Linking Business Development and Community Development in Inner Cities

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In inner-city neighborhoods, business development can promote community development by expanding employment, improving consumer services, creating markets, rehabilitating real estate, and fostering community leaders. Community development can create business opportunities in those neighborhoods by reducing firms' operating costs and expanding markets. When these linkages are selectively and creatively exploited, pairing business development and community development can achieve more than pursuing each independently. Examples from four U.S. cities—Chicago, Los Angeles, Miami, and Pittsburgh—are used to relate the literature on inner-city business and community development to current development issues.

Soon after President Lyndon Johnson's 1965 declaration of the War on Poverty in the United States, the forces of entrepreneurship were recruited into the struggle. Over the ensuing three decades, the idea that business development can help to revitalize low-income communities and improve the life chances of their residents has assumed many guises but has never disappeared. Starting with President Nixon's call for black capitalism (Cross 1970; Green and Pryde 1990), it has emerged in such forms as public programs to develop minority-owned businesses through managerial training and subsidized financing (Bowman 1987), business incubators (Allen 1988), procurement setasides for firms owned by minorities or located in areas of high unemployment (Bates 1985; Bendick 1990), corporate placement of branch plants in inner cities (Banfield 1969; Bendick and Egan 1982), public-private partnerships between commercial firms and local governments (Fosler and Berger 1982), enterprise zones (Butler 1981; Green 1991), commercial real estate development and business ownership by community development corporations (Vidal 1992), self-employment for recipients of public income support (Aronson 1991; Balkin 1989), and "municipal mercantilism" (Judd and Ready 1986).

In the 1990s, much of the attention concerning poverty has focused on an "underclass" of persons in long-term poverty, isolated in neighborhoods of concentrated disadvantage, weighed down by an interrelated set of social and economic circumstances, and separated from the societal mainstream less by race than by class and culture (Wilson 1987, 1989; Jencks and Peterson 1991). As a corollary, it is argued that holistic community development is crucial to breaking the inner city's multifaceted hold on its residents. *Community development* refers to efforts to improve the overall quality of life in a low-income neighborhood through

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such initiatives as housing renovation, refurbishment of streets and public places, upgrading of public services, promotion of community identity and pride, provision of job training and social services to community residents, and political advocacy. These are traditional activities of community-based organizations such as community development corporations (Mayer 1984; Pierce and Steinbach 1987; Vidal et al. 1986; Vidal 1992).

This focus has once again acquired a business dimension. *Business development* refers to efforts assisting the founding, survival, growth, and profitability of individual firms through such means as managerial training and counseling, preparation of business sites and facilities, subsidized finance, procurement setasides, and tax incentives.

This article explores the hypothesis that, when business development coincides with community development, the two produce greater results—in both business development and community development terms—than either pursued in isolation. Such linkages reverse the common practice of considering the two conceptually distinct and implementing them through unrelated agencies and programs. For example, throughout the 1970s and 1980s, business development under the U.S. Urban Development Action Grant (UDAG) program was generally pursued with little relationship to community development efforts in the same localities under the federal Community Development Block Grant (CDBG) program (James 1988).

Formally, the hypothesis we examine concerns *backward and forward linkages*. In third world economic development, backward linkages refer to the proportion of an activity's outputs that are inputs from other local activity; forward linkages refer to the proportion of an activity's inputs that becomes outputs into other local activities. To the extent that linkages exist, promotion of one activity simultaneously promotes linked activities as "positive externalities" (Hirschman 1958). Thus, to the extent that community development creates business opportunities or business development advances community development, then promoting either supports the other, and the payoff from each is increased.

This article explores this hypothesis by reviewing research on the nation's experience with inner-city business development over the past three decades. To relate this literature to current urban development issues, we draw upon examples from recent efforts at inner-city business development in four cities: Chicago, Los Angeles, Miami, and Pittsburgh.

What do we conclude? The first sections of the article review five ways business development can contribute to community development in inner-city neighborhoods: expanding employment, improving consumer services, creating business markets, rehabilitating real estate, and fostering role models and community leaders. Conversely, community development can create business opportunities in those neighborhoods through two principal mechanisms: reducing firms' operating costs and expanding markets. Linkages that pair business development and community development can create more opportunities and generate greater payoffs than would pursuing each independently, and the final part of the article sets forth five principles for economic development to exploit these opportunities.

JOBS FOR COMMUNITY RESIDENTS

Economically distressed inner-city areas are disproportionately plagued by unemployment, underemployment, and labor force withdrawal among residents, as well as low wages and limited opportunities for training and advancement among persons who are employed (Ellwood 1986; Kasarda 1985; McGeary and Lynn 1988; Peterson and Vroman 1992; Stanback and Noyelle 1982). More and better jobs for community residents are a priority on virtually all local agendas for community development.

Distressed inner-city areas are also typically characterized by low rates of new business formation and small business survival (Aldrich and Reiss 1975; Bates 1989; Bendick and Rasmussen 1986). New firms and smaller firms are one important source of job opportunities. Firms with fewer than five hundred workers employ about half of the U.S. work force and create a substantial proportion of all new jobs (Birch 1987; Phillips and Kirchoff 1989). Thus it is hypothesized that if new, small firms could be fostered in inner-city areas, employment opportunities for residents would be enhanced.

Concern about racial and ethnic discrimination reinforces the case for developing businesses within inner-city communities. In response to antibias laws and changing societal attitudes, racial and ethnic discrimination in employment has diminished since the civil rights struggle of the 1960s (Cain 1986; Leonard 1983; Smith and Welch 1986). Nevertheless, it persists to an important extent. For example, recent studies have documented discrimination against minority job applicants in more than 20 percent of hiring decisions (Bendick et al. 1993; Bendick et al. 1991; Fix and Struyk 1993; Neckerman and Kirschenman 1991). In such circumstances, it is often more feasible for minority residents of inner cities to obtain employment within their own community or in firms owned by members of their own ethnic group. Minority-owned firms hire minorities at a higher rate than do other firms. For example, in 1982, among firms owned by nonminority males with more than $100 thousand in annual sales, 60 percent of firms reported that they employed at least one member of a minority group; the comparable figure for minority-owned firms was 95 percent (U.S. Bureau of the Census 1987, 132; Brown 1986; Moore 1983; Wilson and Portes 1980). Differences in opportunities are even more substantial than these figures suggest in terms of more subtle aspects of employment, such as interpersonal relations and advancement opportunities (Thomas 1990).

