

FAIRMICCO INC. - A CASE STUDY OF AN INDUSTRY/GHETTO
COMMUNITY ENTERPRISE IN WASHINGTON, D. C.

by

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Submitted to the Alfred P. Sloan School of Management on May 1, 1971,
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ABSTRACT

This thesis is a case study of Fairmicco Inc., a black capitalism enterprise established to attack the hardcore unemployment problem in Washington, D. C. The sponsors of Fairmicco were the Fairchild Hiller Corporation, the Model Inner City Community Organization (MICCO), a black non-profit confederation of local organizations, and the U. S. Government, which provided initial financing and contracts through its Departments of Commerce, Labor and Defense. Research data for the project were obtained primarily through interviews with various Fairchild Hiller and Fairmicco Inc. personnel, who were deeply involved with the formation and operation of the company.

Against the background of the national and local environments existing in 1967, the study describes and analyzes significant events in the company's history from incorporation in February 1968 to present day. Problems which beset Fairmicco during this period and which are discussed in the thesis include:

- Difficulties in hiring experienced black management and supervisory personnel.
- Poor performance and productivity of workers leading to heavy contract financial losses.
- High absenteeism and turnover rate of "hardcore" trainee-employees, especially males, which became a major contributor to the financial losses.
- Competitive problems associated with the product lines.
- Financial problems due to the lack of front money.
- Loss of Small Business Administration contract assistance because of the U. S. economic downslide.
- Refinancing problems brought about by the economic downslide.

The Fairchild Hiller Corporation has divested their interest in Fairmicco Inc. and the Company is now solely operated under black management. The firm has achieved a break even to small profit condition over the past nine months, but is still carrying heavy debt from its initial operations. The future of the enterprise will depend upon the expertise of its management, community participation, and the ability to successfully obtain financing for debt servicing and growth.

Thesis Advisor: Charles A. Myers

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First, to Professors Charles A. Myers and Gordon F. Bloom who expressed a keen interest in the study from the start, and were available for consultation throughout the project. Their assistance and guidance regarding orientation and perspective were very helpful.

Secondly, to all the personnel listed in the introduction from Fairchild Hiller and to Mr. Don Yancey of MICCO Industries, who cooperated to the fullest extent in telling the story of Fairmicco Inc. During all interviews the impression was one of complete openness and willingness to tell the story "like it was". This single factor made the reporting task easy.

Finally, to my wife, Bobbie, who typed and edited the entire rough draft, and daughter, Betsy, for their encouragement and patience during the study.

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CHAPTER I

INTRODUCTION

Purpose and Scope

This research project was undertaken to describe and analyze Fairmicco Inc., a ghetto industry located in the Shaw area of Washington, D. C. in the shadow of our nation's capitol building. The enterprise was incorporated in the waning days of 1967 and resulted from the efforts of the Fairchild Hiller Corporation with headquarters located in Germantown, Maryland, and the Model Inner City Community Organization (MICCO) of Washington, D. C.. Behind these visable partners was the U. S. Government with its endorsement and finances. This partnership to set up a black-owned and operated enterprise was the first venture of its kind in our country. The Watts Manufacturing Company established the previous year, was operating as a subsidiary of Aerojet General. One of Fairmicco's objectives was to demonstrate a new technique of cooperation by Government, industry and the community in the planning, operation and ownership of business.

The study commences with a discussion of both the national and Washington, D. C. environments at the time Fairmicco Inc. was created; then, on to an analysis of the Company, its character, method of organization, operating trials and tribulations, present-day status, and future plans. Finally, conclusions and recommendations are drawn from the study, since the main thrust of the thesis is the disclosure of details concerning the undertaking which might prove beneficial to others involved in

activities for black economic development. Furthermore it should be helpful to the many who will follow, making up the second contingent of interested, concerned and active participants in assisting parity for the black communities. The experience of others becomes our best stepping stone. The Fairchild Hiller Corporation and Micco pursued their task without such benefit.

METHOD OF DATA ACQUISITION

Literature Research

Unlike conditions which existed at the time Fairmicco Inc. was created, there is now considerable literature available to provide overview data relevant to black capitalism or better yet, black economic development. A bibliography of books and articles utilized for this research project is included at the back of this thesis.

Personal Interviews

Field trips were conducted to Germantown, Maryland; Washington, D. C.; and St. Augustine, Florida, for the purpose of holding discussions and personnel interviews with several key individuals who were deeply involved with the formation and operation of Fairmicco Inc. These personnel, their present positions and relationships to Fairmicco Inc. are listed below:

<u>Name</u>	<u>Position and Fairmicco Inc. Association</u>
Edward G. Uhl ¹	President - Fairchild Hiller Corporation Former Board Director Fairmicco Inc.
Melvin Barmat	Director, Business Development - Fairchild Hiller/Space & Electronics Systems Division Former Vice President and Acting General Manager of Fairmicco Inc. Also former Board Director
Charles North, Jr.	Director, Employee Relations - Fairchild Hiller/Space & Electronics Systems Division Assisted Fairmicco Inc. at outset in personal matters.
Richard Miller ¹	Director, Personnel - Fairchild Hiller Corporation - Administrator of Plans for Progress and Affirmative Action Programs
Thomas Vincent	General Manager - Fairchild Hiller/Aircraft Service Division Former Vice President and Acting General Manager of Fairmicco Inc. Also former Board Director
William Borten	Assistant General Manager - Fairchild Hiller/ Space & Electronics Systems Division Assisted Fairmicco Inc. in Financial and Operations Management Matters
Hubert Weaver	Technician - Fairchild Hiller/Space & Electronics Systems Division Former Instructor and Supervisor - Electrical Laboratory at Fairmicco Inc.
Donald Yancey	President - Fairmicco Inc. Also Board Director

¹Discussions only with these individuals

All formal interviews were conducted with the aid of a tape recorder, which was found to be an invaluable asset, allowing complete, undivided attention to interviewee and subject matter. The fact that no interviewees, white or black, were the least concerned about the use of the instrument, is felt to be indicative of the progress being made relative to subject of black economic development. The aura was one of full cooperation.

Facility Tour of Fairmicco Inc.

A visit was made to the Fairmicco Inc. facility, located on 90 Pierce Street, N. E., Washington, D. C., for the interview with Mr. Don Yancey. First a complete facility tour was provided by one of Mr. Yancey's assistants. The various work tasks were witnessed in each of the four production shops, with commentary being supplied by the individual employees involved in their respective tasks. Mr. Yancey also offered without qualification, a free run of the facility if required during the thesis research period.

Review of Fairmicco Inc. and Fairchild Hiller Data

Both the personnel at Fairchild Hiller, and Mr. Don Yancey of Fairmicco Inc., offered and furnished company data for review and use.

CHAPTER II

THE NEED FOR ACTION

Macro-Environment in 1967 (National Setting)

In 1967, the summer was long and hot and in the cities the black populace was restive. Riots had taken place in many cities such as Tampa, Cincinnati, Atlanta, Newark, Plainfield and Detroit, to mention but a few. The summer of 1967, however, was not the beginning of this wave of disorders. Omens of violence had appeared much earlier. In 1963, very visible disorders occurred in Birmingham, Savannah, Cambridge, Md., Chicago and Philadelphia. In 1964, Jacksonville, Cleveland, St. Augustine, Philadelphia, Miss., and New York City joined the ranks. In the spring of 1965, it was Selma, Ala., and in late summer the Watts riots in Los Angeles. Forty-three disorders and riots were reported in 1966.

Following the massive Newark and Detroit riots which poured out a lava of hatred and destruction within a single two week period during July of 1967, the focus of the nation sharpened. On July 28, 1967, the President of the United States established a National Advisory Commission on Civil Disorders to answer the following three questions:

What happened?

Why did it happen?

What can be done to prevent it

from happening again?

In an Address to the Nation on July 27, 1967, President Lyndon

B. Johnson said:

"The only genuine, long range solution for what has happened lies in an attack--mounted at every level--upon the conditions that breed despair and violence. All of us know what those conditions are: ignorance, discrimination, slums, poverty, disease, not enough jobs. We should attack these conditions--not because we are frightened by conflict, but because we are fired by conscience. We should attack them because there is simply no other way to achieve a decent and orderly society in America."¹

The Civil Disorder Tabulation for the first nine months of 1967, shown in Table I², points up the severity of the problem.

¹Commission on Civil Disorders, Report of the National Advisory Commission on Civil Disorders, p. 15, Bantam Books Inc., New York, N. Y., 1968.

²Ibid., p. 114

TABLE I

DISORDERS BY MONTH AND LEVEL

<u>1967-Month</u>	<u>No. of Major Disorders</u>	<u>No. of Serious Disorders</u>	<u>No. of Minor Disorders</u>	<u>Total</u>
January			1	1
February				
March		1		1
April		1	3	4
May		3	8	11
June	3	3	10	16
July	5	22	76	103
August		3	14	17
September	_____	_____	_____	_____
Totals	8	33	123	164

Definition of Disorder Level

Major Disorders - Characterized generally by a combination of the following factors (1) many fires, intensive looting and reports of sniping; (2) violence lasting more than two days; (3) sizeable crowds; and (4) use of National Guard or Federal Forces, as well as other control forces.

