduate School of Education was the academic partner designing Penn assisted school programs and support services for local schools (Kromer and Kerman, 2005).

4.14 The University’s Procurement Programs

Penn’s efforts to help the local economy had three broad goals: 1) to increase the University’s spending with locally-owned (West Philadelphia businesses) and minority-owned businesses; 2) to increase the employment of local and minority residents on University construction projects; 3) to encourage major Penn suppliers to locate their business activities within Philadelphia. To meet these goals, the University engaged in two types of procurement initiatives. The first was the Buy West Philadelphia Program (BWP), which makes purchasing from locally-, female-, and minority-owned businesses a priority. The second was the Economic Opportunity Plan, which guided the contracting of minority-owned businesses and employment of the local and minority labor force in construction projects.

Buy West Philadelphia Program

BWP began in 1986; however, at its inception, the program did not have the success it achieved in later years. During the mid-80’s, the program worked towards helping small businesses increase the volume of their sales to Penn. A mechanism of this aid was to require some national suppliers to the university to partner with local vendors. Despite the program’s objectives, Penn failed to transmit the importance and priority of contracting with local and minority-owned enterprises (MBEs) to all of its operating departments. Through the 1980s, minority businesses had a lot of trouble competing with large vendors (Strom, 2005). Once the West Philadelphia Initiative was underway, the BWP obtained the attention and commitment needed from the university to achieve substantial results. The program was reinvigorated and now directed by the University’s Purchasing Service Department (Kromer and Kerman, 2005).

Although further research is needed to know Penn’s original procurement goals and to understand the actual economic impact on local purchasing and purchasing from minority-owned businesses, Penn’s dollars spent in Philadelphia have increased dramatically since the 1980’s. When Penn began the BWP, the university was purchasing $800,000 locally. By 2010, Penn
was purchasing $95 million in goods and services from West and Southwest Philadelphia. (Axelroth and Dubb, 2010).

Institutional changes needed to happen for the successful implementation of the procurement program. Penn decided to create a new position in its procurement department, the Director of Minority Business Development overseeing the increase of minority-owned businesses in the university’s supply chain. However, according to interviews done by Axelroth and Dubb with Penn staff, there was often tension and conflict between the Minority Business Development position and other sourcing managers. When the former Director left the position, the university decided to close the position. Instead, Penn made every sourcing manager responsible for diversifying its supply chain. Sourcing managers are rewarded for meeting the procurement department’s goals of allocating a certain percentage of their purchases to local and minority-owned businesses (Axelroth and Dubb, 2010). Beyond changing the work culture of the university’s procurement department, it was necessary to encourage other departments to purchase from local and minority-owned businesses. Part of enabling other departments to do so was creating a definition of MBEs and publishing this definition and other classifications in the program materials of each department (Kromer and Kerman, 2005).

Other strategies Penn used to create a socially responsible supply chain, involved outreach and support programs for minority businesses. Penn identified four staff members as specialists in broad categories of goods and services that the University purchases. The categories were computing, athletic, and research commodities and services. The four staff served as the initial contact for businesses that had never supplied to Penn and interested in becoming vendors for the University. The local or minority-owned businesses had a first interview with the procurement specialist. Subsequently, they received information about Penn’s procurement process and requirements and then they were allowed access to customers within the University’s organizational structure (Kromer and Kerman, 2005).

The University began to notice that some suppliers felt intimidated by the University’s setting when they walked into the procurement office and met with Penn representatives. In order to overcome this challenge, Penn opted for partnering with the Pennsylvania Minority Business Development Council and the Minority Business Enterprise Center, organizations dedicated to helping minority-owned businesses grow. The organizations were in charge of hosting events for 20 to 25 certified MBEs. Events to which Penn staff attended and conducted
interviews in a space that was less intimidating than the Penn procurement office. According to Penn staff, the vendors felt comfortable at these events and it made the meeting much more productive (Axelroth and Dubb, 2010).

Beyond outreach, Penn began the Supplier Mentoring Program, which helped MBEs develop the skills needed to be successful suppliers to institutions like Penn. Penn is a large university with a decentralized procurement structure where most purchases are done electronically. Many suppliers were not familiar with Penn’s system, which made it all the more difficult to perform to the University’s expectations. The program served to familiarize MBEs with complex purchasing systems, particularly Penn’s. Additionally, the Wharton Small Business Development Center, from Penn’s business school, advised potential suppliers with strategic planning, resource management, marketing, logistics and inventory management, and emerging purchasing technologies (Kromer and Kerman, 2005).

To achieve a diverse supply chain, Penn had to continually demonstrate its commitment to MBEs and to ensure that socially responsible procurement became part of the University’s culture. To demonstrate commitment, the University provided technical assistance to MBEs so that these small contractors could compete effectively for projects. To change the University’s purchasing culture to reflect socially responsible procurement, Penn established a new university-wide purchasing policy that could be applied to all departments. The policy acknowledged and meant to deal with the obstacles to sustain socially responsible procurement. Penn also monitored its performance in addressing those obstacles and diversifying its supply chain (Kromer and Kerman, 2005).

Economic Opportunity Plan

In 2000, Penn developed the Economic Opportunity Plan (EOP) to serve as a guide for contracting and employment for all of their construction Projects. To develop, implement, and monitor the EOP, the University hired Greater Philadelphia Urban Affairs Coalition (GPUAC), a consultant and expert on diversity issues. The GPUAC, the University’s General Counsel, the Office of Affirmative Action, and Facilities and Real Estate Services and Purchasing Services worked together to draft the Plan. The University intended the EOP to be the blueprint of a comprehensive and systematic method to ensure a socially responsible contracting in all of Penn’s projects. The Plan set realistic goals for the number of contractors that reflected the market conditions of the construction industry and the availability of MBEs and skilled
community residents. Each construction project had its own goals. Details of the Plan demonstrated how Penn was very specific about the impact of its construction projects and shared responsibility for meeting those goals. The EOP applied to all Penn construction projects which costs were above $5 million. The Plan was specific about its goals in order to ensure the participation of local businesses, MBEs and residents in each of the projects. These goals became part of the contractual agreement with construction firms and Penn. In the contract, Penn was allowed to withhold payments if the company did not comply with the goals (Kromer and Kerman, 2005).

Penn, like many other anchor institutions, was not only constrained by their own institutional biases in creating a diverse supply chain but also constrained by the availability and capacity of the minority-owned construction enterprises. Many minority enterprises lack access to capital and insurance coverage to provide services to large-scale projects. In order to overcome these challenges, Penn helped establish partnerships between minority-owned businesses and established businesses owned by the majority to cover the insurance and capital needs. The established construction firms subcontracted MBEs for smaller projects within the large construction project and in some instances the established firms and the minority-owned firms became joint ventures (Kromer and Kerman, 2005).

To support construction companies in their ability to include MBEs and minority residents in the projects, Penn created a list of qualified subcontractors in building trades. The University also required contractors to request bids from this list. To enable MBEs and minority residents to work in the construction projects, Penn implemented and financially supported training programs for both. Penn’s procurement staff provided technical support in business operations and management minority-owned construction firms. Additionally, Penn financially supported pre-apprentice training programs for individuals interested in working in construction (Kromer and Kerman, 2005). Although Penn’s outreach to MBEs is known, further research is needed to understand the terms on which MBEs were able to negotiate their role and compensation in the construction projects.

Monitoring also became an important component to ensure MBEs and minority resident participation in Penn’s construction projects. Penn formed the Advisory Committee on Economic Inclusion to monitor the contractors’ performance on including MBEs and a minority labor force to monitor contractor performance. This Committee included a number of
constituents, including community leaders, clergy, elected officials, contractors as well as University representatives, such as the Vice President, the Director of Community Relations, and representatives from Penn departments in charge of the operations of the West Philadelphia Initiative (Kromer and Kerman, 2005). In addition to the Committee, GPUAC, the consulting firm in charge of implementing the EOP was also in charge of monitoring construction firms. Whereas the Committee ensured the large goals were met, GPUAC monitored contractors at the micro level. GPUAC confirmed that contractors were meeting goals through reporting methods that included regular job site visits and auditing the companies’ payroll records (Kromer and Kerman, 2005).

Outcomes of the EOP vary by project but according to the literature, most of Penn’s projects exceeded expectations and all projects met the required goals for economic inclusion of historically underrepresented firms. For example, the Sansom Common construction project, which was a 300,000 square foot retail and hotel development, highlighted in the case study by authors Kromer and Kermen, reports large dollar allocations to minority businesses and a large number of minority employees hired to work on the project. Over $43 million went to minority- and women-owned businesses upon the completion of the project. A total of 570 minorities, 45 women, and 265 Philadelphia residents were hired to work on the construction project. Moreover, nearly half of the procurement dollars to purchase furniture for the building went to minority- and women-owned business and more than half of the job positions needed for the building to function went to West Philadelphia residents (Kromer and Kerman, 2005).