The physical accessibility of jobs also reinforces the attractiveness of job growth in inner-city enterprises. Many of the employment opportunities generated by the U.S. economy today arise in suburban and exurban locations (Ellwood 1986; Kasarda 1985; McGeary and Lynn 1988; Stanback and Noyelle 1982). Of course, many workers living in the inner-city commute to distant jobs, just as workers living in other areas undertake commutes involving considerable time and expense (Altshculer et al. 1979; Bendick and Egan 1988). Some residents, however, have particular difficulty accepting employment distant from their homes. These include workers paid at or near the minimum wage, single parents reluctant to be away from their children for extended periods, and in-school youth and others seeking part-time employment. For such groups, only jobs within or near their own communities may be relevant.

Which Enterprises Are Good Job Generators?

What sorts of firms provide such employment opportunities? In the U.S. economy in the 1990s, the answer is complex. Under the combined impact of automation technology, sectoral shifts from manufacturing to services, and competition from lower-wage third world nations such as Taiwan, Korea, Mexico, and Brazil, the sources of job growth have shifted dramatically in recent decades. Large firms engaged in standardized, mass production manufacturing—which have traditionally provided a middle-class living for millions of semiskilled workers—account for a constantly decreasing proportion of employment in the United States (Bendick 1985; Commission on the Skills of the American Workforce 1990; U.S. Office of Technology Assessment 1986). Opportunities in the 1990s—both in the inner city and throughout the economy—tend to concentrate in flexible firms, often of modest size, serving specialized market niches.

The four cities examined in this article, as would many urban areas, provide numerous examples of successful inner-city businesses operating in this spirit. These include a bakery specializing in gourmet cheesecakes, a fashion house manufacturing limited runs of the latest-style women's wear, a firm of roofers, a catering service, firms rehabilitating and managing neighborhood housing, child care centers, a wholesale stationery supply firm, small metal-casting enterprises, and a variety of restaurants and retail establishments. Such firms often employ half a dozen to a dozen employees.

For such small enterprises, business life is often perilous and profitability elusive. Among U.S. firms started in 1976, fewer than 40 percent were still in business six years later (Phillips and Kirchoff 1989; U.S. Small Business Administration 1990). Business difficulties are also more prevalent among minority-owned firms, which are on average smaller, started by owners with less education and experience, less well capitalized, and more likely to target markets with limited sales potential (Ando 1986; Bates 1989, 1990; Bearse 1984; Hisrich and Brush 1986; Scott 1983; Stevens 1984). Difficulties are also more prevalent among firms located in the inner city, which adds to the usual problems of small business such extra perils as limited consumer purchasing power, poor physical facilities, and high crime rates (Bendick and Rasmussen 1986; James and Clark 1987).

An implication of these circumstances is that job generation through business development is not easy. Assistance typically must be provided to a diverse range and large number of individual firms, only some of which will survive. The cost of creating one job through business assistance has been estimated at nearly $12 thousand in the UDAG program, $13 thousand in federal business loan programs, and $60 thousand in federal public works programs (Bendick 1981). Thus, where jobs are the objective and resources are limited, business development is only one of several alternatives deserving consideration. Approaches that seek employment for inner-city residents in established enterprises outside their home neighborhoods are also appropriate—through transportation programs, employment placement initiatives, and efforts to control discrimination (Bendick and Egan 1988; Ellwood 1986; Kain and Persky 1969).

Further refinement of the concept of creating employment through business development is provided by considering the market orientation of inner-city businesses. Often when business development is discussed in the context of community development, the firms envisioned to receive assistance are those indigenously connected with the community—local retailers selling to community residents, small enterprises owned by community residents, and firms enmeshed in "buy-ethnic" networks. This vision is reinforced by writings about business development that emphasize the job creation role of new start-ups and independent enterprises. For example, at one point during the 1980s, some prominent researchers claimed that two-thirds of all new jobs in the U.S. economy were generated by firms with twenty or fewer employees (Birch 1987). In this conception, the ties between job-generating firms and their inner-city communities appear strong and natural.

In reality, such a vision is seriously misleading. First, "export-oriented" firms—those that sell goods and services primarily to customers outside their inner-city communities—have more growth potential on average than those looking primarily to their own neighborhoods for markets (Bates 1978, 1984; Brimmer 1979; Sonfield 1986). Second, established enterprises with several years of operational experience tend to be more powerful job generators than new firms (Bendick and Egan 1987; Storey and Johnson 1987). Medium- and large-sized enterprises contribute substantial shares of new jobs to the economy (White and Osterman 1991). They also typically offer jobs of better "quality" than do smaller firms—higher wages, greater employment stability, and more training and advancement (Brown et al. 1990; Zipp 1991). This point is illustrated by a community-based business developer who has dedicated his career to supporting new and small enterprises in the inner city of Pittsburgh: when approached by community residents about where to find jobs, he typically suggests they contact not his client firms but the large public hospital located in the neighborhood.

The Importance of Workers' Job Readiness

A final caveat arises concerning who among the residents of inner-city communities faces the greatest employment difficulties. When explicit racial and ethnic discrimination was widespread three decades ago, minority workers were often channeled into low-paid, unstable, limited-opportunity employment regardless of their qualifications. As the virulence of discrimination has diminished, many minority workers with better labor market qualifications have moved into positions more suited to their qualifications. Severe labor market difficulties are increasingly concentrated on persons with the fewest qualifications—those hampered by functional illiteracy, lack of work experience, an absence of vocational skills, and personal stigmas such as criminal records (Bendick 1987; Berlin and Sum 1988; Freeman and Holzer 1986).