Serious Disorders - Characterized generally by (1) isolated looting, some fires and some rock throwing; (2) violence lasting between one and two days; (3) only one sizeable crowd or many small groups; and (4) use of State Police

Minor Disorders - Characterized generally by (1) few fires and broken windows; (2) violence lasting generally less than one day; (3) participation by only small numbers of people; and (4) use in most cases only of local or neighboring community police.

Another significant fact is that the violence was not limited to any one section of the country as indicated by Table II.³ The 164 disorders tallied, occurred in 128 cities. In addition, the fact that a city had had one disorder did not immunize it from further unrest.

TABLE II

DISORDERS BY REGION AND LEVEL

<u>Region</u>	<u>No. of Major Disorders</u>	<u>No. of Serious Disorders</u>	<u>No. of Minor Disorders</u>	<u>Total</u>
East	3	10	44	35
Midwest	4	11	44	36
South and Border	1	7	19	16
West	<u>-</u>	<u>5</u>	<u>16</u>	<u>13</u>
Totals	8	33	123	100

What were the causes for this smoldering violence? A citing of a few historical statistics will allow one to emphathize with the Negro's plight. In 1966 the Negro population reached 21,500,000 persons or approximately 11% of the country's population. The statistics of Tables 3 through 6⁴ are based on percent of nonwhites, but since the Negro makes up 92% of this group, the data fairly represents their condition.

³Ibid., p. 114

⁴Lloyd G. Reynolds, Labor Economics and Labor Relations, p. 158, 159, 160, and 161, Prentice-Hall Inc., Englewood Cliffs, N. J., 5th Edition 1970.

TABLE III

UNEMPLOYMENT RATES (WHITE VS NONWHITE WORKERS)

<u>Year</u>	<u>Total (Percent)</u>		<u>Male (Percent)</u>	
	<u>White</u>	<u>Nonwhite</u>	<u>White</u>	<u>Nonwhite</u>
1950	4.9	9.0	4.7	9.4
1955	3.9	8.7	3.7	8.8
1960	4.9	10.2	4.8	10.7
1965	4.1	8.1	3.6	7.4
1967	3.4	7.4	2.7	6.0

This table clearly indicates that since 1955, the unemployment rate of nonwhites has been at least double that of whites.

TABLE IV

EMPLOYED PERSONS BY OCCUPATIONAL GROUP (1967)

<u>Occupational Group</u>	<u>White Percent</u>	<u>Nonwhite Percent</u>
White Collar	49.9	24.2
Professional and Technical	14.4	7.7
Managers, Proprietors, Officials	11.0	2.3
Clerical	17.4	12.2
Sales	<u>7.1</u>	<u>2.0</u>
	49.9	24.2
Blue Collar	35.4	41.6
Craftsman and Foremen	13.7	7.4
Operatives	18.1	23.4
Laborers, except Farm	<u>3.7</u>	<u>10.8</u>
	35.4	41.6
Service	10.4	29.7
Private Household	1.5	9.9
Other	<u>8.9</u>	<u>19.8</u>
	10.4	29.7
Farm	4.3	4.5
Owners and Managers	2.7	1.0
Laborers	<u>1.5</u>	<u>3.5</u>
	4.3	4.5
Total	100.0	100.0

An analysis of these data shows that in 1967 approximately 70% of all employed Negroes were in blue collar or service occupations, as compared to 50% of the whites holding white collar jobs.

TABLE V
ANNUAL INCOME, WHITE VS NONWHITE FAMILIES
1947 AND 1967 (CONSTANT 1967 DOLLARS)

<u>Annual Income</u>	<u>1947</u>		<u>1967</u>	
	<u>White (Percent)</u>	<u>Nonwhite (Percent)</u>	<u>White (Percent)</u>	<u>Nonwhite (Percent)</u>
Under \$3000	24.1	62.4	10.8	27.1
3000-4900	30.4	22.4	11.9	21.5
5000-6999	21.8	7.9	16.0	17.7
7000-9999	14.2	5.1	25.1	16.9
10,000-14,999	9.5	2.2	23.6	11.7
15,000 and over	<u>---</u>	<u>---</u>	<u>12.9</u>	<u>5.0</u>
Totals	100.0	100.0	100.0	100.0
Median Income	\$4720.0	\$2418.0	\$8274.0	\$5141.00

While this Annual Income presentation shows modest progress, Median Income, nonwhite to white, went from 51% in 1947 to 62% in 1967; the distribution between the two groups is still strikingly different. In 1967, only 7% of white households fell below the poverty line while

30% of nonwhite households fell below this level. In addition, only 34% of the nonwhite families made more than \$7000 annually as compared to 62% of the whites.

TABLE VI

EDUCATION GAP MEDIAN YEARS OF SCHOOL
COMPLETED BY THE CIVILIAN WORK FORCE
18 YEARS AND OVER (1952 AND 1967)

Male

	<u>White</u>		<u>Nonwhite</u>	
	<u>Years</u>	<u>% 8 yrs. or less</u>	<u>Years</u>	<u>% 8 yrs. or less</u>
1952	10.8	38.2	7.2	68.1
1967	12.3	21.4	10.2	40.4

Female

	<u>White</u>		<u>Nonwhite</u>	
	<u>Years</u>	<u>% 8 yrs. or less</u>	<u>Years</u>	<u>% 8 yrs. or less</u>
1952	12.1	26.3	8.1	61.6
1967	12.4	14.8	11.5	30.0

These figures show that the education gap between whites and nonwhites has improved considerably from 1952 to 1967. Thus, for people under twenty-five, there is no longer a vast difference in median years of school completed. However, there does exist a large residue of older people whose poor education is a serious handicap to their employment.

Further, since a large majority of Negroes were educated in all black schools and colleges, the tendency has been that their education lacks the quality of that given the white.

From the statistics, it is obvious that the black's historical background has been one of hardship and disparity with the white. It is true that the American spirit is defined in a body of beliefs which have always been held sacred, such as:

"Hardship is a good teacher, and can help turn
a man with the stuff in him into a success."

"It is a man's own fault if he does not get ahead
in life."

"Social welfare comes of individual initiative,
hard work and thrift."

These articles of faith that built the American dream are but mere platitudes to the black. They may have worked for other minority groups in the early 1900's, but haven't been working for the black. Hardship, in the vast majority of cases, has not been something he could learn from, or rise above, but rather his permanent lot.⁵

The disorders that had taken place from 1963 through 1967, came about because of a reservoir of underlying grievances harbored by the blacks. President Johnson's Commission on Civil Disorders enumerated these grievances in an interim report based on 1200 interviews in 20 cities. They are in order of intensity level, as follows:

⁵Theme is similar to that expressed by John Z. Delorean's paper The Problem in the American Assembly's book Black Economic Development, p. 7 and 8, Prentice-Hall, Inc., Englewood Cliffs, N.J., 1969

First Level of Intensity

1. Police practices
2. Unemployment and underemployment
3. Inadequate housing

Second Level of Intensity

4. Inadequate education
5. Poor recreation facilities and programs
6. Ineffectiveness of the political structure and grievance mechanisms

Third Level of Intensity

7. Disrespectful white attitudes
8. Discriminatory administration of justice
9. Inadequacy of federal programs
10. Inadequacy of municipal services
11. Discriminatory consumer and credit practices
12. Inadequate welfare programs⁶

And so, this was the macro-environment that prevailed when the Fairchild Hiller Corporation in late 1967, began their evaluation of a black community development program. The force of their thrust was to strike out against the second grievance, unemployment and under-employment.

Micro-Environment in 1967 (Washington, D. C. Setting)

The size of the black population in central cities is closely

⁶Commission on Civil Disorders, Report of the National Advisory Commission on Civil Disorders, p. 143-144, Bantam Books Inc., New York, N.Y., 1968

related to the total national negro population growth. In the past 16 years, about 98% of this growth has occurred within metropolitan areas, and 86% in the central cities (sometimes referred to as core cities or inner cities) of those areas.

The micro-environment of concern here, is Washington, D. C., which in 1967, had a population of close to 800,000 people of which approximately 65% were Negro. More specifically, the concern is with the Model Inner City Neighborhood area, which was selected for participation under the Federal Demonstration Cities and Metropolitan Development Act of 1966. It consisted of several neighborhoods, located contiguously, the Shaw, Northwest No. 1 and Northeast No. 2 Urban Renewal Areas, together with a major portion of the section East of the Capitol, generally known as Stanton Park, as well as the Trinidad Area extending Northward from Stanton Park to Mount Clivert Cemetary.