4.2 University Hospitals Case Study (Cleveland, Ohio)

4.21 Background on Cleveland, University Circle, and University Hospitals

University Hospital (UH) is located in the University Circle neighborhood of Cleveland, Ohio. Similar to other industrial cities, the 1960s in Cleveland were marked by the perils of deindustrialization. The loss of jobs during this decade decreased Cleveland’s populations substantially. Other factors contributed to the depopulation of the City, including white-flight as a result of public school desegregation. The decline in population has continued until today (Keating, 2007). Most recently, Cleveland is estimated to have a population of approximately 397,000 individuals (US Census, 2010).
Since the 1960s, the city has tried to recuperate from the effects of deindustrialization and depopulation by reinventing itself and its base economy to (Keating, 2007). For example, in the late 1960s Cleveland underwent an urban renewal program meant to reinvigorate the city. Part of the redevelopment process entailed constructing retail space, office space, luxury apartments, and other development projects. However, few of these projects were successful, which left Cleveland with a number of vacant land and buildings. The 1990s were also a decade of heavy development, but with little economic development to accompany the investment. Through the institution of taxes on alcohol and cigarettes, the City was able to partially fund the building of sports stadiums in an effort to revitalize Cleveland’s downtown area. Other major development efforts in transportation, housing, and public spaces were planned in the downtown area of the City. Despite major effort to reinvigorate the city through development projects, Cleveland continued to suffer the challenges associated with deindustrialization, such a weak economy, an aging infrastructure, “brownfield” sites, and undeveloped property (Keating, 2007).

University Circle, the neighborhood that hosts UH, faces similar socioeconomic problems faced by the city of Cleveland. The neighborhood is home to 43,000 individuals, mostly African-Americans, and the neighborhood’s median income is $18,500 (The Economist, 2010). The median income for this neighborhood falls far below the poverty rate for a typical family of four. The neighborhood is also notorious for having to deal with drug related problems, crime, and unemployment. Most recently, a wave of foreclosures has also threatened the community’s economic health (The Economist, 2010). Despite the challenges with urban decay, poverty, and crime, University Circle is home to some of the City’s most valued cultural, educational, and public institutions. Most of these institutions were built during the height of Cleveland’s industrial era. The Cleveland Museum of Art, Severance Hall, Case Western Reserve University, Cleveland Clinic, and University Hospitals are some of the cherished anchor institutions (University Circle, 1997).

University Hospitals was founded in 1925 by Dr. Robert H. Bishop of the Western Reserve Medical School and the industrialist and philanthropist Samuel Mather. UH is a nonprofit entity and one of the leading academic medical centers in the country (University Circle, 1997). UH employs over 4,000 physicians, has 1,700 registered beds, sees 53,101 surgical cases per year, and serves 62,987 patients per year. According to its website, UH is an “award-winning leader in health care.” In the past seven years, it has won numerous awards,
including Best Doctors of America, DiversityInc’s Top Hospital Systems in the world, and appears at the top of numerous top ranking lists published by various institutions (UH Awards and Recognition).

4.22 Overview of Vision 2010

Vision 2010 involved the construction of five new health care facilities over a period of 5 years and $1.2 billion investment (Vision 2010, 2008). The project included renovation and expansion projects, as well as a large parking garage (Owens, 2010). A recent 2011 UH report states the project’s impressive impact on Northeast Ohio’s economy. A total of $396 million of the Vision 2010 project was spent in Northeast Ohio. Additionally, 90% of all spending stayed within the region. Moreover, the project created 5,200 direct and secondary jobs and over $500 million went to salaries, wages, and benefits (UH Report on Diversity, 2011). The hospital’s impact on the local economy far exceeds an estimate from an economic impact study completed in 2008, which stated that the project would create 1,200 hospital-based jobs and over $95 million in salaries, wages, and benefits (UH Report on Diversity, 2011).

4.23 University Hospitals’ Minority Procurement Initiatives

As previously stated in this chapter, many of the details of the case study cannot be disclosed in effort to adhere to an informant’s request for information to remain confidential. Whenever possible, broad statements will be supported by supplemental documents. Additionally, it is unknown what motivate UH to undertake minority procurement initiatives.

Minority Procurement through Construction Projects

A project agreement document involving the UH, contractors, and the City of Cleveland demonstrates the deliberate action from the three parties to include female-, minority-, and locally-owned businesses in the construction projects. The agreement states, “all contractors shall voluntarily participate in the City’s Contractors Assistance Program by placing the highest priority on the creation of contracting opportunities for minority, female, and local-small business enterprises in the City’s business community” (PLA, 2007). The statement demonstrates that minority procurement was indeed a priority as it was embedded into the contract agreement with UH and contractors. It also obliges all parties involved to act in more than good faith and follow through with concrete actions.
Furthermore, “placing the highest priority” also involved purposeful actions from contractor that were also stated in the agreement. Construction companies were required to submit the number of minority, female and local enterprises that were utilize for each project. The agreement also required UH and contractors to include specifications as to how to target minority, female, and local business in other contracts and documents. Targeting these businesses could be done through contracting or subcontracting. Additionally, the agreement required large contractors to be part of a mentor-protégé program. Contractors were required to work with a historically disadvantage business during the duration of the construction project either as a joint venture or as a subcontractor. The large construction companies or the mentor were required to provide assistance in bidding as well as financial and technical assistance. Companies could choose with which minority business to work. In the case that the company could not find a protégé business to work with, the City’s Office of Equal Opportunity would help with finding a certified business (PLA, 2007). The joint ventures and mentor-protégé programs were helpful to minority business for multiple factors: 1) they helped the MBEs gain experience working in large projects; 2) they enabled businesses to be contracted for large project without the obstacle of finding the credit, insurance, and union dues and pension payments needed for such projects.

The agreement is unique in that it involved not only leadership from UH and the contractors, but civic leaders played an enormous role in facilitating the negotiations. The agreement made the city of Cleveland a third party beneficiary “for the purpose of enforcing the provisions of [the document]” (PLA, 2007). Furthermore, the agreement applied to all construction projects being developed within the City. The agreement also states that the City would support UH and contractors meet their goals through the duration of the project. A section of the agreement expresses the following, “through the [Office of Equal Opportunity]” the city will “provide the foregoing parties the following information and services upon the request of any party: lists of certified [minority-owned] and [female-owned] firms, technical assistance to [minority-owned] and [female-owned] firms performing work on a Covered Project” (PLA, 2007).

Vision 2010 assigned a different goal to each historically disadvantaged group. The project sought to give 80% of the contractor to be based locally. Although it is not explicitly stated, it is implied by the literature that local for UH meant the Northeast Ohio region. The
other goals required that a total of 5% of the contractors working on the project were to female-owned businesses and 15% of all contractors were to be minority-owned businesses. Vision 2010 exceeded all of its goals throughout the five years of the construction process. The procurement plan allowed over 100 female- and minority-owned businesses to obtain contracts with UH—none of these businesses had ever participated in construction project with the hospital. Over 90% of all businesses that participated in Vision 2010 were local (Dubb and Howard, n.d). Furthermore, monitoring was a crucial component for Vision 2010’s ability to be inclusive of historically disadvantaged businesses. A third party contractor was hired to ensure that all parties were actively working to outreach to minority-owned businesses and meeting the goals. The monitoring assessment of the companies’ payroll to ensure that minority and residency requirements were being met, as well as regular visits to construction sites.

*Ongoing Procurement Practices*

The procurement model set up during the Vision 2010 construction process led UH to revisit its purchasing conventions for the rest of the institution. The success of Vision 2010 encouraged UH to apply the same goals of diversifying its supply chain and to continue to contribute to the local economy. UH’s goal is to have local businesses supply 80% of the hospital’s needs, which would amount to approximately $850 million per year (Dubb and Howard, n.d).