Because of concerns with productivity and competitiveness, firms in inner-city areas typically must be as selective about their employees as any other firms. Thus jobs created by inner-city business development often are filled primarily by persons who are already employable—some currently employed at other firms, others unemployed but temporarily so. Opportunities tend to be created only to a modest extent for those suffering long-term unemployment or employment in jobs of low quality because of their lack of qualifications. For those persons, business development does not substitute for human capital development through schooling, training, and subsidized work experience.

SERVING THE INNER-CITY CONSUMER

Another symptom of economically distressed inner-city areas is a dearth of retail and service businesses, particularly larger stores such as chain supermarkets. Minority shopping areas in particular often have fewer stores than nonminority neighborhoods, and these stores are more often marginal establishments offering a limited range of goods, lower-quality goods, higher prices, less customer service, less attractive shopping environments, and higher credit costs (Caplovitz 1973; Sexton 1979; Wittberg 1984). Thus a second community benefit often sought from inner-city business development is improved opportunities for inner-city consumers. More stores, higher-quality stores, and more customer-responsive stores increase the quality of life and reduce the cost of living for neighborhood residents.

The possibility of expanding inner-city retailing is suggested by the substantial purchasing power that residents of areas cumulatively command. While inner-city communities often encompass pockets of very low income households, they also tend to include populations with household incomes ranging from modest to moderately affluent. When the purchasing power of these households is aggregated, the total can be impressive even when average household incomes are limited. For example, in 1985, a feasibility study was conducted for a shopping development along Seventy-first Street in the predominantly black South Side of Chicago. This study estimated that within twenty minutes' travel time of the projected development lived 240,000 potential customer households, 92,000 of which had average annual incomes of more than $30 thousand; and together the target households' annual income exceeded $3 billion (Charles Rial and Associates 1985).

In relation to such purchasing power, inner-city areas typically are "understored"—that is, the ratio of stores to population is below national averages. For example, following riots in Miami during the 1980s, a study of retail potential was conducted in several inner-city neighborhoods. In the West Little River-Model Cities section of the city, it was estimated that the area could support 5.6 times the sales of men's clothing than was currently captured within the community, 3.2 times the sales of furniture, 2.7 times the sales of appliance repair services, and 1.7 times the sales of shoes (Public Demographics 1984). If purchasing power that "leaks" outside could be diverted back to home neighborhoods—"import substitution"—then inner-city businesses would enjoy increased markets (Persky et al. 1993).

Before counting on recapturing this purchasing power, however, economic development planners must distinguish between *convenience shopping* and *comparison shopping*. The former refers to frequent, routine purchases of food, liquor, pharmaceuticals, small household goods, child care items, and shoe repair, laundry, and dry cleaning services; the latter involves infrequent purchases of large-ticket items such as furniture, adult clothing, and appliances. As its name implies, in convenience shopping, consumers are heavily influenced by the time and cost to travel to stores. In comparison shopping, however, consumers are less influenced by access than by the selection, price, and quality of goods.

In the experience of many inner-city communities, improvements in convenience shopping—providing quality goods at competitive prices in attractive, accessible surroundings—are highly valued and quickly supported by local residents. In particular, when chain supermarkets have been attracted into inner-city areas, they are typically greeted by commercial success as well as community approbation. In the Liberty City area of Miami, for example, a thirty-thousand-square-foot Winn Dixie supermarket that opened in 1985 rapidly became a leader in sales and profitability within its chain. Similarly, in the Woolworth's chain of five-and-dimes, the operating profit margin from inner-city stores averages one percentage point higher than from suburban stores (Alpert 1991).

Obtaining similar outcomes is far more problematic for stores offering comparison goods rather than convenience goods. Only a limited number of inner-city residents have so little access to transportation that they are captive consumers. The majority are able to shop outside their neighborhoods when making major purchases, using public transportation, automobiles they own, sharing rides with neighbors, or employing informal jitney or unlicensed taxi services (Kirby 1974; Sheehan 1975; Stack 1974; U.S. Department of Transportation 1982). Thus retailers of comparison goods in inner-city areas face direct competition from very large retailers located elsewhere and from suburban shopping malls—competitors whose prices, quality, selection, and retail environment are difficult for small retailers to match.

Interacting with the feasibility of inner-city residents' shopping outside their neighborhoods are their attitudes toward doing so. Among some ethnic groups, consumers markedly prefer stores located within their neighborhoods or operated by members of their own group. These preferences may override other considerations, such as crime in shopping areas or the quality of stores and goods. Among other ethnic groups, the opposite preferences prevail; consumers may bypass local stores, even those offering comparable or better shopping, to travel to stores viewed as superior because they are not located in their own neighborhood or operated by members of their own ethnic group. The former attitudes are often prevalent among groups such as whites and Hispanics, and the latter are more common among American-born blacks (Deshpande et al. 1986; Saegert et al. 1985; Sexton 1979; Wittberg 1982; Zikmund 1977). Furthermore, such preferences typically prove difficult to modify through campaigns urging residents to "buy ethnic" or support local businesses.

In light of these considerations, the commercial feasibility of inner-city retail developments emphasizing comparison shopping should be viewed with caution. Skepticism is particularly appropriate for estimates of market potential based simply on available income and population-to-store ratios. The commercial feasibility of retail development is generally higher—and conventional market studies more relevant—when convenience shopping is the focus.

What Role for Mom-and-Pop Retailers?