Altogether, this area contained about 11% of the Washington, D. C. population, concentrated within about 3% of its acreage. In the Shaw area alone, there were between forty and fifty thousand people, or six percent of the city's population. About 1,540 men or 7% of the males over 14 years of age were in the job market but unable to find employment. About 970 women, or 6% of those over 14, were also unemployed. Nearly one third of the families lived on less than \$3000 annually, thus statistically qualifying as being in a state of poverty. Median family income was only \$3,384 annually, as compared

to a median family income for the metropolitan area of \$7,577. Half the area residents had less than a ninth grade education. Other statistics for the Model Inner City Neighborhood area were:

Nineteen percent of its families had incomes under
\$3000 annually

Contained within its borders were twenty-two percent of
the city's substandard housing and twenty-eight percent
of its delapidated dwellings

The area was also responsible for twenty percent of the
city's juvenile court referrals, twenty percent of its
illegitimate births and twenty-three percent of the
general public assistance cases.⁷

A partial cause for various of the appalling statistics listed was the fact that jobs were moving away from the Model area. The growth of the suburbs, which was more advanced in Washington than in many other cities, and such physical improvements as the Capitol Beltway, had assisted technological change in pulling from the Inner City the kinds of jobs that its residents could most easily fill. Warehousing and distribution, for example, had become declining activities within the city as firms specializing in these activities preferred locations along the Beltway because of better accessibility

⁷Fairmicco Inc. Report EP 68-900A, Training Program in the Shaw Area of Washington, D. C., p. 3-5, January 1968.

for trucks. Industry was looking toward the suburbs for larger sites. Retail business was following the suburban trend.

In the period from 1960 to 1965, 96% of new industrial construction and 91% of new stores were located outside Washington, D. C. boundaries. Nationally, only 62% of new industries and 52% of new stores were going to the suburbs. In a city which is heavily dependent on Government employment, and with a limited public transportation system that did not lend itself to outward commuting, most of the city's Negro working age population (57% of their total population) were required to seek economic security within the city.⁸

As a direct result of these conditions, there was a need to rehabilitate the urban renewal area. New industry could do this by employing the ghetto dweller, thereby developing craftsmen and factory workers who eventually would partake in the benefits of economic power. The effect would be to draw other firms, independent businessmen and small entrepreneurs back into the city. The Fairchild Hiller Corporation and Micco, Inc., set out to do precisely that, with their project.

⁸Ibid.

CHAPTER III

THE FORMATION OF FAIRMICCO INC.

The Birth of a Philosophy

In September of 1967, Mr. Edward Uhl, President of the Fairchild Hiller Corporation, was invited by Vice President Hubert Humphrey to a conference along with other industrial leaders, to discuss the problems of the black communities and the possible roles industry might play. The national environment was alive with concern because of the recent riots and the President's Advisory Commission on Civil Disorders was now in full swing searching for facts and solutions.

Prior to the Humphrey conference, the Technical Service Division of Fairchild Hiller had sent proposals to management expressing an interest in utilizing their training expertise to assist the black community. The Division had had considerable experience in training shop personnel primarily for electronic functions in connection with projects for NASA-Goddard in Greenbelt, Maryland.

The commitment began to take form, but the philosophy was unclear. Training the blacks just for the sake of training and possibly a jobless future was unacceptable to Ed Uhl. Other discussions calling for the training of blacks with subsequent employment by the Fairchild Hiller Divisions around Washington, D. C. ensued, but were also unacceptable, since stable job opportunities could not be guaranteed and the ghetto community as a whole would not receive full benefit. A subsidiary, located in the ghetto became a possible approach.

There are a host of present-day themes pertaining to industry's social responsibilities and what they can or should do for the black communities, which run from Milton Friedman's philosophy of do nothing leave it to the political mechanism - when he says:

"There is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."¹

to the giveaway plan of Richard F. America, Jr.,

"All large businesses in the United States, with two or three exceptions, are owned and operated by whites. If relative economic parity is to be reached in one generation, some of these must be transferred to blacks."²

With more realism and less polarization, Howard J. Samuels, former head of the Small Business Administration says:

"The indigenous ghetto resident is born and lives in a state of deprivation -- yet he commutes every day into American affluence, to his neo-colonial manufacturing or domestic service job. He moves back and forth daily from sophisticated metropolitan property to his slum. And in doing so, he exports the ghetto's only asset, labor, for unlike frontiers, colonies, or under-developed nations, the ghetto has no natural resources to attract foreign capital investment.

What the ghetto black lacks is an effective way into the system with more impact than job training or education. He needs a way to develop himself and his community based on competitive economic achievement. He must have a business stake in the American business culture. There is great hope of this in the "black power" and "black capitalism" movements."³

It was this last philosophy that Fairchild Hiller was in search of in late 1967.

¹Milton Friedman, "The Social Responsibility of Business is to Increase its Profits", New York Times Magazine, September 13, 1970.

²Richard F. America Jr., "What Do You People Want?" Harvard Business Review, March-April 1969.

³Howard J. Samuels, Compensatory Capitalism, Black Economic Development, edited by William F. Haddad and G. Douglas Pugh, p. 60, Prentice-Hall Inc. Englewood Cliffs, N. J., 1969.

Fairchild Hiller Meets MICCO

As a result of discussions with a special assistant (Vice Chairman of Aerojet General) on loan to the Department of Commerce, Fairchild Hiller was put in touch with Model Inner City Community Organization. MICCO is a non-profit confederation of local organizations which, at that time, had over 160 organizational members. It was created for the express purpose of coordinating local and federal resources in the Shaw area as a result of the Demonstration Cities and Metropolitan Development Act of 1966.

It is a grass roots organization, and was the first such group in the country to receive substantial federal funding from HUD (\$276,000) for the employment of professional planners to help citizens draft their own proposals for renewal. MICCO had also received funds from the District of Columbia Government and the Economic Development Administration.

During meetings between these parties, MICCO officials expressed a strong interest in the development of an Inner City Company owned by the Shaw area community. The concept was acceptable to Fairchild Hiller as a method of pursuing black economic development.

The Demonstration Cities and Metropolitan Development Program had stated as part of its objectives, the following:

- Minimizing the present severe wastage of human potential and maximizing opportunities for neighborhood residents to achieve free choice in jobs....

- Providing maximum opportunities for citizen participation in the planning and operation of programs....
- Achieving maximum immediate impact on problems through programs which can be initiated within a short period of time and through selective strengthening of existing resources....
- Providing maximum opportunities for employment of neighborhood residents in the program and to increase the employability of residents through training, basic education, rehabilitation, and supportive services....
- Providing adequate income supports for residents undergoing training and rehabilitation....
- Improving the mobility of residents so that they may seek and hold jobs not only in their immediate neighborhood but throughout the metropolitan area.

MICCO and Fairchild Hiller appeared to have an excellent communion of purpose, and a partnership between the two represented a means of fulfilling the goals listed. Thus they set about to form an Inner City enterprise.

A planning group was established, consisting of five members: Mel Barmat from Fairchild Hiller; Reginald Griffith of MICCO; two representatives from the Office of Economic Opportunity; and a representative from Howard University. The group's activities were to include:

- Investigation of methods in which to form the enterprise
- Analysis of possible financing alternatives
- Preliminary product line exploration

- Liaison with Government agencies for contract opportunities
- Search for a possible site location in the Shaw area

Incorporation

On December 14, 1967, subsequent to the investigations and evaluations of this planning group, the business was incorporated under the name of Fairmicco Inc. The Articles of Incorporation listed the names of three Directors and approximately one month later all vacancies were filled by election, which brought the Board to its full complement of nine. Belford V. Lawson, Jr., a Washington, D. C. Attorney, was named Chairman. Other members were:

Melvin Barmat	Director, Business Development - Fairchild Hiller; - Acting Vice President and General Manager
Roy Littlejohn	Executive Director of MICCO - Treasurer
Charles R. Braxton	U. S. Post Office Department, Area Equal Employment Opportunity Coordinator; - Secretary
Reginald W. Griffith	Architect, Director of Planning, MICCO
Wright W. Betts	U. S. Department of Treasury, Secret Service (retired)
Booker T. Coleman	Musician, Model Cities Program
Coleman Raphael	Vice President/Fairchild Hiller Corporation
Edward G. Uhl	President/Fairchild Hiller Corporation

Thus the Board of Directors consisted of six MICCO and/or community representatives and three Fairchild Hiller representatives. There was no remuneration for serving on the Board.

Ownership Plan

The initial division of equity was accomplished by the purchase of 5000 shares of Class A Common Stock at \$1.00/share by Fairchild Hiller and 10,000 shares of Common A Stock by MICCO. Since MICCO did not have the needed cash for the stock purchase, Sherman Fairchild, Board Chairman of the Fairchild Hiller Corporation, provided the funds on a "personal grant basis" to MICCO for subsequent transferral to Fairmicco.

In July of 1968, an amendment to the Articles of Incorporation was adopted by the Stockholders, whereby additional stock was authorized in the following manner:

Class A Common Stock,
Par Value 10 cents per share

Authorized	460,000 shares
Issued and outstanding	15,000 shares

Class B Common Stock,
Par Value 10 cents per share

Authorized	40,000 shares
Issued and outstanding	0 shares

Class A Common Stock was for issue to the general public.

Class B Common Stock was restricted to employees of the Company.

This authorization was in keeping with the philosophy of both Fairchild Hiller and MICCO to divest themselves of control of the Corporation. Fairchild Hiller was restricted to a total of 8000 shares of Class A stock.

The Class B stock carried a redemption privilege for a period of twelve months from the date of issuance at the option of the employee-

purchaser for cash in the amount of their book value or issuance price, whichever was higher. Conversion to Class A stock could be exercised at any time at purchaser's option, making it freely transferrable. In any event, Class B shares converted to Class A shares twelve months after issuance.