According to a 2011 UH report, the hospital has hired a Diversity Contract Administrator with the responsibility to ensure that the hospital is primarily sourcing from businesses located in Northeast Ohio for its nonmedical commodity needs. Part of the role of this position is to outreach to qualified minority- and female-owned businesses to be considered for contracts. To do so, the administrator notifies businesses when the hospital is seeking specific items and asks those businesses to submit bids. When businesses do not meet the requirements needed to become a vendor of the administrator refers that business to a Cleveland organization that can provide further training or mentorship to prepare the business for future bids with UH and other institutions. Moreover, the position encourages large suppliers of UH to develop diversity supply chains through subcontracting. Through these efforts, the hospital has been able to reach to a number of minority- and female-owned enterprises. In 2009 alone, the hospital contracted with 107 minority-owned businesses and 149 female-owned businesses (UH Report on Diversity, 2011).
Evergreen Cooperative Initiative

Although UH was not directly responsible for creating the highly publicized Evergreen Cooperative Initiative (ECI), the Initiative is an important component of this case study. ECI was established in 2007 by The Democracy Collaborative, an organization dedicated to promoting new strategies for community economic development, and is an economic inclusion program to create living wage employment and opportunities to build assets for six low-income communities. The Initiative is mainly based in the UH’s host neighborhood University Circle, which is also the home of other anchor institutions like Case Western Reserve University, Cleveland Clinic, and the Veterans administration Medical Center. As mentioned previously the neighborhoods surrounding the anchor institutions have high unemployment, low educational attainment, and problems with the quality of housing. EIC is thought as a solution to these socioeconomic perils (Dubb and Howard, n.d).

The goal of the EIC is to eventually become a large cooperative of 10 green-businesses that will be owned and operated by local residents. The first of such businesses opened in 2009 and it was a Laundromat, the second was a solar-panel installation cooperative, and the third was the Green City Growers Cooperative, a green-house food production company (The Economist, 2010). It is projected that EIC will create a total of 500 jobs. The EIC is focusing on serving and supplying local markets, in particular the needs of the surrounding anchor institutions. That is, the cooperatives are utilizing the institutions’ commitment to purchase its products and services (The Nation, 2010).

UH and the other local hospitals and universities have agreed to purchase from the evergreen cooperative (The Nation, 2010). An initiative like this can certainly amplify the hospital’s economic impact on the surrounding communities. Furthermore, it would help the hospital meet its goals of purchasing local and from minority businesses. UH was also very active in drafting the strategies and plans to develop and finance the Evergreen cooperative (The Nation, 2010). EIC is an example of a community economic development initiative that could potentially leverage the purchasing power of anchor institutions beyond procurement. Because cooperatives are employee owned, the impact also involves wealth generation for low-income and minority populations.
4.3 Henry Ford Health System (Detroit, Michigan)

Although Henry Ford Health System's (HFHS) minority procurement initiative is very new, it has received awards and nation-wide attention from practitioners and scholars tracking the anchor institution's community and economic development impacts. However, based on the information available, it is very difficult to assess the true impact and its successful implementation of minority procurement initiatives.

4.31 Background on the Henry Ford Health System

The Henry Ford Health System was founded in 1915 by the automaker and business historic icon, Henry Ford. It is a nonprofit entity and it is one of the largest group medical practices in the country comprised of five hospitals and a number of medical centers. The hospital is recognized for its medical excellence in cardiology and cardiovascular surgery, neurology and neurosurgery; orthopedics and sports medicine; organ transplants; and treatment for prostate, breast, and lung cancers (HFHS website). The HFHS staff provided care to more than 2.5 million patients per year, nearly 65,000 patients are admitted to hospital each year, and the hospital performs over 30,000 surgery procedures per year (Premier, 2006).

Beyond the medical impact, HFHS has a strong economic impact in the City of Detroit as well. HFHS is the sixth largest employer for the state of Michigan. It hires 16,000 full-time employees, which includes 3,000 nurses and more than 4,000 other health professionals. Additionally, the hospital makes $1.9 billion in annual revenues and provides $60 million in uncompensated health care (Premier, 2006). HFHS' economic impact is also substantial in its host community, Midtown neighborhood. HFHS and the Detroit Medical Center (DMC), a hospital unaffiliated with HFHS but located in the city of Detroit, control almost half of the real estate of the Midtown neighborhood (ICIC, 2011).

4.32 Henry Ford Health System and its Community Outreach

Unlike the previous case studies, HFHS has not embarked on a grand redevelopment project or expansion of its facilities that involves changing the physical development of its surrounding communities. However, HFHS has been involved in community outreach, particularly outreach to minority populations. Its service to minority communities has consisted mostly on public health issues. One example is the African-American Initiative for Male Health, which reaches out to the African-American community to prevent chronic diseases prevalent in
that population. Another program is the School-Based Health Initiative program which offers preventive and primary care for schools in Detroit (Premier, 2006).

In the last few years, HFHS has partnered with DMC for community economic development in Midtown neighborhood and Detroit. The initiative is called “Live Midtown, Hire Detroit, and Buy Detroit.” Other anchor institutions such as Wayne State University and foundation are partners in this initiative (Press Release October 28, 2010). The objective of the initiative is to make Midtown a safe and lively community, to increase their local purchasing, and to hire Detroit residents. The goals to fulfill the objective are: 1) to have a number of the anchor institution’s employees live locally; 2) to have one third of new employees be local residents; and 3) to make sure that 84% of the procurement money that is spent outside of Detroit is spent locally (ICIC, 2011).

Furthermore, HFHS and DMC have implemented other strategies to help achieve its objective. Both anchor institutions have financed and launched a shuttle bus program, they are involved in planning public safety, and are working on lighting improvement in the Midtown neighborhood. As of 2011, the anchor institution was also using cash incentives to fulfill its goal of having employees live locally. The cash incentives were $2,500 for renters, a $20,000 forgivable loan for those seeking to buy a home, and a $5,000 matching funds for residents interested in improving the exterior of their homes (ICIC, 2011; Burden, 2011).

4.33 Henry Ford Health System and Minority Procurement
HFHS incentive to commit to a minority procurement program is unknown. A number of reasons could have contributed to advancing the purchasing culture, such as the current socioeconomic health of the city of Detroit, public pressure, or the realization that socially responsible purchasing is beneficial to the hospital and its surrounding community. In a press release made public in May of 2011 HFHS states, “doing business with diverse suppliers makes good business sense and helps the financial stability of many local communities where Henry Ford is delivering quality healthcare services.” The hospital justifies its reason for a shift in its purchasing culture but does not address why it is important. Explaining the reasoning behind supplier diversity is important because as was stated in Chapter 3 of this thesis, internal and external conflicts among staff and current vendors could be detrimental to the success of minority procurement programs. It is important that the staff believes, commits, and supports
supplier diversity programs and that the “establishment” vendors or those vendors that are part of the status quo do not perceive these programs unfair and non-competitive businesses practices.

The hospital changed a number of its purchasing practices in order to implement its minority procurement initiatives. The initiatives have been implemented in a top down manner and have been publicly endorsed by senior management (Premier, 2006). The HFHS website states that the “supplier diversity initiative designed to provide all suppliers, including women- and minority-owned [suppliers], equal access to procurement and contracting opportunities within the organization.” HFHS vague proposals and broad wording make it difficult to understand what “equal access to procurement” actually means and whether the idea takes into account the unique challenges that minority suppliers face.

Nevertheless, HFHS has taken concrete steps that enable the institution to better support minority suppliers. The first was to establish committee for diversity called the Henry Ford Public Committee. The committee is the body of governance for all initiatives to reach out to minority and local suppliers. The committee also serves to empower the Office of Purchasing and Supply Chain to plan and implement the supplier diversity initiatives within HFHS (Premier, 2006). Additionally, the hospital implemented a policy where 7% of the senior executives’ bonuses are linked to achieving supplier diversity. Linking progress in supplier diversity with monetary incentives is HFHS’ method to motivate managers to work towards diversity goals (Dubb and Howard, n.d).

The hospital has also implemented strategies to help minority and local businesses overcome common challenges that impede their growth or keep them from becoming suppliers to anchor institutions. For example, to overcome the challenge regarding a lack of capital, the hospital has opted to pay their diversity suppliers one month in advance to provide the capital needed for these businesses to fulfill their contractual obligations (Dubb and Howard, n.d). Additionally, the hospital has utilized its bulk procurement power to purchase supplies at prices that small, minority business could not obtain on their own (ICIC, 2011).

There are only two known methods that HFHS utilizes to outreach to minority businesses. The first is its partnership with the Michigan Minority Business Development Council (MMBDC), which is an organization that provides access to procurement opportunities for minority-owned businesses (Supplier Diversity, Henry Ford website). Given the organization’s mission, it is likely that the MMBDC helps minority-owned businesses build their
capacity to become suppliers of anchor institutions and then directly refers them to the HFHS. The second method that HFHS utilizes to outreach to minority business, are trade fairs. In May of 2011, HFHS held the Buy in Detroit trade fair in collaboration with other anchor institutions. The fair was to help Detroit and minority businesses meet with procurement representatives to discuss potential business opportunities (Press Release, May 4, 2011).

The impact of HFHS minority procurement program has been small thus far. During the first year of its implementation $400,000 of the hospitals $2 billion procurement budget has been diverted to its local and supplier diversity initiative. Given the size of the hospital’s procurement budget, there is potential for the anchor institution to make a greater economic contribution to the City. According to HFHS the institution now has more than 300 active minority- and female-owned businesses in its database (Press Release, May 4, 2011). This is a beneficial first step for historically disadvantaged suppliers.