In seeking to improve inner-city shopping, it is also important to recognize that inner-city retail stores, particularly locally owned independent stores, vary widely in the quality of retail services they provide. Some exhibit a "mom-and-pop" syndrome of marginal operations: few or no employees other than the proprietor; informal or nonexistent accounting records and no use of outside accounting or bookkeeping services; limited inventory, often purchased on a cash-and-carry basis; absence of banking relationships (sometimes not even a business checking account); no access to credit; reluctance to invest in advertising or business promotion; poorly laid out premises and out-of-date fixtures; low maintenance of business premises; and an absence of business planning. Stores operating under this syndrome often provide limited consumer services to neighborhood residents: high prices, small inventories, and unattractive shopping environments.

These stores sometimes stand in sharp contrast to other independent retailers who offer excellent services. Typically, the latter stores have adopted a style of "high value-added retailing" in which they offer personalized customer assistance, an attractive retail environment, and specialized product lines. This strategy allows them to compete against larger chain stores and suburban shopping malls (National Trust for Historic Preservation 1988).

Among the value-added services that stores typically offer in inner-city neighborhoods are extended hours, informal credit, staff members fluent in foreign languages, and auxiliary services such as check cashing. These offerings are the stock-in-trade of *bodegas* groceries, in Puerto Rican neighborhoods, for example, but the same processes can work in other contexts as well. For example, in Pittsburgh, a family-owned wedding-dress business located in a relatively shabby neighborhood draws customers from throughout a multistate region by providing intense personal service, in-depth expertise, and "one-stop shopping" for a broad range of wedding needs.

Such diversity suggests that, from the point of view of improving consumer services, business development must be selectively targeted. Stores affiliated with national chains and strong franchise systems may be an important source of improved retail services if they can be attracted into an inner-city neighborhood. The remainder can be sought from the subset of local independent retailers that do not conduct their business as traditional mom-and-pops. An example of inner-city retail development adopting this approach is provided by shopping malls created in South Central Los Angeles by Haagen Development, one of the twenty-five largest shopping mall developers in the United States. These malls are occupied predominantly by stores affiliated with national or regional chains, such as Safeway, McDonald's, Toys-R-Us, and Baskin Robbins Ice Cream. A limited proportion of retail spaces (20 percent is an informal goal) is set aside for enterprises controlled by persons from the surrounding community, provided these firms meet stringent standards of financial strength and retailing ability.

CREATING MARKETS FOR OTHER FIRMS

A third community development benefit that business development may generate is markets for other firms within the community. To the extent that a firm purchases inputs from its neighboring firms, each dollar the first firm earns circulates within the community at least one additional time before returning to the broader economy. In doing so, it creates additional earnings for community businesses, their owners, and their employees. The economic concept quantifying the extent to which each dollar recirculates is called the "multiplier effect" (Harrison 1974; Schaffer 1973).

Reflecting this concept, it has been hypothesized that

> enclave economies that are vertically and horizontally integrated yield higher initial profits per unit of demand, create higher levels of production in related industries (caused by the initial demand for the first industry's products), pay higher wages, and create more jobs (again because of the initial demand) than enclave economies that are not vertically and horizontally integrated. (Wilson and Martin 1982, 138)

Pushed to an extreme position, such thinking implies that development of inner-city businesses oriented toward buying from and selling to other local firms would maximize community impact and that business development should support development of autarchical, self-oriented business communities separate from the mainstream economy. In this spirit, it has been suggested that firms might integrate backward from control of retail stores into enterprises producing goods and services for those stores (Vietoriz and Harrison 1970), small businesses in minority communities might organize networks of "affiliated independents" (Harrison 1974), or business assistance might be reserved for locally integrated business clusters rather than "atomistic" businesses (Blaustein and Faux 1972; Fratoe 1986).

Much of the interest in enhancing the multiplier effect within inner-city communities comes from observing ethnic communities where the multiplier effect is high. The contrast between Miami's Cuban and black communities offers a prime example. Each $1,000 of goods or services sold to a final customer by a manufacturing firm in the Miami Cuban community generates $1,630 in total community earnings—the initial $1,000 in sales plus $630 from subsequent rounds. The comparable figure in the black community is only $1,140. The $630 "subsequent-round" income generated in the Cuban community is 4.5 times greater than the $140 generated in the black community. Similarly, for each job created by sales within the Cuban community, an additional six-tenths of a job is created through multiplier effects; in the black community, the comparable figure is less than one-tenth of a job (Wilson and Martin 1982).

The attractiveness of this approach is further enhanced by the observation that integrated ethnic business communities sometimes coincide with dramatic instances of upward mobility and financial attainment by persons starting from positions of poverty. The prosperity of some members of the Cuban community in Miami is an often-cited example, as are the success stories of recent Asian immigrants (Didion 1987; Light and Bonanich 1988).

Eye catching as such observations are, however, these approaches offer little appropriate guidance for inner-city business development. The core reason involves the feasibility of altering the multiplier within a community. Where a high degree of economic integration is observed, as in the Cuban community in Miami, it typically has arisen in reaction to cultural and historical circumstances (such as language isolation) rather than through business development efforts. When efforts to change business buying patterns have been made, such as circulation of business directories within a community, the diversion of sales has been modest at best. Most important, the primary cause of the low multiplier in the black community cited above is that businesses in that community historically do not sell goods and services that other businesses buy. To increase the multiplier would require a shift in black-owned firms from traditional market niches (such as grocery retailing) to nontraditional markets (such as computer software). Without changing the product lines of firms in Miami's black business community, the maximum potential increase in the multiplier for each $1,000 in sales would be only $20—from $140 to $160 (Wilson and Martin 1982, 154).

In discussing job creation earlier in this article, it was argued that such a transformation of product lines is desirable. But a primary reason for encouraging inner-city and minority-owned firms to enter nontraditional fields is to tap affluent, larger markets outside their home communities. To emphasize the inner city's own markets would be to limit potential sales—indeed, perhaps limit them so severely that firms would not be large enough to offer the specialized inventories and quality services often demanded by commercial customers. At the same time, when businesses form alliances with other firms—such as joint ventures or long-term supplier/subcontractor relationships—they typically develop more through alliances with successful mainstream firms than with struggling ones within their own inner-city community (Egan and Mody 1992).