The Objectives of the Firm

Fairchild Hiller and MICCO had joined in partnership to form Fairmicco Inc., a ghetto corporation to teach the hard core jobless how to work and how to get and hold a job. Their four basic objectives were:

- (1) to assure successful trainees for jobs
- (2) to train individuals from minority groups to become managers
- (3) to enable Inner City residents to participate in the ownership of profit-orientated enterprises, and
- (4) to demonstrate a new technique of cooperation by Government, industry and the community in the planning, operation and ownership of business.

The Product Strategy

As indicated earlier in this Chapter, the product strategy was being developed throughout the formative stages of the venture. A criteria structure was formed for evaluating the various conceivable product candidates being considered for initial manufacture. These criteria included:

1. "Hard core" unemployed people must be capable of being trained to produce the products. Method of manufacture should be relatively simple, yet provide the employee with a sense of pride and accomplishment.

2. Products must be suitable for employment of both males and females, but the unemployed male was the primary target.
3. Orders placed for the selected products must cover a fairly long time period (six months minimum) so that reasonable training in a familiar job situation could be obtained.
4. The skills developed must be useful beyond the initial order or requirement and should be part of a plan to increase skill levels in a progressive manner.
5. The people and facilities must be able to compete in the normal marketplace with the products after ownership passes to the community.
6. The skill levels attainable should provide either job mobility to companies outside the ghetto or to reasonably high wages within Fairmicco Inc.

Development of the product strategy included visits to the Watts Manufacturing Company in Los Angeles which at the time was manufacturing tents, wooden boxes and shipping crates for the Government; evaluations of captive products from within various divisions of Fairchild Hiller; and, evaluation of other product possibilities. Mel Barmat became interested in the potential of woodworking products as meeting the established criteria. He had been impressed with the efficiency and production rate of the Watts Woodworking shop as compared to that of the tent operation. Tents took a week to make, while the boxes and

shipping crates were made in production line fashion in hundreds per day. Woodworking would offer the black male a skill, dignity, quick visibility to the fruits of his labor and requirements were plentiful from the Government.

The investigation of the wood product line continued and was expanded to include visits to pallet and crate manufacturers, both large (200 people) and small (5 people); the National Pallet Manufacturers Association; Woodworking Machine Manufacturers and Sawmills around the Washington, D. C. area. In addition, industrial engineering analyses were conducted on several wood products. The craft of woodworking and the products thereby produced appeared to be a viable undertaking and a decision was made to GO.

At the same time, an analysis was also being conducted for electrical products which would provide employment for women. Here the task was simpler since the evaluators had familiarity with the product line because of their association with the Fairchild Hiller Space and Electronics Systems Division. Captive products were given consideration, but inasmuch as no stability in requirement flow could be predicted and there was little to no overflow work at the Divisions engaged in these activities, this concept was discounted.⁴

In all, three product areas were selected for initial training and production; namely, woodworking, electrical and electronic assemblies, and sheet metal, as listed below:

⁴Work was subcontracted by Fairchild Hiller to Fairmicco Inc. from time to time, but no set procedure was established as Fairmicco Inc. was designed to be viable on its own merits.

Woodworking

Pallets or shipping platforms
Boxes and shipping containers
Foot lockers and/or field desks
Unpainted furniture
Card tables
Stained and painted furniture

Electrical and Electronic Assemblies

Harness and cable assemblies
Junction boxes
Printed circuit card assembly

Sheet Metal

Trash containers
Exhaust mufflers
Lighting fixtures

The products are listed in order of increasing skill level in each area. The Company began manufacture in the product lines of pallets, and electrical cable assemblies by obtaining subcontracts from the Small Business Administration, which in turn, had taken prime contracts from various Government procurement agencies. By design, each product on the above list had a commercial derivative.

Financing the Firm

The equity capitalization of the firm as stated previously, was \$15,000. Again, during the formative stages of the venture,

considerable effort was expended to secure debt financing through agencies and local banks. The only genuine interest came from the Small Business Administration and the resulting capitalization structure was:

<u>Equity</u>		\$15,000
MICCO	\$10,000	
Fairchild Hiller	5,000	
<u>Current Debt</u>		\$20,000
Fairchild Hiller Loan		
for working capital (at 6 1/2%) ⁵		
<u>Long Term Debt</u>		
Small Business Administration		\$235,000
Loan for Capital Investment		
and working capital (10 years		
at 5 1/2%) ⁶		

Further equity capitalization was to be obtained through the issuance of stock. Plans for such issue were under discussion at the time of incorporation.

⁵The loan from Fairchild Hiller was later converted to a grant.

⁶The Small Business Administration loan was received on April 16, 1968. Since Fairmicco Inc. opened its doors on February 29, 1968, purchases of machinery and equipment were backed by Fairchild Hiller.

CHAPTER IV

THE FIRST YEAR (1968)

The Announcement

On February 28, 1968, the energies of the previous months were to take form, and Fairmicco Inc. opened its doors. Excerpts from the press conference statement of Washington D. C. Mayor Walter E. Washington, are as follows:

"Last October 2nd, President Johnson called on private industry to cooperate with the government in an effort to solve the problems of unemployment and underemployment.

He did so in announcing a test program to offer new opportunities for cooperation in such public-private ventures. Washington was among five cities the President designated to share in that program.

Today we have an answer to the President's call. It is a venture which proves that business, government - local and national -- and the neighborhoods of our city can join forces to attack the urban problems that confront us all.

That venture is Fairmicco Inc.

Fairmicco is a partnership between Fairchild Hiller Corporation and MICCO -- The Model Inner City Community Organization. MICCO is a non-profit confederation of organizations, whose goal is to assure citizen participation in the social, economic and physical development of the Shaw Urban Renewal Area.

It is extremely significant that Fairmicco will give employees the opportunity to buy stock in the corporation they work for.

This is an incentive that has long been a part of the American free enterprise system and it is an incentive that has long been denied residents of the ghetto. Fairmicco

will not only give ghetto dwellers the chance to earn a living by improving their long-neglected neighborhood, but it will give them the chance to own shares of that enterprise.

I want to emphasize that getting all of the elements together in a working relationship that would actually function was no small accomplishment. It took patience, persistence and a considerable amount of "clout" to build the machinery.

Now that this has been accomplished it is crucial that everyone concerned in the Fairmicco project get to work to make it a success.

I want to thank all of those who have made the formation of Fairmicco possible: the officers and directors of MICCO, Fairchild Hiller and Fairmicco; the Departments of Commerce, Defense and Labor and the Small Business Administration; our own District Office of Special Economic Projects and the Redevelopment Land Agency."

Excerpts from the statement of Mr. Edward G. Uhl, President of Fairchild Hiller, at the same press conference were:

"Fairchild Hiller is participating in this program with the Government and the citizens of the Shaw area because we believe the American business community is uniquely suited to provide the leadership and training for the "hard-core" unemployed that will result in meaningful jobs.

The decision to pursue this venture is based on the Company's conviction that it has a social as well as an economic responsibility; in this instance, an obligation to help create a more viable community in which these people can live productive lives, in dignity, and contribute to a more prosperous America."

Getting Organized

The first order of priorities was facility acquisition, capital equipment acquisition, Government contracts and manloading.

Facility Acquisition - Investigations had been underway to locate a suitable facility to house the offices and production operations of the firm. Nothing could be found in the Shaw area; however, a

satisfactory warehouse building was available just a few blocks outside the area, yet within walking distance. This building formerly belonged to the Woodward and Lathrop Department Store but was presently owned by the District of Columbia Redevelopment Land Agency. A two-year lease arrangement for the second floor was consummated with this agency for an annual rental of \$44,580. The space leased, 52,000 square feet, was suitable to house both the capital equipment contemplated and to accommodate a production work force of 200 employees.

Capital Equipment Acquisition - Initial capital investments for machinery, equipment and leasehold improvements ran approximately \$75,000. Purchases of the following type machinery were made:

Wood Products

automated nailing machines

industrial saws

routers

Chamfering Machines

notching machines

cleating machines

pneumatic nailing and stapling machines

pneumatic screw driving equipment

Electrical and Electronic Products

electronic assembly stations

resistance soldering facility

automatic precision wire cutters

automatic precision wire strippers

automatic tube and marking machine

Outlays continued throughout the year to total approximately \$100,000.

Government Contracts - Initial liaison with Government agencies resulted in contract opportunities with the Department of Labor's Manpower Administration for job training of shop personnel, the Department of Commerce's Economic Development Administration for management training and the Small Business Administration for hardware supply contracts.

The first contract received was awarded by the Labor Department for a total of \$112,242 on February 29, 1968. An amendment several months later for additional training brought the total to \$236,001. The contract for shop personnel training stipulated that no less than 70 people were to be hired, and to achieve this level of employment 114 trainee-employees were to receive training.

On April 23, 1968, the Small Business Administration awarded Fairmicco Inc. their first product contract calling for 50,000 wooden pallets built to military specifications totaling \$244,290. Initial deliveries were to commence in June.