The impact of minority procurement initiatives of HFHS are all the more difficult to quantify and to understand than the Penn and the UH case studies. First, it is challenging to understand the hospital’s goals in the context of Detroit because little information is known on the existing capacity and development of MBEs in the city. Second, the initiative itself is very new. Third, there is little print material on HFHS experience with minority procurement. Most of what has been written is by the Initiative for a Competitive Inner City and by the Democracy Collaborative, both organizations that are working with anchor institutions and dedicated to promoting community economic development strategies involving anchor institutions. The report by Premier is also problematic because Premier is HFHS supplier and the report was about promoting a supplier diversity award. Beyond the need to allow time to show the benefits of such procurement programs, at the very least an extensive qualitative research is needed to understand the relative success of HFHS initiatives and impact on local economic development. Some of the information needed involves knowing the following: What motivated the hospital to create a minority procurement program? How did the hospital deal with internal conflict, if any? How are MBEs mentored, trained, or enabled to grow? These and other important questions need to be answered before a comprehensive assessment of HFHS impact on MBEs of Detroit.
The following section of the chapter will highlight the particularly beneficial strategies that Philadelphia and Cleveland case studies used to create and implement successful minority procurement programs. Information from the HFHS example will be utilized to further emphasize the strategies with positive outcomes.

4.4 Lessons Learned from Anchor Institutions and the Minority Procurement Programs

Analyzing economic development impact through minority procurement initiatives in the two case studies is difficult for many reasons. Success is generally measured by examining whether the anchor institutions meet voluntary minority procurement goals. Additionally, the state and size of MBEs before and after minority procurement programs is unknown. Therefore, assessing the impact of the voluntary goals on local economic development is still difficult. Although the impact is difficult to measure, it is undeniable that Penn has redirected millions of dollars in purchasing to Philadelphia—from $800,000 in the 80’s to $95 million in 2010. University Hospitals has managed to meet all of its goals for five consecutive years and now offers contracts to over 100 MBEs.

The following headings are the strategies utilized by the anchor institutions to create and implement successful minority procurement programs.

4.41 Commitment from Leadership

Commitment from leadership is important for reasons mentioned in the previous chapter, such as obtaining commitment from staff to change established procurement processes. In both case studies, the anchor institutions’ leadership took responsibility for the implementation and the outcomes of the initiatives. In the case of Penn, the project counted with the commitment from people in positions of power, such as the University Board of Trustees, which created a committee to oversee the implementation of the West Philadelphia Initiatives (WPI). Moreover, Penn made WPI an institutional project by distributing responsibilities and assignment across administrative offices, rather than making WPI an academic or charity project. Similar to Penn, Vision 2010 and its supplier diversity initiatives were fully supported by UH leadership. The
difference between Penn and UH is that the city of Cleveland was heavily involved and supportive of Vision 2010 and UH’s efforts to procure locally and from MBEs.

4.42 Procurement Part of a Larger Project that Emphasized Community Wellbeing

Penn’s and UH’s minority procurement programs greatly benefited from being a part of a larger economic development project. For example, the first time Penn tried to implement Buy West Philadelphia (BWP), the initiative was not part of a larger commitment to improve the University’s surrounding communities and it was not as successful as when it was reinvigorated under WPI. WPI gave the staff responsible for BWP the attention and commitment needed from the University’s leadership to meet its procurement goals. Although Vision 2010 was not a community economic development plan for UH’s surrounding community, from its inception the project was meant to use its economic power to benefit Cleveland residents. For both case studies, parting from the assumption that the anchor institutions were seeking the betterment of all communities in their host city, allowed for minority procurement programs to be met with little resistance.

4.43 Creating a Plan that Benefits MBEs.

Based on the information available, Penn managed to create a minority procurement plan that truly benefited MBEs. The University did so by understanding the difficulties that these firms encounter when seeking to become vendors or suppliers of larger projects and established its goals for minority procurement based on this information. No such information is available for the Cleveland case. Penn utilized a knowledgeable organization, the Greater Philadelphia Urban Affairs Coalition, to implement a plan that would be sensitive to the challenges faced by MBEs. The University also ensured that MBEs were included in large projects that could provide substantial profit by applying minority procurement goals to projects of more than $5 million. By setting requirements for to include MBEs, Penn ensured that minority firms were benefiting economically and were not simply being used to meet quotas. However, the scope of monetary impact to MBEs is still uncertain. More research is needed to understand how the MBEs were paid particularly if they were included through subcontracting. Further research is also needed to understand how payments were negotiated, and if they were assigned to meaningful mini-projects that were part of the larger projects.
4.44 Accountability through Contracts

The two anchor institutions discussed reached their minority procurement goals through the use of contracts. Penn ensured that goals were being met and that contractors made every effort to be inclusive of MBEs by adding its minority procurement goals in all agreements with contractors. Payments disbursements were conditional to the contractor meeting those goals. That is, Penn could withhold payments if the institution felt that the larger construction companies were not being inclusive enough of minority businesses. UH went a step further than Penn, and included more than goals in its contracts. UH included direct instruction on how to benefit and grow the capacity of MBEs. For example, the contract required large firms to mentor an MBE through the duration of the contract. The contract was detailed enough to state the kind of assistance that large construction companies were to provide to MBEs, such as financial, technical, and bidding assistance. Both institutions, UH and Penn, provided some sort of assistance to large contracts such as providing a list of qualified MBEs and requiring contractors to obtain bids from that list. Penn, also helped by creating a plan and goal that reflected the market conditions of MBEs.

4.45 A Committed Purchasing Department

One of Penny’s key contributions to implementing a successful minority procurement program was to assign responsibility to all staff members in the purchasing department to achieve supplier diversity. As was mentioned in the case study, this was not always the case. When the initiative first began, Penn assigned a Director in the purchasing department the responsibility of diversifying the supply chain. This created tension among the staff who was responsible for diversifying the supply chain and the staff who fulfilled procurement goals without having to consider issues of diversity. Penn opted for making supplier diversity the responsibility of every staff member in the procurement department.
4.46 Direct Benefits to MBEs

Penn was directly involved in tackling the challenges that MBEs normally encounter when seeking to grow their businesses and when seeking to secure larger contracts. For example, Penn created a Supplier Mentoring Program to familiarize MBEs with the purchasing system of Penn and used school resources, such as the Wharton Small Business Development Center to advise and build the MBEs’ skills. In construction projects, the institutions was effective at helping MBEs overcome capital and insurance related challenges through joint ventures and subcontracting. Not only did joint ventures allow MBEs to bypass bond, insurance, and other requirements needed for large contracts, but the ventures also allowed minority firms to earn revenue and gain experience for potential large contracts in the future. Unlike Penn, UH was not directly involved in building the capacity of MBEs, but the institution did make the private sector responsible for the development of MBEs. The anchor institution required large contractors to mentor minority-owned firms. In its ongoing procurement process, UH is also minimally involved in skill building and refers MBEs that are not ready to supply to anchor institutions to local business development organizations. The approaches of each of the anchor institutions are different but have been equally effective. Additionally, UH does not have the resources, such as a business school, to be more directly involved like Penn.

4.47 Effective Monitoring

Penn and UH both committed time and resources to ensure that minority procurement goals were truly being met. Both institutions hired a company that specialized in minority procurement to monitor that contractors were reporting their achievements in including MBEs accurately. The monitoring included site visits and auditing payroll records.

4.48 Supporting the Creation of New Business

The strategy to support the creation of new businesses is unique to UH. Although the hospital is not directly involved in creating new businesses, it is utilizing its purchasing power to help other organizations build on businesses that are beneficial to low-income and minority communities. UH, along with other anchor institutions, has committed to purchasing goods and services from sustainable and employee-owned businesses. Although there are other cities
learning and studying the Evergreen Cooperative Enterprises to replicate this initiative, the commitment from UH is unique in the nation.