In recent decades, the degree of housing segregation and social isolation of ethnic groups in U.S. society has eased markedly, but far from completely (Massey and Denton 1988). As this has occurred, many firms that once thrived by serving segregated markets have simply disappeared. Business development strategies increasing the isolation of inner-city businesses from the economic mainstream rather than decreasing it would foolishly contradict both commercial and societal trends.

REDUCING PHYSICAL BLIGHT

To an outsider driving through an economically distressed inner-city area, the first impression is usually created by the physical state of buildings and their surroundings. Many structures are partially vacant or abandoned; buildings are dilapidated and not maintained; streets and other public areas are littered and dirty. Reducing physical blight is both a means and an end in community development.

In business terms, this situation is one in which the supply of real estate, including commercial real estate, exceeds demand. If businesses can be developed within the community, they might refill vacant spaces and pay for their repair and maintenance. They might also generate the foot traffic that deters crime and a sense of progress that increases community pride and encourages investment (Chavis and Wandersman 1990).

Reusing Retail Space

One important target for this process is storefronts formerly occupied by retail and local service businesses. These spaces account for a substantial share of the underused inventory in inner-city areas. Furthermore, because these storefronts typically face major streets, they are the community's most visible face to the world. The appearance of commercial strips along major thoroughfares often is a primary influence on the opinions of decisionmakers from outside the community, such as politicians and bankers, about the condition of a neighborhood. Thus visible improvements in commercial areas increase the willingness of bankers to grant mortgages to rehabilitated housing on adjacent streets (Wittberg 1984).

Is it realistic to seek to fill these spaces with retail and local service firms like the businesses that formerly occupied them? The answer is yes for only a modest portion of these underused properties, for three reasons. The first reason involves the broad changes in retail patterns that have occurred throughout the urban United States since World War II. In many cities, the buildings in neighborhoods that are now distressed inner-city areas were constructed between the late 1800s and 1950. Since that time, shopping among middle-class consumers has shifted from traditional downtowns to suburban shopping malls, and many inner-city neighborhoods have simply experienced the same pattern. Community revitalization is no more likely to bring that shopping back to these neighborhoods than it is to older downtowns in less distressed areas of these cities. A second reason reinforces the first: the limited incomes of inner-city residents, compounded by preferences favoring outshopping among some ethnic groups, means that the current residents of these neighborhoods generally support less square footage of retailing per capita than the persons they displaced.

This effect is compounded by the fact that older retail space often is not physically configured for efficient contemporary retail practices. In older shopping areas, most storefronts are located in long strips among major traffic corridors. They are not clustered in a mall-like configuration around a parking lot, an arrangement now more attractive to shoppers. Similarly, individual stores tend to be narrow rectangles with extensive storage space in back rooms and upper stories. While that configuration matched retail practices of half a century ago, it is not suited to state-of-the-art retailing. Many older storefronts are laid out with two thousand square feet or more of space; comparable newly constructed retail spaces in shopping malls handle the same business in about half that space.

The upshot of these considerations is that, when seeking tenants for vacant and blighted former retail space, it is reasonable to expect retailers to reoccupy only part of the available space. Retail development needs to be supplemented with conversion of the remaining spaces to alternative uses, often housing; in many inner-city areas, surplus commercial space coexists with a shortage of decent quality, affordable housing for community residents (Aldrich and Reiss 1975).

In-City Industrial Parks

An alternative way to reuse vacant space is to encourage businesses not oriented to the local community, including service exporters (e.g., "back offices"), warehouses, and manufacturing. Included in this category are enclave branch plants owned by corporations outside the community, such as the much publicized IBM manufacturing facility in the Bedford Stuyvesant section of Brooklyn (Banfield 1969; Beam 1987; Bendick and Egan 1982).

One set of issues has to do with the desirability of these activities within a neighborhood. Because these businesses are unrelated to the community itself, they tend to disrupt local retail and residential use. They may be housed in large buildings of an industrial style discordant with adjacent properties. They may impose negative externalities on their neighbors in such forms as street traffic, noise, air pollution, or toxic wastes. On the other hand, they may be quiet activities housed in attractive buildings that are new, well maintained, and preferable to the vacant structures and littered empty lots that may be their alternative. For some ethnic groups, residents' satisfaction with their neighborhoods is less related to the use to which real estate is put than to the fact that it is not vacant (Wittberg 1984).

How can outside firms be attracted to the inner city? Distressed neighborhoods typically face stiff competition from alternative locations within their metropolitan areas—including "green field" sites in the suburbs and exurbs—as well as nonmetropolitan locations. In terms of industrial sites, the typical disadvantages of inner cities are sites too small for large one-story facilities, lack of infrastructure such as roads and sewers, and high taxes. In terms of office operations, the most prominent deficiencies are lack of transportation access for employees, fear of crime against employees, and lack of support services and amenities (Blair and Premus 1987; Erickson 1980; Herzog and Schlottman 1991).

In opposition to these deficiencies, distressed neighborhoods typically sell themselves by combining low rents with proximity to high-density, high-rent areas such as downtowns. In more than a few inner-city areas, this combination has proved so attractive that a wave of gentrification has led to displacement of low-income residents. Other areas have proved remarkably difficult to redevelop, even when these two factors combine in a seemingly irresistible way. A case in point is the South Bronx, which lay fallow for decades despite dramatically lower real estate costs than those in midtown Manhattan, mere minutes away. Such cases offer mute testimony to the power the negative conditions in some inner-city neighborhoods exercise over business decisions. Tremendous inertia slows the process by which downtown prosperity trickles down to the distressed areas adjacent to them (Squires et al. 1987).