Shortly thereafter, the Small Business Administration awarded Fairmicco Inc. a second contract totaling \$73,165 for 18,297 electrical cable assemblies to be delivered to the U. S. Army Electronics Command. Deliveries were to commence in August.

The Economic Development Administration awarded a contract

to Fairmicco Inc. totaling \$20,639 for the purpose of training management over a period of twenty weeks with the assistance of Fairchild Hiller. Such personnel to include a General Manager, Personnel Specialist/Manager, Finance Department Supervisor, Administrative/Executive Secretary, Maintenance Supervisor and Security Officer. At the same time Fairchild Hiller received a contract for \$32,750 to provide the required training.

Manloading (Production Personnel) - The major objective of training was to hire the hard-core unemployed from the Shaw ghetto and provide them with permanent job opportunities within the business. Fairmicco Inc. had little difficulty in securing the required personnel, and in fact, had more applicants than openings. MICCO assisted greatly in the hiring of personnel by bringing the message to the people. The services of other agencies, such as the Washington Concentrated Employment Program (WCEP), United Planning Organization (UPO) and Pride Enterprises were also solicited. The shop personnel hired were, in fact, hard-core unemployed, and many came to Fairmicco Inc. with past criminal histories.

Manloading (Management Personnel) - The hiring of management personnel presented an entirely different set of circumstances, whereby positions available were extremely difficult to fill. Advertisements were placed in the Afro-American Newspaper for a General Manager, Treasurer, Secretaries, Guards and the like, with not a single application forthcoming in six to eight weeks. The advertising campaign was somewhat encumbered as the "equal opportunity employer" concept was working in reverse, since in keeping with the corporate goals, the intention

was to hire blacks for these management positions. Finally, through advertisements in the Washington Post, and with the aid of a black columnist from that newspaper who wrote a very descriptive article concerning the Company and its problem, on April 14, 1968, applications began to come in. A President and General Manager was hired on June 1, 1968.

Wages - The starting wage for production worker-trainees was set at \$1.60/hour. Incremental increases of \$.10/hour every thirty days followed to \$1.80/hour at the time of training program completion. A "merit system" provided for increased wages from that point, with initial monthly reviews.¹

Training Programs

The training program for shop personnel commenced with the woodworking activity. The program consisted of essentially a twelve week effort, with the first three weeks designed for classroom and demonstration activities including training films. The balance of the program was spent at on-the-job training (OJT). The content of the program included:

First Week

Orientation

Course Background

Introduction to Packing Industry

Safety

¹ Present starting wage is \$1.80/hour with average for the shop at \$2.30/hour. High competence employees are in a \$3.00/hour range and top scale is \$3.50/hour.

Pallet and Shipping Container Components

Basic Arithmetic

Introduction to Materials--Wood Characteristics

Progress Evaluation

Second Week

Quality Control and Inspection

Construction Faults

Trade Orientated Communication Skills/Documentation

Fork Lift Truck Operation

Tools of the Trade

Progress Evaluation

Third Week

Student operation of machinery, construction of sample pallets and shipping containers, and progress evaluation.

On-the-Job Training

During this training period, the employee-trainee was exposed to the "actual doing" of all phases of pallet and shipping container production, including quality control and material control. One explicit goal of the program was to avoid having the student specialize in any single phase of the trade.

At a later date, a similar program was instituted to train those hard-core employees being assigned to the electrical products group.

In addition to the above shop personnel training programs, Fairmicco Inc. and Fairchild Hiller received complementary contracts, as stated

previously, from the Department of Commerce (EDA) for twenty weeks of on-the-job training covering Management personnel. The development training effort was to ultimately provide Fairmicco Inc. with personnel capable of performing in the functional areas of overall management, financial management, maintenance and security. This EDA monetary support was provided, since it was virtually impossible to recruit experienced blacks for these positions at Fairmicco Inc. On-site managerial training was accomplished pretty much on a one-to-one basis by personnel from the Fairchild Hiller Corporation.

Customer Base

The customer base from the beginning was the U. S. Government in the form of the Small Business Administration, which predominated throughout the year; however, an effort to move into commercial wood products was somewhat successful toward year end. Contracts for wood products were received from several companies in and around Washington, D. C., such as Devling Lumber Co., Judd & Detweiler, Fawcett-Haynes Printing Corp., Decker Distributing, Washington Wholesale Drug Exchange and the Frank Parsons Paper Co. Sales to these accounts included pallets and door frames, and for the month of December 1968, approximated \$16,000 out of \$41,000 total. Nevertheless, the bulk of the backlog was for Government business. The electrical shop was producing exclusively under Government contract.

Problem Areas

The problems encountered by the new enterprise were greater, as one might expect, than those normally associated with the start-up of a new business, for this was a black enterprise with offices in the ghetto, providing jobs for hard-core unemployed. Several of the significant problems were:

Management Personnel - The recruitment of a management staff as mentioned previously, presented many difficulties, primarily because of the dearth of experienced people available. Few blacks had ever been given the opportunity to gain the qualifications necessary for the conduct of a manufacturing business. The President and General Manager hired by the Board in June of 1968 turned out to be a disappointment. He was an able administrator, but too sympathetic to the excuses of the day. As a retired Air Force Colonel, he lacked the industrial experience required for the job. His tenure was to last approximately nine months. Mel Barmat assisted the General Manager for an approximate four-month period and became increasingly aware that the Company needed operations expertise. In September 1968, Tom Vincent, Fairchild Hiller's Corporate Director of Operations, was assigned to Farimicco Inc. to lend assistance.

Performance and Productivity Contract performance was poor both financially and from a delivery standpoint. The supervision

and shop personnel had difficulty in understanding the importance of maintaining schedules, which resulted in excessive costs. Ammunition boxes which Fairmicco was selling to the Government for \$4.50 each initially cost \$8.50 each and by year end, \$7.00 each. The same cost relationship prevailed in the manufacture of pallets, door frames and electrical cables. Other significant reasons for these extraordinary cost variances were (1) poor shop supervision, (2) employee turnover and absenteeism.

Experienced supervisors were not only difficult to find but also in some instances, to promote. Mel Barmat comments that although most of the workers were uneducated, many were very bright; but, when offered supervisory positions, refused them for fear of being classified as "toms". He indicated that after several months of persuasion, they were finally able to get one man to accept a supervisory job. Two other black supervisors were pulled from Fairchild Hiller's operating divisions. In the Electrical Shop, men were utilized to supervise the women workers, but this proved extremely ineffective. Productivity was low and quality poor, as the men were unable to control the women. Management also received complaints from some of the women that the men were showing favoritism.

Employee turnover contributed greatly to poor performance. In the first nine months of operation, some 175 persons were hired for 57 jobs. Tom Vincent made note of the problem in the First Annual Report - "besides those who left for better jobs (and there were a few) others left because they couldn't, or wouldn't adjust to the

training, the daily work routine, or otherwise do what was expected of them."

Absenteeism, especially on Mondays, was another chronic problem contributing to poor performance and disruption of production schedules. Several attempts, largely ineffective, were made to reduce the level of absenteeism, such as revising payroll schedules from Friday to Monday and instituting work rules for attendance and tardiness. If a worker was habitually late or absent, he was given a warning, then a day off without pay; if he still continued the practice, progression went to three days, five days and finally, dismissal.

The problem areas of turnover and absenteeism were only serious in relation to the male employees. The women were reasonably reliable in these respects. During the interviews conducted, it was obvious that these two problems hampered the operations greatly, and they were extremely frustrating experiences for management - problems for which it was difficult to find a solution. A passage from Elliot Liebow's book, Tally's Corner, (a random study of two dozen black men who shared a street corner in Washington, D. C.) allows one to gain insight about the nature of these problems and to empathize with the black worker.

"When we look at what the men bring to the job rather than at what the job offers the men, it is essential to keep in mind that we are not looking at men who come to the job fresh, just out of school perhaps, and newly prepared to undertake the task of making a living, or from another job where they earned a

living and are prepared to do the same on this job. Each man comes to the job with a long job history characterized by his not being able to support himself and his family. Each man carries this knowledge, born of his experience, with him. He comes to the job flat and stale, wearied by the sameness of it all, convinced of his own incompetence, terrified of responsibility - of being tested still again and found wanting."²

Operational and Competitive Problems

During 1968, woodworking products dominated the sales picture and constituted the biggest "money loser". There were several operational problems contributing to the excessive costs, such as (1) rigid military specifications placing strict requirements on types of wood, hardness, moisture content, etc., with essentially no allowance for deviation; (2) mistakes occurring during on-the-job training whereby thousands of board feet would be scrapped - lumber couldn't be stretched; (3) materials handling problems because of facility layout and (4) excessive raw material transportation costs.

Competitive pressures were also always in evidence as there were many manufacturers of pallets and boxes. Even though contracts were negotiated sole source with the SBA, contractors were required to be reasonably competitive. Many of Fairmicco's competitors were located in Maryland and Virginia, close to the source of raw material supply and some were even located at the saw mills.

Financial Problems

Cash flow was always critical and on several occasions Friday

²Elliot Liebow, Tally's Corner, p. 53-54, Little, Brown and Company Inc., Boston, Toronto, 1967.

morning deposits were made to cover Friday afternoon payrolls.