The following diagram representing strategies from anchor institutions that seemed to have the most impact on MBEs. It allows for comparison between the two case studies. A better evaluation of how these anchor institutions impacted MBEs would involve knowing how many of the MBEs involved in the minority procurement programs actually achieved growth? How many MBEs were able to secure other large contracts? How many MBEs hired new employees? Unfortunately, information that measures growth and evaluates the anchors’ initiatives is unavailable.
<table>
<thead>
<tr>
<th>Commitment from Leadership</th>
<th>University of Pennsylvania</th>
<th>University Hospitals</th>
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<tbody>
<tr>
<td>Leadership took responsibility for outcomes</td>
<td>Created committee responsible for overseeing the initiative</td>
<td>Leadership took responsibility for outcomes</td>
</tr>
<tr>
<td>Top administrative staff is responsible for minority procurement</td>
<td>City leadership and public officials also involved in goal setting and meeting goals</td>
<td>Unknown how Staff shared responsibility on the project</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Procurement part of Larger Project of Community Benefits</th>
<th>University of Pennsylvania</th>
<th>University Hospitals</th>
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<tbody>
<tr>
<td>Buy West Philadelphia is part of a larger project embraced by the general public as being beneficial to community</td>
<td>Minority procurement is one of the goals of a greater objective to use the hospitals development of benefit the local economy</td>
<td></td>
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<thead>
<tr>
<th>Accountability through Contracts</th>
<th>University of Pennsylvania</th>
<th>University Hospitals</th>
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<tbody>
<tr>
<td>Minority procurement goals</td>
<td>Payment conditional to achieving goals</td>
<td>Minority procurement goals</td>
</tr>
<tr>
<td>Obtaining bid from MBEs</td>
<td>Creating joint ventures with MBEs and/or subcontracting with MBEs</td>
<td>Large contractors mentor MBEs</td>
</tr>
<tr>
<td>Creating joint ventures with MBEs and/or subcontracting with MBEs</td>
<td></td>
<td>Large contractors provide financial, technical, and bidding assistance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Creating joint ventures with MBEs and/or subcontracting with MBEs</td>
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<tr>
<th>Effective Monitoring</th>
<th>University of Pennsylvania</th>
<th>University Hospitals</th>
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<tbody>
<tr>
<td>Committee formed by anchor institution leadership and leadership from the Philadelphia community</td>
<td>Hired a third party monitor</td>
<td>Hired a third party monitor</td>
</tr>
<tr>
<td>Hired a third party monitor</td>
<td>Site visits</td>
<td>Site visits</td>
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<tr>
<td>Site visits</td>
<td>Payroll Auditing</td>
<td>Payroll Auditing</td>
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<table>
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<tr>
<th>Committed Purchasing Department</th>
<th>University of Pennsylvania</th>
<th>University Hospitals</th>
</tr>
</thead>
<tbody>
<tr>
<td>All purchasing staff responsible for achieving goals</td>
<td>Hired a diversity contract administrator</td>
<td>Other Staff’s commitment is unknown</td>
</tr>
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<table>
<thead>
<tr>
<th>Direct Benefits to MBEs</th>
<th>University of Pennsylvania</th>
<th>University Hospitals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplier mentoring program</td>
<td>Advice and skill development for MBEs</td>
<td>None</td>
</tr>
<tr>
<td>Advice and skill development for MBEs</td>
<td></td>
<td>Business development was promoted through contractors and business development organizations</td>
</tr>
</tbody>
</table>
Chapter 5: Baystate Medical Center and Latino Businesses in Springfield

5.1 Overview of Springfield, Massachusetts

Springfield is located in Western Massachusetts and has a population of over 150,000 people (US Census, 2006-2010). Similar to other formerly industrialized cities, Springfield’s population has been shrinking for the past four decades. Prior to the 1960s, Springfield was an economically prosperous city and part of the Connecticut River Valley industrial corridor. During that period, nearly one third of the population worked in manufacturing. Moreover, the median family income was higher than the national average, and the poverty rate was lower than the national average. The manufacturing industry made Springfield a successful city of the United States; however, since the 1960s, Springfield’s economy has not been fairing so well. For two decades, the City suffered major job losses as manufacturing plants closed their doors, such as the Springfield Armory in 1968 and American Bosch in 1986 (Kodrzycki and Muñoz, 2009). Springfield suffers from many of the economic perils that other formerly manufacturing cities also face, such as high rates of poverty and difficulties with labor force participation.

According to the US Census, 27.6% of City’s population lives in poverty. Nearly 41% of those living in poverty are children under 18 years of age. Springfield’s ethnic minorities also have high poverty rates. Over 26% of the African American population and 43% of the Latino population of Springfield live in poverty (US Census, 2006-2010). Moreover, the City has a high concentration of poverty; one third of those living in poverty live in neighborhoods where the poverty rates are over 40% (Kodrzycki and Muñoz, 2009). Recently, the Urban Institute published a report on the opportunity gap between whites and minority populations; the report determined that the gap between whites and Latinos of Springfield was the worst gap in the country (Turner, 2012).

Labor force participation is one of Springfield greatest economic challenges. According to the US Census, the City has an unemployment rate of 8.3%. Although the percentage may not seem high, the most telling statistics on Springfield’s labor challenges are the employment and the labor force participation rates, 50% and 41.7%.
respectively (US Census, 2010). A recent study by the Federal Reserve of Boston states, “the problem is not so much that the Springfield area lacks job opportunities—on the contrary, Springfield’s job availability is comparable to many of its peer cities¹…but that many city residents are unable to compete successfully for the jobs that are available” (Kodrzycki and Muñoz, 2010, p. 15). Lack of transportation to and from work is a large impediment for residents to obtain jobs, particularly for residents that live in poor neighborhoods and would have to travel to affluent neighborhoods for work. Education, training, and networks are also major challenges for employment among Springfield residents. Many residents lack the skills to sustain a job (Kodrzycki and Muñoz, 2010).

A workforce challenge unique to Springfield is the large number of candidates available for entry-level positions in most industries of the city. Because of the great competition for these positions, employees tend to rely on references from previous employers to screen candidates. This is a major barrier to employment for Springfield residents of poor neighborhoods because many lack the professional networks needed for references (Kodrzycki and Muñoz, 2010).

Despite the discouraging socioeconomic statistics for Springfield, there are many organizations in the area that are working with populations in need, working to attract new investment, and working to revitalize the city. The City also has many assets, as it is home to several colleges and hospitals including the Baystate Medical Center—one of the largest employers in the region. The Springfield Technical Community College and others institutions currently offer workforce development programs. Moreover, Springfield College and the American International College belong to a coalition of institutions named the State Street Alliance, which oversees a redevelopment project in Downtown Springfield (Kodrzycki and Muñoz, 2009). Already some of Springfield’s anchor institutions are involving themselves in the revitalization and redevelopment of the city of Springfield. This would appear to be an opportune moment for the City to engage large and influential institutions like Baystate Medical Center to use their resources and economic power for community and economic development.

¹“Peer cities,” as defined in the report are other New England cities with similar economic history and economic challenges as Springfield, such as Bridgeport, Waterbury, Worcester, and others.
As an anchor institution, there are a variety of approaches that Baystate could take in order to benefit Springfield’s residents, particularly minority communities that are in most need. However, the thesis will focus on how Baystate can utilize its purchasing power to benefit Latino-owned businesses in Springfield. Why the Latino population? As mentioned earlier the Latino population suffers from the greatest opportunity gap not only within Springfield but also in the entire nation. The economic wellbeing of Springfield’s Latino population is directly correlated to the community’s current and future health. Any efforts on preventive health care and outcomes of other health care initiatives are partly dependent on the quality of life enabled by economic stability and prosperity.

The rest of the chapter is composed of an overview of the state of Latino-owned businesses in Springfield and their potential for becoming suppliers of Baystate. Information on Baystate’s procurement culture and policies will follow to better inform the opportunities and challenges for Latino businesses to become suppliers of anchor institutions.

5.2 Baystate Medical Center as Purchasing Anchor Institution

The purpose of this section is to provide information on Baystate Medical Center’s purchasing culture and to highlight their ability and willingness to engage in a potential minority procurement program that could enable the growth of Latino-owned businesses in Springfield. The information found in this section is based on two interviews with the Executive Department and the Food and Nutrition purchasing department of the hospital. Baystate has another procurement department that purchases non-food items. Unfortunately, efforts to reach their office for an interview and information on their purchasing patterns proved ineffective. Additionally, the information obtained on items, volume, and money spent in the Food and Services Department was minimal. For confidentiality purposes, the Department preferred to only disclose information on the broad categories of the goods it purchases and the percent of their budget that is used for those purchases.
5.21 Operations

As mentioned before, Baystate Medical Center has two purchasing divisions—a non-food department and the Food and Nutrition department. The Food and Nutrition purchasing department functions through two major operations—food production for patients and retail operation for cafeterias, restaurant, and catering functions. Baystate serves between 6,000 to 7,000 meals per day for their patients and visitors who purchase meals. The hospital has an inventory control manager who is in charge of overseeing the purchasing process and contracts so that everything is consistent and up to standard. Under the inventory control manager, the hospital has a manager in charge of purchases for the hospital’s retail area, a manager overseeing food purchases for catering, and a manager overseeing purchasing nutritional formulas and supplements for patients. The three managers are overseen by the inventory control manager.