These cases of inertia also offer an important warning concerning the difficulty of attracting enclave firms. At the extreme, it may be impossible to attract such firms unless a substantial section of an inner-city area is cleared of existing structures and redeveloped as a large in-city office park or industrial park (Bendick and Rasmussen 1986; Heilbrun 1979). Because this approach represents the ultimate disruption of inner-city communities, it is not to be undertaken lightly. But in some cases it is necessary if commercial reuse of blighted real estate is to be achieved.

Fortunately, a more moderate course is possible in many inner-city neighborhoods, particularly those experiencing less severe depopulation and social and economic distress. In these areas, a pattern of mixed land use seems feasible to achieve, often with attractive results. For example, the South Side of Pittsburgh is a moderate-income community of predominantly Southern and Eastern European ancestry. Some of the underused real estate within this neighborhood, including dilapidated housing and idle factories, has been cleared for new commercial or residential buildings. Some neighborhood retail spaces have become occupied by "yuppie" restaurants and retail stores primarily serving affluent customers from outside the neighborhood. But other retail sites continue to be occupied by local businesses primarily serving the neighborhood, and most housing remains occupied by traditional residents. The selective recycling of a limited amount of underused real estate for export-oriented uses eliminated some of the worst eyesores in the neighborhood; it also tightened the market for commercial real estate, raising rents for commercial space and thereby encouraging owners to invest in their properties; and it brought new customers into the neighborhood who patronize neighborhood-oriented stores in the course of a visit to the export-oriented restaurants and shops. But because the degree of recycling for export-oriented use has been moderate, it has promoted community development without wholesale displacement.

CREATING ROLE MODELS AND COMMUNITY LEADERS

A final contribution business development can make to community development accrues in psychological and political forms. Throughout society in the United States, business owners are figures of prestige, and minority communities tend to share in this opinion (Lincoln 1971). Business owners are pointed to as role models and chosen to hold positions of public leadership. If minority ethnic groups or economically distressed neighborhoods do not enjoy a proportionate share of business owners, then they are deprived of a political, social, and psychological resource (Fratoe 1986; Green and Pryde 1990; Pennings 1982).

One function business owners serve is as role models and mentors for youth. Young people may be encouraged to emulate the energy and persistence that led to their success and to follow them in seeking income and prestige through honest endeavors. Youth may also turn to these business owners for vocational information, personal advice, and encouragement and emotional support. Role models and mentors often play a decisive role in determining the life outcomes of youth from disadvantaged backgrounds (Public/Private Ventures 1988), and young people often consider only a narrow range of people as potential role models or mentors. For example, children of disadvantaged backgrounds tend to seek out persons of their own race and gender for advice about future careers (Thomas and Shields 1987).

Of course, as noted earlier, successful development of small businesses typically is neither cheap nor easy, particularly those owned by members of minority groups and located in inner-city communities. Thus the "cost per role model created" through business development may be high. This is particularly true since the beneficial effects of a role model are presumably attenuated if the business is a struggling enterprise offering its proprietor only a marginal living. That is, examples of business owners working hard and honestly and yet barely making a living might convey the impression to youth that such traits do not pay (Bates 1989). Business owners as role models should therefore be supplemented by other community residents who are employed, stable, and honest but employed by someone else.

Second, the processes by which role model and mentor relationships are formed are not well understood. Even in underclass neighborhoods, a substantial fraction of residents (in some cases, a majority) are employed, noncriminal, and nonpoor. By processes still largely unknown, each youth elects whether to identify with these residents or with others who are poor, dependent, or deviant. While having a greater number of potential role models in the community may be useful, it is equally important to increase use of those already available. In Los Angeles, for example, one creative effort to link young urban Native Americans with successful Native American business entrepreneurs capitalized on their common interest in horses. In other communities, such efforts adapt approaches developed outside inner-city neighborhoods (for example, Junior Achievement or the Girl Scouts).

When business owners achieve success, some move away from inner-city communities and lose touch with them. In part, this development is inexorable because identifying with and socializing with successful business peers is often useful in achieving business success. Some moving decisions are affected by the degree to which housing segregation permits relocation outside the community. And some decisions are influenced by community development itself; for example, if housing improves in a community simultaneously with business development, then successful business owners may continue to reside within the community rather than move to the suburbs.

To the extent that successful business people move outside their inner-city neighborhoods, their potential as on-site models and mentors may be limited. They may still serve their neighborhood or ethnic group in a broader sense, however. Many minority inner-city youth have difficulty identifying with conventional success because they perceive it to be achieved largely by whites (Fordham and Ogbu 1986). For entrepreneurs from a minority ethnic background to achieve business success may be important to these youth in conveying the simple message that members of their group can also make it.

Successful business owners residing outside inner-city areas may also serve their community or ethnic group as political and social representatives: as appointed members of school boards or other political positions, for example. They may also serve as representatives in less official but nevertheless important ways, for example, as the first member of their group to be admitted to elite social or political circles.

Such representation may be important to the long-term progress of disadvantaged groups within society. It is reasonable to assume, however, that the community benefits from such representational roles are subject to diminishing marginal returns. In a metropolitan area where few examples of successful business owners from an inner-city community or minority group can be found, the first examples may be highly valuable. Once a number of community representatives are available, the incremental social value of yet another may be more limited.

Empirically, there are major differences among metropolitan areas in the extent to which minority business owners are available to serve in such capacities. For example, *Black Enterprise* magazine annually tabulates the one hundred largest black-owned firms in the nation and leading black-owned financial institutions. In recent years, its lists have included seventeen firms in Chicago and twelve in Los Angeles. These numbers are so limited compared to the population of their metropolitan areas that they cannot be judged "sufficient" examples of black business success. Nevertheless, they contrast sharply to the even lower levels in other localities: there are none in either Pittsburgh or Miami ("The Black Enterprise 20th Annual Report" 1992; Cole and Reuben 1986; Handy and Swinton 1984; O'Hare 1987).