The Annual Report

The First Annual Report was presented at the Fairmicco Inc. offices on February 20, 1969, by Tom Vincent who had become Vice President and Acting General Manager of the Company. The report covered the Company's activities for the first nine months of operation April 1 to December 31. Sales totaled \$376,125 (including revenues from the training contracts) and losses were reported at \$144,565. Backlog of orders as of December 31, 1968 were listed at \$595,448.

Although the financial picture was not a glowing one, optimism remained high. An excerpt from the report reads as follows:

"We are moving along on our learning curve. Costs are going down, capability is going up. I can say with confidence that Fairmicco will be making a profit before the year is over.

Meantime, ownership of Fairmicco remains in the hands of MICCO and Fairchild Hiller. Because neither wants to shift the ownership of Fairmicco to residents of the community as long as the Company is in a loss position, the Board of Directors is withholding SEC registration and the issuance of stock. When the community can be assured that Fairmicco is making a profit and is thriving, MICCO and Fairchild Hiller will distribute their holdings to the people of the community.

So far I have been talking about economics primarily. I would also like to mention an equally important facet of Fairmicco's existence, one of which the Company has experienced quite a bit of success. That facet is sociological. Currently on our payroll are 57 persons. Most of them never held a steady job before. In some cases, they weren't trained for anything; in other cases, they had police records; and in still others, they were complete dropouts from society. Today, they are training

for skilled work and receiving wages every week. For every one who had been on relief, the Government now saves \$248 a month, most of that originating from support payments and the remainder from taxes the Government now receives from these very same people. Fairmicco has transformed tax eaters into tax payers.

In addition, there are other persons who are no longer with Fairmicco, but who received their initial training here and moved on to better paying jobs elsewhere.

Finally, there is the intangible but important gain in self-confidence and self-respect. Every Fairmicco employee knows that with each passing day he is gaining in skill and experience and is preparing for a more productive, better paying future. And he also knows that he is paying his own freight, that he is not beholden to anyone or agency for handouts³

³Fairmicco Inc. Annual Report 1968,

CHAPTER V

THE SECOND YEAR (1969)

A Change In Management

In February, Tom Vincent took over the management of Fairmicco as Vice President and Acting General replacing the original black president who had resigned. At the time this change was made, the Fairchild Hiller management was deeply concerned about possible repercussions from the workers since a white manager was contrary to the very theme being expressed by Fairmicco. The Personnel Manager (who was himself black) announced the change to the employees and to everyone's surprise, the workers were elated. The incident was an apparent expression of the anxieties that had been building within the workers regarding the management of their company. Vincent says, it was the greatest vote of confidence he received while at Fairmicco.

One of Vincent's first assignments was to locate his replacement - a black President and General Manager. He enlisted the aid of Fairchild Hiller's Corporate Personnel Department to accomplish this task.

New Product Line Considerations

Vincent had been convinced for some time that it would be necessary to soften the losses in wood products, especially government wood

products, which imposed rigid specification requirements. Actions taken to expand the product lines included:

1. Greater diversification into commercial wood products including prefabricated housing sections. These commercial products allowed for greater deviation in manufacture, thereby providing Fairmicco more flexibility, which was something extremely difficult for the Government to accept under their contracts. The ratio of Government to commercial business came close to reaching a 50-50 status.
2. Increased emphasis on electrical and electronic componentry, as this product line was starting to show its potential for profit.
3. A new key punch service to handle billing, personnel analysis and control, material inventory and other business operations for firms in the Washington, D. C. area. Diversification into this service field was accomplished at little expense and with no heavy capital outlay. The key punching machines were rented from IBM and a 30-day notice of termination clause allowed easy exit, if necessary.

A New President and General Manager

In April 1969, Don Yancey was hired as Fairmicco's President and General Manager. Yancey came to Fairmicco from North American

Rockwell, of Los Angeles, California, following eleven years of employment. He is an Engineering Graduate of Howard University, and while at North American, worked as a Design Engineer on the B-70 Strategic Bomber, the Paraglider and Apollo Spacecraft Program. His position immediately prior to joining Fairmicco was Manager of Data Products for the Nartrans Corporation, a North American Rockwell subsidiary. Nartrans is a company similar to Fairmicco, and employs approximately 400 hard-core people. Yancey was managing 130 of these people and Data Product Sales were \$1.3 million dollars.

Since his background lacked extensive experience in Financial Management, he was initially assigned to Fairchild Hiller's Germantown, Maryland, headquarters for several weeks to receive training in this discipline. He commenced work at Fairmicco in early May.

The Company Becomes Profitable

Vincent handed the operation off to Don Yancey during May, and assumed an intermittent support role for the next two months, visiting once a week or so until his resignation from the Board on August 1, 1969. In June, the Company realized a very small profit, largely due to the fact that commercial wood products had eased the overall losses in the wood department, and the Electrical Products Group became profitable enough to offset the residual losses. Further, start-up costs for the new key punch service had not yet been realized. Fairmicco was unable

to sustain this profitable posture, however, and returned to a red condition, shortly thereafter.

Emphasis on Performance

As did Vincent, Yancey continued to place emphasis on shop performance and higher productivity. He sought more discipline and established and enforced performance evaluation measures. Some of the workers rebelled against these tactics, stating that Fairmicco was a "social program". Yancey's comments were that "Fairmicco has to operate like any other business to survive", and continued to push forward with his programs. On occasion workers were discharged from the Company for poor performance.

A New Business Plan

Losses continued, and in September of 1969, Bill Borten, Assistant General Manager of Fairchild Hiller's Space and Electronics Systems Division, was asked by Ed Uhl and Coleman Raephal, to assist Fairmicco and Don Yancey in two areas; namely, Financial Management and Operating Procedures. Yancey and Bill Borten had worked together previously, when Yancey was at Fairchild Hiller's headquarters for training.

They proceeded to reevaluate the product line and business operations. After spending over a month on the project, they produced a comprehensive business plan which received the approval of the Board of Directors. The plan contained complete actual and forecast financial data by product for the years 1969 and 1970. The purpose of the plan was twofold:

(1) it would be used by Fairmicco's Board and Management to plot the most prudent course of action for 1970, and (2) it would be circulated within the Government agencies so that they could better visualize the problems and inner workings of Fairmicco.

The plan clearly illustrated the futility of retaining the wood product line. The year 1969 was again going to show a loss and if wood were to be continued, 1970 would present the same circumstance, but to a lesser degree. (In addition, a substantial capital investment was required to update the woodworking equipment, if Fairmicco was to remain in the business and at all competitive.) However, by concentrating on electronics and key punch operations, the Company could move into the black. The decision to drop wood products was made by the Board.

The plan called for the continued support of the Government, especially the Small Business Administration and Department of Labor. Sales projections for 1970 were \$1.2 million, up from a 1969 projection of \$1.0 million. Achieving the forecasted sales level would require the assistance of the SBA in obtaining new Government contracts for electronics hardware and key punch services. Shipments from the Electronics Department were projected at roughly double that of 1969 levels in order to absorb the overhead normally borne by wood products. Training contracts were also needed from the Department of Labor for key punch operator training and to upgrade the skill levels of

employees in the Electronics Department. As of April 1969, the Department of Labor had provided a total dollar value of approximately \$340,000 (a \$116,000 amendment to the original contract had been received to support training programs in early 1969). Since April, training contracts had covered only "counselling" at approximately \$1000/month. The new training programs envisioned would require about \$100,000 in additional monies.

The business plan also included a complete cash flow analysis for the year 1970 and it clearly pointed out the necessity for refinancing. The 1970 projections indicated sustained profit realization would not occur until mid-year and as a result the plan contemplated a \$240,000 stock issue to be sold during the period between May 1970 and November 1970. The time required for issue resulted from restrictions on the stock quantity that could be held by any one individual or organization. Ownership was to be widely dispersed.

Last, but not least, the plan reoriented the objectives of the firm. Heretofore the motivations of Fairmicco Inc. had been primarily "social" and secondarily "profit". The order of these objectives were reversed for survival.

Upon review of the business plan, the Small Business Administration expressed a keen interest in the new program and indicated they would be able to provide 80% of the sales volume required, thereby assisting Fairmicco in achieving its goals. Yancey and Borten had already seen

the need for an "in-house" marketing man and Fairmicco's first salesman was to be hired in December of 1969 and assigned the task of securing the other \$250,000 of business needed to meet the forecast.

Fairmicco and the Department of Labor were already in negotiations regarding a key punch operator training contract and a firm agreement was consummated in early 1970 for approximately \$75,000.

Problems and Persistent Problems

One problem which was becoming more and more apparent as time passed was the lack of participation on the part of various Board members. An agreement was reached to upgrade the membership, so that all could make contributions of advice and wise counsel which was so necessary if Fairmicco was to have a profitable and prosperous future. Further, that members who were unable to participate or were habitually absent would be replaced. During 1969, three new members were elected to the Board, as follows:

Rev. Walter E. Fauntroy - President of MICCO

Dr. Dudley W. Gill, Jr. - Management Consultant
Department of Commerce
Economic Development
Administration

Dr. Edward D. Irons - Department Head of Business
Administration, Howard University

Don Yancey was elected to Directorship in mid-year, replacing Tom Vincent and one member resigned. The complement stood at eleven members.