Nearly all of the Baystate’s purchasing is centralized, particularly for food. Catering is a service that local restaurants can contribute significantly to anchor institutions. However, Baystate completely covers all of its catering needs. The Food and Nutrition department can handle any volume from small office celebrations and small meetings to employment recognition events and other special events like fundraisers and sit-down dinners. Since Baystate is accustomed to handling its catering need internally, Latino-owned restaurants or local restaurants may find it difficult to provide catering service to the hospital.

5.22 Baystate’s Purchasing Culture

Baystate Medical Center is one of the founding members of Premier, a group purchasing company owned by 200 hospitals across the country (Premier website). According to the company’s website, Premier utilizes the collective purchasing power of hospitals to obtain the best prices on goods and negotiates contracts to reduce the hospitals’ staffing needs. Most of Baystate’s goods and services needs are fulfilled through Premier. Depending on the needs of any member hospital, local businesses could be Premier suppliers for the member hospital. For example, local businesses could supply a hospital in their city directly or by becoming a Premier supplier. According to Baystate staff, the ideal contract is one that involves a local business that is also a Premier supplier.
Most of the Food and Nutrition department budget goes to purchasing food—at nearly 89%. A more detailed breakdown of this purchasing category was not available. The next largest purchase was paper at over 10% of the budget. Other purchasing categories included chemicals, freight, gloves, minor equipment (such as toasters and other kitchen appliances), and smallware (such as trays or pans), which amount to less than one percent of the total budget. Over 55% of the department’s budget is spent with a large national food company. Other portions of the budget are spent with national and international companies that have branches in regional cities like Springfield, West Springfield, Chicopee, Hadley, South Hadley, Greenfield, and Worcester.

Whenever possible, Baystate’s purchasing staff does online searches or attends food shows to find local purchasing partners. “Local” in the interviews was implicitly and interchangeably defined as the Western Massachusetts Region or the state of Massachusetts. Additionally, “local” businesses do not necessarily imply small businesses of the size of the majority of Latino-owned businesses in Springfield. In fact, many of the businesses listed as “local” were branches of national and international corporations located in Western Massachusetts.

Most recently the hospital’s purchasing departments conducted a research on anchor institutions and other large institutions that are shifting to purchasing from local businesses. The report was recently completed and sent to the President’s cabinet for review; however, the results of the review were not available before this thesis went print. The hospital has yet to come up with a goal that states the percentage of its procurement money that it would like to spend on local businesses. Purchasing from local partners is a goal of the staff in the Food and Nutrition department. Three years ago eight to nine percent of their purchases were local. Today, 20% to 25% of their purchases are local. Although there have been some initiatives to increase purchasing from local firms, no such initiative exists for minority- or women-owned businesses.

There are a variety of strategies that Baystate utilizes to find suppliers. The primary strategy is to work through its largest supplier, Premier. Whenever a product or service cannot be secured through Premier, the staff does online searches to better understand its local choices. They also attend a number of vendor events in cities like Boston and West Springfield, where businesses showcase their products. The hospital
may also use publications from professional organizations and advertisements to find suppliers. More often than not, Baystate secures reliable suppliers through “word of mouth.” Businesses are recommended by other hospitals or existing vendors.

Baystate is demonstrating an initial interest in impacting the local economy by purchasing from regional suppliers. This willingness was shown through the staffs’ research and the interest of the President’s cabinet to formalize goals. However, a more concrete and detailed definition of “purchasing local” is needed in order to assess the true impact of the shift in procurement priorities. For example, the local economic impact is not the same if Baystate purchases from the local Coca Cola branch versus purchasing from a regional paper manufacturer. Additionally, there is no reason why minority-owned businesses cannot be included in initiatives to find local suppliers. As the case studies of the previous chapter demonstrated, a local buying initiative was generally coupled with outreach to minority- and women-owned businesses.

Furthermore, it seems that the hospital is still focusing on consolidating its purchases and seeking one vendor for its procurement needs. For example, in the midst of a conversation about nutrition, a Baystate staff member mentioned wanting to consolidate all current coffee purchases to one vendor. As was mentioned in the chapter about minority procurement, the shift to consolidating procurement impedes local businesses, particularly MBEs, from competing in price and volume to become suppliers of anchor institutions.

5.23 Standards for Suppliers

There are a number of factors that Baystate considers before entering a contract with a vendor. Price and delivery cost are among the most important factors. Reliability and a good history as a supplier are also very important. Depending on the good or service they are seeking to procure other factors become equally important. For example, Baystate likes to purchase from suppliers that can track sales and health information. For goods or services that require the use of equipment, such as a vending machine, the hospital would rather have a supplier provide the machine rather than have to purchase or lease the equipment. Whenever possible the hospital tries to minimize cost and to track the nutritional content of the food sold in their property. Moreover, the quality and taste of food products the hospital sells is also very important.
5.24 Baystate’s Future Purchasing Culture
Although not official policy, Baystate would like to deliver healthier and tasty foods for its patience and visitors. The hospital is seeking healthy alternatives to traditional foods—less fried foods, low-fat products, and fresh local produce. Second, the hospital is seeking suppliers that can keep track of the nutritional content of their products and deliver reports to the hospital. Third, the hospital is beginning to express a preference for businesses that are sustainable in their operation practices. Lastly, it is important to keep in mind that hospitals are under pressure to keep costs low. Because of this, vendors have to be all the more careful about their own costs and pricing.

5.3 Overview of Latino-Owned Businesses in Springfield, Massachusetts
In 2011, the Federal Reserve of Boston published a report on the Latino entrepreneurship of Springfield, Massachusetts. The report refers to literature that states that self-employment may be the best income alternative for residents in low-income neighborhoods, particularly for low-educated males, which are a large percentage of the Latino population in Springfield. Three important findings from this report speak to the focus on Latino-owned businesses for this thesis:

- From 2005 to 2007 the number of Latino-owned businesses has increased by 150%
- Latino-owned businesses have lower annual sales and are less likely to have employees
- Latino-owned businesses provide services that support the Latino population in the Springfield
- Business development programs are not reaching Latino entrepreneurs

Not only is the Latino population growing, but also the number or Latino-owned businesses are becoming an important part of the City’s economy. The growth and health of Latino businesses is important for the overall socioeconomic wellbeing of the growing
Latino population and the city of Springfield as a whole. Many studies note that minority-owned businesses are very likely to hire other minorities when seeking employees (Bates, 2008). Additionally, the Federal Reserve report notes that Latino-owned businesses are heavily located in primarily Latino neighborhoods (Muñoz, et al., 2007). The growth of Latino-owned businesses in Springfield could become a source of employment for Latino residents.

The US Census 2007 Survey of Business Owners in the metropolitan area of Springfield shows that among Latino businesses there are 749 firms without paid employees and 103 firms with paid employees. Firms without paid employees generate $16,149,000 in sales, receipts, or value of shipments. Firms with paid employee generate $60,983,000 in sales, receipts, or value of shipments; hire 573 employees; and their total annual payroll is $12,761,000. The survey only has data for the Latino-owned businesses that are in the retail, transportation, management, education, and health sectors. Although the annual receipts of Latino-owned businesses are substantial, Latino business fair worse than in the rest of United States. Moreover, the receipts of non-Latino firms were seven times greater than the receipts of Latino firms (Muñoz, et al., 2007).

According to the information gathered by interviews conducted by the Federal Reserve Bank of Boston in 2007, Latino-business owners are content with being their own boss. Many also expressed that no other job but running their business would give them the same level of income and personal satisfaction given their level of education. Latino business owners work an average of 84 hours per work-week and have been in business for an average of 5 to 10 years. Generally, Latino entrepreneurs of Springfield use their own savings to start their business, which can leave them with little cash for the operation of the business or for future investments. Additionally, the interviews disclosed that many Latino businesses provided other types of services for residents in their community, such as translating documents, filling out forms, selling on credit, and providing transportation (Muñoz, et al., 2007).

5.4 Latino Businesses as Potential Suppliers of Baystate Medical Center

The purpose of this section is to provide insight on how Latino businesses could potentially become suppliers of Baystate. The purpose is also to identify the existing shortcomings among Latino enterprises that prevent those businesses from becoming
preferred vendors of anchor institutions like Baystate. To better understand the ability and capacity of Latino businesses to become suppliers of large institutions, I first researched a list of Latino-owned businesses in Springfield. As there is not a single source that records Latino-owned businesses of a particular city, I obtained a list by searching through the Massachusetts Supplier Diversity Office and the Latino Chamber of Commerce of Springfield. I then tried to reach every business in the construction, landscaping industries, as well as bakeries, restaurants, catering businesses, and wholesalers either by phone or by knocking on doors. As with any research, there are shortcomings to the data presented in this section. First, it is difficult to obtain an accurate and list of all Latino businesses in Springfield. Second, many of the Latino-owned businesses, such as Bodegas/convenience stores, clothing stores, and other retail stores sell goods that are generally not needed by anchor institutions like Baystate.