COMMUNITY DEVELOPMENT AS A SOURCE OF BUSINESS OPPORTUNITIES

The ways in which business development supports community development provide one rationale for linking the two; the ways community development can create business opportunities provides another.

Lowering Business Operating Costs

The first way that community development can increase the viability and profitability of businesses is by lowering firms' operating costs—that is, reducing the costs of inputs or enabling firms to use these inputs more efficiently. The most visible ways community development efforts try to do so involve firms' inputs that are "public goods," or goods that are enjoyed simultaneously by a number of consumers or firms (Olsen 1965). Clean sidewalks are one case in point; a neighborhood's reputation as a safe place to shop is another.

Community-based organizations, such as community development corporations, often spearhead efforts to increase the level of public goods in an inner-city area. They may do so through political advocacy by pressuring city officials to step up trash collection in a commercial area, increase police patrols, or improve street lighting, for example. Security costs in particular can have a significant impact on inner-city firms' "bottom line." For example, in Los Angeles shopping malls developed to maintain a high degree of security through private means (fences, surveillance cameras, and private guards), security costs account for more than one-sixth of space rentals. To the extent that publicly provided services such as police patrols can replace privately purchased services, the financial impact on tenants of the mall can be significant.

Community development efforts may also assist the operating efficiency of inner-city firms by organizing joint voluntary action among neighboring businesses, getting them to cooperate in ways common among tenants in suburban shopping malls, such as coordinated business hours and joint advertising. This approach is illustrated by an initiative to promote restaurants in the Korean section of Los Angeles. After a consumer survey confirmed that most customers of these restaurants were Korean, a concerted effort was undertaken to penetrate the much larger non-Korean market. A joint brochure was produced and circulated to popularize Korean cuisine, providing pictures of typical dishes and explanations of how to eat them. The brochures then carried advertisements for individual restaurants. Limited English on the part of restaurant servers was also identified as a problem shared by these restaurants; a joint solution that has been proposed is to conduct on-site English lessons for restaurant staff during slack business hours.

Such public goods inputs may be quite helpful to some inner-city businesses in operating efficiently and reducing operating costs. The value of these public goods can be put in perspective by considering their impact on the financial statements of typical firms, particularly the expenditure side of the ledger. While firms' expenditures vary substantially depending on the line of business, some generalizations can be made. For retail firms, the largest expenditures are for purchase of the goods they sell, the wages and benefits they pay to employees, and rent and operations for their premises. For manufacturing firms, the list is similar, except that they typically purchase raw materials rather than goods for sale (Scarborough and Zimmerer 1984).

These items have in common that they are largely private goods—goods used by one firm alone—rather than public goods. An individual firm's profit often is improved only marginally by the enhancements in public goods that community development activities typically generate. The bottom line of an inner-city grocery store may be affected more by a drought in the Midwest that raises the wholesale price of beef than by improved trash collection; the profitability of a small manufacturing firm may be more sensitive to the wage levels for skilled machinists than to the presence of tidy sidewalks. When merchants in the Liberty City section of Miami were polled about their most pressing business problems, half focused on the exterior conditions of the business premises—a matter potentially affected by improvement of public goods; an equal number, however, emphasized problems related to the interior of the premises—a primarily private matter unaffected by improvements of public goods.

Creating Market Demand

The second major way that community development can create business opportunities is by enhancing the demand for the goods and services that firms are selling. For businesses such as manufacturing companies whose markets lie outside the community in which they are located, there is often little community development can do to affect their sales. Indeed, when community development succeeds, it tends to raise rents—promoting an exodus of firms that derive few benefits from the improvements and their replacement by firms for whom rising rents are offset by the operating advantages of a better neighborhood.

In contrast to manufacturing firms, the role of community development can be significant for retail and service firms deriving some or all of their sales from their own neighborhood. Particularly, community development might stabilize the population of community residents, especially middle-class residents with substantial purchasing power. It was noted earlier that several billion dollars of purchasing power are controlled by consumers living on the South Side of Chicago. If community development creates even modest differences in the likelihood that these residents will remain as consumers, the potential effect on local retail and service businesses should be noticeable.

Community development can also enhance markets for local retail and service firms by attracting customers into the neighborhood. In particular, the social and physical environment within the community can be made more welcoming through crime reduction and physical rehabilitation. Successful efforts to rehabilitate retail areas typically require a combination of public goods efforts, such as streetscape improvements, and counseling or assistance for individual merchants. The latter effort often focuses on encouraging merchants to improve the attractiveness of their product displays, especially store windows. It may also involve giving merchants a sense of ownership of public improvements so that they participate in their maintenance.

Joint advertising, community festivals, and similar efforts are also commonly used to promote a community, its restaurants, and its stores. Some of these efforts can have substantial effects, as seen in the successful promotion of restaurants in the Korean section of Los Angeles and the development of the South Side of Pittsburgh as a recognized dining destination. Other efforts have produced minimal results, particularly where there is no ethnic flavor attractive to outsiders or in areas with reputations for danger or hostility.

Niche Markets Created by Community Development

In addition to such broad-brush efforts to create market opportunities, the community development process can involve specific initiatives to create narrow "niche markets."

The South Shore area of Chicago offers one dramatic example of this approach. Since the early 1980s, community development efforts initiated by the South Shore Bank have led to a wave of housing rehabilitation. This activity has created strong demand for construction services, and a number of small rehabilitation contracting businesses owned and operated by residents of the South Shore have come into being. Other local firms have arisen to purchase buildings, rehabilitate them, and then manage the renovated properties (Taub 1988).

A second example comes from South Central Los Angeles, where one major accomplishment of community development has been the establishment of the Martin Luther King Hospital/Drew Medical School complex. This institution employs a large staff, many of whom live outside the community. A community development corporation has developed a child care center to serve the children of hospital staff as well as children of community residents. That same community development corporation owns and operates the medical school's bookstore.