Several other problems persisted throughout the year, namely,

Low Performance and Productivity - The emphasis on upgrading performance was to continue, especially since the primary objective had been changed to a "profit motive".

Continued Losses in Wood Products - A decision had been made to drop the line.

Turnover and Absenteeism - Eighteen month statistics showed 280 persons hired with 85 people in the work force. Much of the solution to this problem was offered by the decision to eliminate wood products, as the mix of employees, male to female, which had been running at least 2:1, would be more than reversed.³ The women employees had continued to show their reliability throughout the year.

Working Capital - A continual problem with no relief in 1969. Major campaigns were underway to refinance the Company.

Summary of Second Year Operations

Sales for 1969 totaled approximately \$1,050,000 including training contract revenues and losses ran to approximately \$98,000, including a sizeable write-off of equipment losses due to discontinuance of the wood product line. During the year, losses in wood products continued heavy and the key-punch operation was experiencing start-up difficulties. The Electronics Product Group, however, was showing an approximate

³An agreement had been made with Dico, a subsidiary of the Martin-Marietta Corporation, to pick up some of the better wood working employees as the transition was accomplished.

10% profit. At year end, the backlog was approximately \$200,000. For the year, the product mix consisted essentially of 60% wood products and 40% electronics. The contribution to sales by the key punch operation was negligible.

CHAPTER VI

DIVESTITURE BY FAIRCHILD HILLER

Events Leading to Divestiture

New Business Environment - Conditions continued to go from bad to worse in early 1970. In accordance with the business plan, the phase-out of wood products was initiated in late 1969 and completed in early 1970. In fulfilling some contracts, work was let outside. The key-punch service was underway and a training contract had been received, but the line was not profitable and competition was fierce. The most detrimental circumstance, however, was the lack of forthcoming contracts from the Small Business Administration. Largely due to the fall-off of the U.S. economy, no new bookings were received from this source for a period of nine months following submittal of the plan. The failure of this business to materialize caused losses to mount as the months passed, since overhead rates utilized in the plan were based upon a specific production volume. The work force dropped to a low of 45 people engaged solely in electronics and key punch operations.

Marketing activities on the part of the newly hired salesmen were unsuccessful, and it was necessary for Yancey to step into the breach and become the company's chief salesman. He was extremely successful bringing in several hundred thousand dollars in new business, but still not enough at this point to fill the void left by the SBA.

Refinancing Package - During the period from October 1969 to April 1970, a \$300,000 refinancing package became the company's top priority. With the continued losses and no immediate end in sight, equity financing through a public stock offering was out of the question. Private offerings were evaluated, but Fairchild Hiller's legal counsel pointed out several caveats in such a move and deep concern over liabilities for making false representations.

Several meetings set up by the Reverend Walter Fauntroy were held with influential black community leaders to enlist their financial support, but were unsuccessful. Ed Uhl and Bill Borten visited the Department of Commerce and the Small Business Administration, and both agencies said they would provide loan guarantees if monies were forthcoming from Fairchild Hiller and the community.

Discussions with the Labor Department were also conducted, but their main thrust remained the training of people. Several other Government minority business enterprise agencies were visited, but to no avail. Borten had talks with the Vice Presidents of several Washington, D. C. banks for loans based on 90% guarantees from the SBA. One bank expressed an interest, but required a 100% guarantee and would not accept Fairchild Hiller's offer to back the other 10%, stating that a single backer was a requirement. All the banks thought the Fairmicco project was a "wonderful thing", but money was becoming tight, and there were many less risky ventures in which to invest. Foundations were contacted, and here interest was shown, and it appeared that a

commitment would be made, but unfortunately, grants were not forthcoming.

Finally, Fairchild Hiller offered to donate \$75,000 if the community and others (banks, foundations, SBA, etc.) would provide the balance, but no funds resulted from this offer.

Divestiture

Following the unsuccessful attempts to refinance the company, Ed Uhl felt there was really nothing more that Fairchild Hiller could contribute to Fairmicco, and resigned from the Board of Directors in June 1970. The company was essentially operating on its accounts payable and this was not a satisfactory condition. The following month, Coleman Raphael also resigned, completing divestiture. Fairchild Hiller's 5,000 shares of stock were donated to MICCO, under an option plan for Don Yancey. Following divestiture, the company's name was changed to Micco Industries.

Attitude of the Blacks Toward Divestiture

Although time did not permit a sufficient sampling of black attitudes concerning Fairchild Hiller's divestiture, Don Yancey did indicate he thought the timing was about right. Fairchild Hiller's involvement had extended through two and a half years; Borten had returned to his duties at Fairchild Hiller's headquarters in April and Yancey was executing his responsibilities as President and General Manager with enthusiasm and was perfectly willing to be left on his own. Further, management assistance on the part of Fairchild Hiller could

very well have brought on ill feeling, for the venture consistently had as its focal point the development of black management and black ownership.

CHAPTER VII

MICCO INDUSTRIES - 1970 TO PRESENT

Operations for 1970

Several events took place of an operational nature just prior to Fairchild Hiler's divestiture which are worthy of note.

Backfire of the Incentive Program - Continuing to place emphasis on performance and productivity, Yancey instituted an incentive system in the Electrical Cable Shop during April. The system was essentially a "piece work" plan which rewarded the more productive workers. It was implemented with little advance notice or consultation and immediately caused the resignation of two male supervisors and the walkout of thirty-five women. These employees registered a formal complaint with the Labor Department, but since such incentive systems are commonplace, their argument was invalid.

In order to meet production schedules, Yancey was forced to hire twenty new women from a local training center. The incident received considerable coverage by the Washington, D. C. press. Eventually all but eight women were rehired.

Following this walkout, supervision in the Cable Shop was turned over to women and Yancey finds this to be a much more productive arrangement. He says, "women are much better

supervisors of women than men."

Yancey admits that he made a mistake by moving "too fast" with the incentive program and realizes now that in order to familiarize the employees with the concept, he probably should have run both the incentive and standard hourly wage programs simultaneously for a period of time.

Rent Reduction - In May, Fairmicco was able to reduce the facility rent from \$3700/month to \$1200/month by threatening to move to a much smaller building. The elimination of wood products had decreased their floor space requirements considerably.

Termination of the Key Punch Service - In June, the key punch service was terminated because of continued losses which totaled \$57,000 over the ten month period it was operated. Fairmicco's product line reverted exclusively to electrical and electronic componentry with the elimination of this service.

During the last two quarters of 1970, Yancey continued to emphasize these priorities which would lead the company to a profitable position; namely, (1) a new financing package; (2) requirements for short term working capital; (3) new business; (4) improved shop efficiency and (5) investigations leading to product diversification. His activities in these areas were as follows:

New Financing Package - Yancey engaged in a campaign whereby he sent letters to the Small Business Administration, the thirteen largest foundations in the U.S., the fifty largest banks, the

fifty largest insurance companies and fourteen Washington, D. C. banks seeking financial assistance. Some of those contacted did not reply, others said no, and still others expressed interest only if for "social good" not profit motive. Genuine interest was expressed by one foundation and again by the Small Business Administration.

Short Term Working Capital - Micco Industries reached a break-even condition in mid-1970 and continued to maintain that posture for the remaining months of the year. In fact, during several months they turned in a small profit. Fairmicco Inc. however, had for many months been operating on its accounts payable, and to set up more favorable relationships with his creditors, Yancey took a frontal approach. He sent letters or made personal contacts to all holders of deficient accounts on a regular basis, explaining the purpose and position of Micco Industries, and requesting patience. Micco's creditors have been most understanding and one in particular said, "I can't get mad because you come to see me all the time". The Small Business Administration also continued to do their share by deferring payments on the initial \$235,000 ten year loan as the circumstances necessitated.

New Business - During 1970, the Small Business Administration was only able to provide \$38,000 of new business because of the economy slide. Yancey, however, was able to take up much of the

slack by securing approximately \$900,000 of new commercial work for the Company. The customer mix changed to 96% commercial and 4% Government. Customers such as IBM and Western Electric "bent over backwards" to assist Micco's business needs, including payments on a weekly basis. Other major customers included Ford, Philco Ford, Black & Decker and NASA-Goddard. One very persistent problem in the marketing area, however, was Micco's inability to obtain the services of a satisfactory salesman. Two men had been hired during 1970 to handle this activity but were unsuccessful, and Yancey had to take over, which, of course, pulled him away from the operations of the plant.

Production Shop Performance - As in any going concern, continual efforts were being made to upgrade shop efficiency. Yancey has instituted a formal procedure through his Production Manager and Supervisors rating employee performance every thirty days. New hires are expected to achieve job performance within approximately ninety days.

Product Diversification - Yancey holds the conviction that Micco Industries should not become too dependent on a single product line; and consequently, he is searching constantly for new opportunities. The present line embodies the manufacture of a variety of electrical cables, refurbishment of telephone cords, inspection of electronic substrates and the assembly

of print circuit boards and electronic components. Yancey is presently setting up facilities to accommodate the rebuilding of TV picture tubes and investigating other new areas including rebuilt automotive components, such as starters and generators. His diversification efforts concentrate on products of high margin, having learned his lesson well from Fairmicco's experience with wood products.