From a list of 215 Latino-owned businesses, far less than the number presumed by the 2007 Business Survey from the US Census, I was able to identify 70 businesses that are primarily involved in construction and landscaping and that are restaurants, caterers, bakeries, and wholesalers. From those 70 businesses I was able to identify three businesses as having closed and 28 with wrong numbers or problems with the phone lines. I was able to conduct interviews with 15 Latino enterprises in all of the industries previously mentioned. Three of enterprises interviewed expressed no interest in growing.

Most of the businesses interviewed had one to three employees, mostly family members working for the business. Most businesses obtained their customers through referral from friends or past customers and had no ability to pay for advertising or to print promotional pamphlets, brochures, etc. Most of the enterprises had been in business for more than three years and/or had many more years of experience in their trade. Of the 15 businesses, three reported that they had no interest in growing their business.

The businesses interviewed reported challenges that were consistent with the literature on minority businesses. Some of the larger businesses reported problems with staff and finding employees that were responsible and "hard working." One business reported not wanting to hire staff because the owner was overwhelmed by the management challenges he was facing with current staff. Three of the businesses suggested that they lacked the networks and the ability to network with the right people.
in order to grow their business. Many mentioned that they lacked a variety of skills to run a successful business. They reported needing help with building a client base, learning and understanding how to deal with a variety of paperwork, pricing their products adequately, and other challenges. Many of the businesses, particularly the restaurants, had a lot of trouble reporting the number of meals they served per day or the average number paint jobs they worked per month. Forms of measurement and evaluation did not seem to be a part of the businesses’ daily routine. Furthermore, a related challenge that does not appear in the literature but was reported several times by various businesses is the inability to visualize growth or other needs to run a successful business. For example, one business owner reported that she needed to better organize her company and build stronger administration methods, but she also mentioned that she was not convinced that she knew what that meant. For example, she did not know how keep track of her clients—whether to keep file folders with information or to put things in an excel sheet or to use a database.

A challenge that most businesses mentioned, but was more pronounced among construction and landscaping businesses, was the need for capital to grow their business. Finding funding or obtaining loans from banks was one of the greatest impediments to growth. One business mentioned that he could not take on larger contracts unless the institution was willing to pay 40% to 50% of the payment upfront. The payment is needed to ensure that he has the cash flow to successfully fulfill the needs in the contract with buyer. Another impediment for companies was with their inability to obtain credit, bonds, and the insurance needed for larger construction jobs.

5.5 Recommendations

Based on interviews, discussions, and literature, very few Latino-owned businesses in Springfield have the capacity to supply goods or services in the volume or scale needed for large contracts with anchor institutions like Baystate Medical Center. Although some hospitals are able to contract local or minority firms for small contracts, matching Baystate’s small-contract needs with potential Latino supplier is not possible. This is due to the hospital’s resistance to provide detailed data on the good and services they purchase along with volume and prices. Therefore, the subsequent
recommendations will focus on the following three questions. First, what can the City or organizations in Springfield do to create better linkages between Latino-owned businesses and anchor institutions? Second, what can Baystate do to develop a successful minority procurement program that reaches Latino-owned businesses? Third, what can be done to help Springfield’s Latino-businesses grow through anchor institutions at the citywide and neighborhood scale?

5.51 Recommendations for the City and Local Organizations

1. Develop a list of MBEs and Latino-owned businesses that could be potential suppliers. The city of Springfield already contracts with minority- and Latino-owned businesses. It could provide information on those businesses with a centralized list and use its knowledge of the businesses community to create a complete list. Additionally, the local chamber of commerce, particularly the Latino Chamber of Commerce is well-known by most Latino businesses in the City. The Latino Chamber could provide valuable information to this list.

2. The City and other business development organizations should actively promote themselves among Latino entrepreneurs. Based on the interviews conducted and confirmed by the Federal Reserve report by Muñoz, et al., 2007, Latino businesses do not know where to find specialized training on pricing, bidding, and other skills needed to contract with anchor institutions.

3. Form an advisory committee composed of Baystate, City representation, Latino service providers, and other community stakeholders to oversee an initiative to target Latino businesses. The most successful cases such as Penn and University Hospitals involved a committee dedicated to the growth of MBEs to oversee the minority procurement program’s accomplishments. The wide range of stakeholders in the committee could help with not only tracking accountability but also supporting the anchor institution in a region-wide issue.
5.52 Recommendations for Baystate’s Potential Involvement in Minority Procurement

1. Gathering support for a Minority Procurement Program

   a. **Build a business case for the program.** As minority procurement literature asserts, a strong business case is needed for implementing what could be perceived as a preferential treatment program for minorities. The anchor institution case studies also showed that minority procurement programs were met with less resistance when they were part of a larger community economic development project. Given the large opportunity gap that exists between minorities and white population in Springfield, a minority procurement program embedded into a larger community economic development campaign would be most beneficial.

   b. **Strong leadership commitment.** Currently, Baystate is involved in community programs that reach out to populations of color around healthcare and workforce development. Moreover, the hospital is already drafting an initiative to purchase from local businesses. Given the economic contribution of MBEs, particularly Latino-owned businesses, there is no reason why a minority procurement program cannot be part of Baystate’s efforts to benefit the City. The hospital’s leadership should draft and publicize a vision for the hospital that addresses a commitment to Springfield that involves specific goals to help improve the economic wellbeing of communities of color.

   c. **Educating Baystate Staff.** Baystate should develop a curriculum that educates and trains its staff on the importance of a minority procurement program. The curriculum should state direct linkages between the program and the overall social and economic wellbeing of the city of Springfield.
2. **Aggressive outreach to MBEs and Latino-owned Businesses.** Baystate will need to actively reach out to Latino-owned businesses in order to make an impact in the community. Currently, Baystate relies on small and local businesses to call the hospital and offer their services directly. This is a method that will not work with Latino-owned businesses as many in the interviews expressed that they did not think they could just call the hospital. Additionally, the Penn case study illustrates that many MBEs are intimidated by purchasing departments.

   a. **Bi-annual events educating Latino businesses on large institution procurement through the Latino Chamber of Commerce.** Baystate has previously held events with other business development organizations in the region to talk to local businesses about becoming successful suppliers of large institutions. Baystate could have a bi-annual event with the Latino Chamber in Springfield to target Latino businesses specifically.

3. **Supplier Diversity should be the responsibility of every staff member in the purchasing department.** When creating minority procurement programs, anchor institutions may decide to appoint a minority procurement specialist to achieve supplier diversity goals. However, as the Penn experience reveals, this may create conflicts within the purchasing department as often the goals of the minority procurement administrator may seem misaligned with the goals of the rest of the department. Therefore, it is important that the entire purchasing department is working together towards the same goals.

4. **Pressure Premier to form mentor-protégé programs with large companies in the area and Springfield’s Latino businesses.** Baystate is part owner of Premier, which already supplies to Baystate through businesses located in the region. Baystate could pressure Premier to develop a mentor-protégé program with existing local suppliers and Latino businesses. The Latino businesses could join the program as subcontractors. Additionally, being a Premier supplier and a local business is Baystate’s preferred status for businesses with which it works.
5. **Baystate should advertise niche needs to Latino-owned businesses.** Baystate currently works with a few small local businesses that are providing niche needs to the anchor institution. For example, a local restaurant services Baystate’s need for sushi with cooked fish for its retail operations. Other niche needs, particularly ethnic food, could be fulfilled by Latino-owned restaurants or caterers.

6. **Effective measurement of impact.** One of the impediments to a successful minority procurement program is the inability of an anchor institution to measure the impact on its procurement practices.

   a. **Measuring through SMART goals.** SMART goals or Specific, Measurable, Action-Oriented, Realistic, Time- and resources-constrained goals is an excellent example of a useful indicator of performance in minority procurement. This strategy juxtaposes what the company is already purchasing from MBEs with the actual market opportunity to purchase from MBEs, and measures this by commodity or service.

5.53 *Recommendations for Latino-Owned Businesses in Springfield*

1. **Latino businesses should become knowledgeable of the needs of anchor institutions like Baystate.** In order to seize opportunities with anchor institutions, Latino businesses in Springfield need to stay informed about the product needs and customer service needs of clients like Baystate. Based on interviews and observations, Latino entrepreneurs know their trade and the Latino market very well, but they need more information about other markets.

2. **Need to implement methods to track nutritional value, sales, and other data that may be valuable to anchor institutions.** Baystate is increasingly looking for businesses that can track nutritional value on the food they provide to the hospital. From time to time, Baystate requires vendors to submit reports on sales information the hospital deems valuable. Latino-owned businesses will be competing with firms that have mechanisms to provide detailed reports to
Baystate. Latino businesses need to be able to provide this information in order to be a competitive vendor.

3. **Need training in submitting accurate pricing, in submitting bids, and completing other paperwork.** Based on the interviews conducted, even the more successful Latino-owned businesses lack the ability to submit a price for large projects. It may take them a few hours to several days. Often, this is complicated by the fact that the Latino firms may not have the equipment necessary to produce at the large volumes that are needed for commercial vendors.

4. **Latino businesses, particularly those in a growth transition, would need a percentage of the payment for a large contract upfront in order to fulfill procurement contracts.** Like many small businesses, Latino-owned businesses lack the capital to perform for large volume contracts. However, providing an upfront payment or paying the enterprise right away could solve the problem. Baystate would have to determine whether it could accelerate the payments for Latino-owned businesses or whether it could actually pay for a portion of the contract before the services are delivered.

5.54 **Recommendations for the North End Neighborhood**

Although minority procurement has been an important source of growth and development for MBEs, the strategy seems to be all the more beneficial when it is used at a citywide or regional scale. Given the scale and services provided by the Latino-owned businesses in the North End, a minority procurement program though Baystate Medical Center would not be the most beneficial strategy to pursue economic development for the neighborhood. For example, many of the catering services that some of the restaurants could provide are services that Baystate already meets for itself. The following recommendations are strategies that could be more beneficial for Latino-owned businesses and the North End community.
1. **Business development programs that target the specific needs of North End businesses.** Based on the interviews and the Muñoz, et al., 2011 report, there is a pressing need to connect Latino-owned businesses with existing training resources in Springfield. Business owners interested in growth mentioned having trouble knowing where to seek help and finding flexible training programs to develop their skills.

2. **Create workforce development and career ladder programs for residents of the North End through Baystate Medical Center.** This is perhaps the most appropriate strategy to support North End community as it has one of the highest poverty rates in the city of Springfield. According to Baystate’s website, the hospital already provides a similar service for students graduating from high school. Baystate and community organizations should work to expand those services to adults, particularly to help solve some of the unemployment and labor participation challenges for the neighborhood.
Chapter 6: Conclusion

There are many reasons why anchor institutions, such as hospitals and universities are gaining public attention. It appears as if these institutions are one of the few establishments that have been able to weather the recession. In cities like Springfield that have not been able to rise to the economic prosperity experienced during the height of manufacturing, anchor institutions have survived and often continue to be some of the largest employers in their host region. They have also turned into attractive vehicles for community economic development, as they are place-based institutions. More specifically, very rarely will hospitals and universities abandon their buildings and relocate to cities that offer tax or financial incentives, as some firms or corporations may do. At the very least, anchor institutions have an economic interest in investing in their surrounding neighborhoods and host cities as their own survival often depends on vibrant communities (Dubb and Howard, n.d.).

Beyond providing employment, anchor institutions have the potential of reinvigorating the local economy through multiplier effects by targeting local businesses in their daily procurement of large volumes of goods and services. Many of the items on their procurement lists require high technology for production like medical equipment and are not easy to obtain at the local or regional scale. However, many other items such as paper, food, or uniforms can be purchased locally (Harkavey, et al., 1999). An excellent example of this is the first case study presented in this thesis—the University of Pennsylvania. Penn was spending $800,000 in the 1980s; in 2010, the University spent $95 million on businesses in Philadelphia (Axelroth and Dubb, 2010).

To understand the impact of minority and local procurement programs through anchor institutions, it is important to consider the issue of scale. Procurement programs work best as economic development initiatives when the scale is a citywide or regional. At this scale anchor institutions can more easily identify MBEs that provide the goods and services they need. For example, Penn and UH focused their procurement policies on the city of Philadelphia and Northeast Ohio respectively to ensure that they had a number MBEs from which to purchase the goods and services the anchor institutions’ needed. This is partly why a minority procurement program tied to Baystate Medical Center
would not be the most beneficial economic development strategy for the neighborhood. The Latino-owned businesses located in the North End provide goods and important services to residents; however, these businesses do not supply the goods or provide the services the hospital needs. Other services that enable the growth of Latino-owned businesses such as the ability to permeate non-Latino markets would be more beneficial. A workforce development strategy that encourages career ladders through the hospital would also be more advantageous to the North End. At the neighborhood scale perhaps other strategies initiated and promoted by anchor institutions work best, such as housing and education initiatives by universities. For hospitals, workforce development and regional procurement programs targeting historically disadvantaged populations would probably have the most impact. As with any economic development plan, cities should not focus solely on anchor institutions to encourage local economic development, since it could create economic dependence on the institution.

To this date, literature on anchor institutions focuses on amplifying the roles that these institutions play in their communities. For example, anchors often engage in real estate development because of their needs for expansion; therefore, the literature portrays anchors as potential redevelopers of downtown areas or other neighborhoods. Moreover, the literature does not properly address challenges with anchor institutions in these heightened roles, such as the possibility of gentrification when anchor institutions embark on a community economic development project.

Central to this thesis is the indirect or direct role of an institution that enables business growth and development and/or business creation through its procurement practices. There are many challenges in using anchor institutions to encourage local economic development, such as convincing the institution that it is in their best interest to invest time and resources on local and minority-owned businesses. Finally, there still is no focus on measuring the true impact of anchor institutions and their community economic development projects. For example, cases listed as “best practices” are generally labeled as such on the basis that those anchor institutions met the goals they set for themselves. How those goals were established and details about the amount of dollars that actually went to minority businesses are often difficult to find. More in depth research on the state of minority businesses before and after the anchor institutions
intervention or initiative is needed. Despite the challenges, anchor institutions could be model organizations that set corporate standards based on the positive initiatives that their local communities support. And private businesses may start to feel the public pressure to behave as model corporate citizens as well.

In the case of Springfield, it may be quite difficult to convince Baystate Medical Center to think about a minority procurement program. Although the institution is moving in the direction of purchasing local, minority- and women-owned businesses are seen as separate from that local purchasing goal. The term local seems to be defined loosely by the hospital especially when purchases are not made from local businesses. The label “local” was given to purchases from national or international corporations that had branches located in the cities surrounding Springfield. Moreover, Baystate still operates as an institution that is insular, contrary to the procurement culture needed for anchor institutions that are actively engaged in being economic development facilitators of their surrounding communities. For example, there is very little interaction between Baystate staff and visitors with the North End community as patrons of the local businesses and restaurants.

Beyond the challenges of Baystate’s purchasing practices and its institutional culture, there are other challenges that Latino businesses in Springfield face in becoming suppliers of anchor institutions like Baystate. The data gathered from Latino-owned businesses show a number of lacking needs such as, access to capital, skills in management, and networks to build clients. The recommendations for Springfield highlight some of those gaps and propose solutions that are based on collaborative efforts from leadership in the city as well as in business development organizations, and leadership efforts in the hospital. As the successful case studies have shown, a wide support from the community and a minority procurement program that is embedded in a larger economic development project of the city is needed for the minority procurement initiative to succeed. Additionally, it is absolutely important that a minority procurement program is coupled with workforce development programs that focus on low-income and low-skilled populations. An effective anchor institution initiative will have to involve career opportunities for Latino residents, minority residents, and low-income residents of the City. Although Baystate is an important asset for Springfield, a successful
community and economic development plan involves more than an anchor institution's assets and involvement. A coordinated effort between Springfield's leadership, particularly the leadership in the Latino community is needed to address the growing disparity between the Latino community and other communities in Springfield. Immediate action is needed as the quality of life of a large number of residents depends on an organized and collaborative leadership addressing these issues.
Appendix A: Questions for Latino Business Owners or Managers

1. Do you consider your business to be Latino-owned?
2. What goods or services do you sell?
3. What does your business do well?
4. Do you generally provide goods and/or services to the same clients?
   a. Who are your largest clients?
   b. At what volume do you sell to these clients?
5. How did you become the preferred vendor for your clients?
   a. Is this process similar to how you obtain most of your clients?
6. How much do you produce on a daily basis?
7. How many people are normally on your staff?
8. Have you thought of expanding your business?
   a. If so, how would your business grow?
   b. Would you provide more good and services? Would you sell at a higher volume?
9. If you received a new customer today, at what capacity (volume) could you sell to your new client?
   a. Would you require more capital/a new loan/insurance to take on this customer?
10. Could you get the materials needed from your vendors to provide for this customer?
    a. How much time would you have to wait in order to get the materials you need?
11. Do you have the staff capacity to take on a large client with specific needs?
    a. How would you reorganize your staff to fulfill those needs?
12. Have you thought about securing the Baystate Medical Center as your client?
    a. If so, how do you think you could serve them?
Bibliography


Anonymous Interviews.