At the close of 1970, sales registered by Micco Industries stood at \$600,000 and losses were recorded at \$40,000, most of which resulted from the first two quarters of operation. The backlog entering 1971 approximated \$800,000 and was made up almost exclusively of orders for electrical and electronic components. A small contract had been received for some welded sheet metal assemblies.

Operations for the First Quarter 1971

During the first three months of 1971, sales have averaged about \$40,000 a month under conditions of break-even, to small profit. Projected sales for the year are \$800,000 and profit, of course, will depend very much on performance, but Yancey is optimistic that 1971 will be the turning point. Employment of the firm stands at sixty-five people - fifteen males and fifty females.

One very encouraging sign for the Company's future is an approximate \$450,000 refinancing package now being formulated with the Small Business Administration and a private foundation. Such new financing will give Micco Industries the flexibility in decision making they so desperately need.

CHAPTER VIII

CONCLUSIONS AND RECOMMENDATIONS

Fairmicco Inc. - Success or Failure

A categorical assessment of Fairmicco Inc. as success or failure is difficult, unless a strict quantitative judgment is made with the sole criteria being profitability. Answering the question on that basis, the initial three years of Fairmicco's operation must be considered a failure. However, an attempt at black capitalism or black economic development deserves to be evaluated on a more qualitative basis. Few ventures in black economic development to date have turned out to be successful. The functional roles required are the same as that in any other business; marketing, finance, production, industrial engineering, etc., but because of circumstances, additional pressures are placed on management.

Fairmicco Inc. had several broad objectives (See Chapter III) at the time of formation and an evaluation against these objectives presents the following tally:

(1) To Assure Successful Trainees of Jobs - Partially Successful

The intent of the venture was to create a viable manufacturing company, completely independent of sponsoring agents. Fairmicco was not to be a "plantation in the Ghetto". This concept insured

jobs for those people completing the training programs and in the majority of cases, the effort was effective. In all, approximately 350 people entered training. Today the Company employs 65 people, some of whom have been with Fairmicco since inception. Others have gone on to better jobs and still others left because they couldn't or wouldn't adapt to their new environment.

One underlying theme of this objective was job opportunities for the black male. Here little success was realized since 75% of the Company's work force is currently female. The unique circumstances of high turnover and absenteeism associated with the male work force caused insurmountable problems for this small company struggling for survival in a competitive environment. Fairmicco was not in a position to sustain the continual financial losses resulting from low productivity.

(2) To Train Minority Group Individuals to Become Managers -
Partially Successful

Fairmicco experienced a considerable turnover in its management ranks, but even those who didn't work out or left undoubtedly gained some expertise during their association with the Company. Today, Micco Industries has a management structure which includes Managers in Finance, Purchasing, Production and Quality Control, an Administrative Assistant (White), several Shop Supervisors and President, Don Yancey. These managers and supervisors are now conducting the affairs of a going Company with about \$1 million

sales per year and each day are further developing their skills.

Fairmicco has provided these career opportunities.

(3) To Enable Inner City Residents to Participate In Ownership of a Profit-Oriented Enterprise - Unsuccessful

To date, the Company has been unsuccessful in meeting this objective. True, the firm is owned by a community organization, but the intent was ownership by Inner City residents as individuals. This objective may eventually come to pass, but before stock issues can become a reality, a profitable base must be established. Success breeds success and 1971 may be Micco Industries' year. If the new financing package is consummated and this working capital brings profits, these in turn will bring additional equity capital and a "piece of the action" to the black community.

(4) To Demonstrate a New Technique of Cooperation by Government, Industry and the Community - Partially Successful

Fairmicco came into existence only through the combined efforts and cooperation of Government, industry, and the black community. There has been much written in the literature about industry/black community partnerships and the lack of mutual understanding and trust between partners. On the contrary the relationship between Fairchild Hiller and Micco is an example of such mutual understanding and trust. Although there were occasional disappointments in each other's performance, the cooperative bond was reasonable strong.

The View Looking Back

With the advent of Spring 1971, Fairmicco/Micco Industries begins its fourth year of operation. The enterprise has survived many difficulties during its short life and Yancey is hopeful that they are happenings of the past. It is worthwhile to look back and recount some of the more significant events and circumstances which have affected the Company. This view back is not made with "hindsight is twenty-twenty" flavor, but rather for the purpose of identifying and summarizing certain issues.

One fact that came to light during the interview with Mel Barmat concerns the pressurized atmosphere existing during the formative months of the enterprise. President Johnson had expressed the commitment of the country and urgency was in the air. Barmat indicated that a competitive environment appeared which found industry competing with industry, Government agencies and local offices with each other, and community groups with community groups, to get programs underway. This environment hastened the planning phase of the enterprise to be. It would be wrong to say these conditions should not be tolerated, because America was indeed built on such competitive spirit. What is needed, is an awareness and recognition of these facts, so that the goal does not become influenced in such an atmosphere.

The false start with the first President and General Manager was a setback and valuable organizing time was lost. This situation was further amplified by the difficulties encountered in securing experienced

second-line management personnel.

The heavy financial losses in wood products set the Company on the defensive during the first year of operation and stripped away its working capital. The equity capitalization was extremely low at \$15,000 but with the initial SBA loan (\$235,000 for equipment and working capital) the \$256,000 for first year training contracts and the supportive services of Fairchild Hiller, it appeared that sufficient funds were available. These monies were not adequate, however, as operating costs far exceeded estimates. One possible reason for this could very well be this country's continual under-estimation of the gap that exists between white America and the black America of the "hard-core" segment.

Absenteeism and turnover contributed heavily to the operating losses of the firm and unlike "social programs", there was no room to absorb these losses.

The U.S. economy downslide thwarted the efforts of the Government (SBA) to continue product contract support of Fairmicco thus causing a major deviation to the firm's projected business plan. The tight money market resulting from this downslide also contributed to the nonacceptance of their refinancing package.

The inability to get solid participation from several Board members lost to the Firm the asset of a fully participatory Board of Directors.

All these experiences are history now, and the Company is continuing its fight for survival. Yancey needs working capital and has a proposition underway; new business, which he will handle himself temporarily, and a good salesman, which continues to be a problem. The Firm's operations have achieved a break-even to small profit condition over the past nine months. Yancey's goal is to establish a strong profitable base and then pursue the black "hard core" male and bring him back into the Company. As Yancey says, "It looks like I'm not doing anything for the community, but we must survive first. Then I've got to get the men back in here and give them something better than raking leaves."

Observations and Recommendations

This research project has been rewarding because the subject matter is interesting. What makes it interesting is that the problem analyzed is serious in nature and very much "real world". It was easy to get caught up in the project, just standing on the side lines. Success to Fairmicco/Micco Industries is like seeking the Holy Grail, and so far, it has been all frustration, but hearts are not faint and optimism continues to remain high. It is important to make several observations and recommendations:

- 1) The individuals who have been involved with the management of Fairmicco/Micco Industries say it can't be done with "hard core" employees only, in a profit-oriented firm; for social purpose, Yes, but

profit motive, No. Yancey goes even further, saying it shouldn't necessarily be all black, because it lacks realism. The equal opportunity representative accused Micco Industries of going the wrong way in reverse. They now have several white employees.

2) The Government needs a sharper focus in regard to assistance programs for black economic development. When Fairmicco Inc. attempted to put together a refinancing package, a host of agencies were contacted, such as the Small Business Administration, Department of Labor, Department of Commerce, Office of Economic Opportunity, Office of Minority Business Enterprise, etc., and each was concerned with its specific responsibility, but none with the overview. More centralization is probably required - a focal point for minority business enterprise.

3) Training contracts do not provide sufficient funds to solve the problem. Even though the contracts awarded to Fairmicco covered wages for trainees and instructors, payroll related expenses, materials, and various overhead expenses, ends would not meet. More, more and more training is required for the "hard core" worker. Department of Labor negotiations for training contracts are similar to those for major weapon systems; i.e., conducted under the same ground rules. If more latitude were possible small incremental increases in training funds might spell the difference between successful and unsuccessful programs. Additional research is required in this area to determine if the full training cost for the "hard core" worker is quantifiable. This would greatly assist future black economic development programs.

4) The commitment and priority of the Government toward minority business enterprises has often been proclaimed. The small amount of monies involved (in FY 1968 the SBA made loans of 30 millions to minority communities and in FY 1969, 100 millions plus) as compared to other national budget line items, receive no insulation from the economic cycles of the country. If the commitment is to remain real, insulation must be provided.

5) The black community must participate with its expertise. It appears that much of the black talent has been "creamed" by large industry, leaving black business high and dry for management experience. It will be necessary for some of these individuals to make sacrifices in order to achieve parity for their race. Sacrifices, such as those being made by Don Yancey, who has other career opportunities, but is concerned about the workers at Micco Industries who do not.

6) Finally, for the serious student of black economic development, Micco Industries is still in business and much can be learned by tracking their progress. In addition, time did not permit an analysis of Micco Industries' impact upon the community. This would also make an interesting study, especially since the intention of the Company remains community ownership through stock issue.

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