A third example involves community development efforts in the Liberty City neighborhood of Miami resulting in the opening of a Winn Dixie supermarket. In storefronts adjacent to that store, a number of small, locally owned businesses enjoy expanded sales from the customers attracted to the supermarket. Larger establishments often serve as anchors, attracting customers to smaller convenience retail and service businesses adjacent to them; typical businesses that thrive in the shadow of anchor stores include pharmacies, fast-food restaurants, liquor stores, specialty food stores, coin laundries, dry cleaners, shoe repair shops, barber shops, and beauty salons.

Finally, community development efforts might take the form of commercial real estate development creating a group setting for individual firms. In particular, real estate developments that cluster a group of related retail businesses may create a "destination shopping" anchor to draw customers who would not travel to individual stores. In the Haitian neighborhood of Miami, a marketplace clustering ethnically focused restaurants and stores has been developed in this manner.

STRATEGIES FOR INNER-CITY BUSINESS DEVELOPMENT IN THE 1990s

The previous sections of this article have concentrated on empirical observations. In this section, we extrapolate from this base to suggest five guiding principles for planners seeking to foster inner-city business development.

Include Business Development in Community Development Initiatives

Because business development can contribute to community development, the first principle is that community development initiatives should include a business development component.

This article reviewed five goals of community development toward which inner-city business development can contribute: job opportunities, consumer services, business markets, reuse of real estate, and the encouragement of leaders and role models. In none of these areas does the evidence suggest that business development accomplishes all that its proponents sometimes claim. Nevertheless, it typically makes some contributions, and in many circumstances substantial ones.

Of course, the experiences reviewed in this article do not suggest that mobilizing the forces of free enterprise is all that is needed to end poverty and distress in inner-city areas. In some cases, business development is an inappropriate instrument for pursuing a community development objective (for example, in generating employment opportunities for persons who lack minimum employment qualifications). In other cases, business development is useful but cannot generate the full scale of effects that is required (for example, in developing retail businesses to reoccupy underused retail space). In still other cases, business development makes contributions to community development goals only if community development initiatives complement the business development activity (for example, successful business owners might remain within the community to serve as role models if community development improves the quality of available housing).

Community Development Creates Business Opportunities

Business development alone cannot substitute for community development because community development itself is sometimes prerequisite to business development. Distressed inner-city areas are typically so burdened by negative circumstances—physical blight and crime, for example—that business development is hampered. When community development reduces these impediments, it creates business opportunities. Accordingly, the second principle recommends that economic development programs target enterprise assistance resources to exploiting business opportunities created by community development. This article has demonstrated that some of these opportunities arise from broad-brush community development effects (retaining residents and their purchasing power, and general community promotion) and some from specific community development projects (such as housing rehabilitation, construction of a hospital, or attraction of a retail anchor store).

Do Not Ignore Business Opportunities Not Linked to Community Development

An extreme form of principle two would have business development assistance provided only in combination with community development. Instead, a more eclectic strategy is appropriate, taking advantage of opportunities for inner-city business development even if they are not associated with community development. Thus principle three is to target some business development resources to opportunities other than those generated by community development.

The first reason for eclecticism is that business opportunities of the sort discussed under the previous principle are generally limited. The outshopping phenomenon means that in many communities, even when community development retains middle-class residents, these residents make available only limited purchasing power to support local retail and service businesses. Anchor stores often anchor only a modest number and range of adjacent businesses. Even major outside investments may spin off only a handful of business opportunities. The huge Drew Medical School complex, for example, supports only one small bookstore (employing one full-time and one part-time employee) and a child care center employing perhaps a dozen residents.

A second reason for eclecticism is that excellent business development opportunities without community development linkages can be found in inner-city areas, particularly for export-oriented firms located in these areas.

One set of export-oriented opportunities involves retail and service firms located within inner-city communities that draw their market from outside the community. For example:

- On the Pittsburgh's South Side, a florist shop relied primarily on modest sales to working-class neighborhood residents. To expand its size and profitability, the shop courted commercial accounts from Fortune 500 firms located immediately across the Monongahela River in downtown Pittsburgh. Marketing to these customers is conducted primarily by telephone, with clients typically never entering the neighborhood.
- In another moderate-income Pittsburgh neighborhood, a retail food business supplements its sales to neighborhood customers through long-term catering contracts for the luxury sky boxes at Three Rivers Stadium during sports events.
- In the Liberty City neighborhood in Miami, a husband-and-wife team operates a retail store selling books and related items on African and African-American subjects. The pool of potential customers residing in the neighborhood is modest, has a limited income to spend on discretionary purchases such as books, and has only a limited interest in the extensive range of specialized items the business carries. The firm therefore supplements local walk-in sales with nationwide sales generated through mail-order catalogs and exhibits at out-of-town conventions.
- In a limited-income, predominantly black area of Pittsburgh, a retail bedding store was hampered by limited consumer demand. While remaining in the same location, it closed its retail operations and converted to the semimanufacturing role of refurbishing mattresses. Its major customers are university dormitory systems throughout western Pennsylvania and surrounding states.

A second group of examples is provided by firms selling to public agencies and government contractors under procurement setasides in such sectors as public works construction, defense manufacturing, and business and professional services. Because they are not dependent on neighborhood income for markets, these firms often have substantial potential for long-term growth. Furthermore, through their experience selling to large corporate and government purchasers, they may develop the scale and experience to compete in markets not set aside for them. Currently, many of the business opportunities created by setasides are used primarily for immediate sales, with little effort to strengthen businesses so that they can eventually compete outside sheltered markets. Altering this situation by targeting enterprise assistance to firms participating in setasides might be appropriate (Bates 1985; Bendick 1990).

A third example is provided by businesses owned by members of minority groups that stay within product lines traditional to minority-owned and inner-city enterprises (like retail stores) but locate outside their inner-city communities. Bayside Mall, for example, is a large "festival shopping" development located on

Miami's waterfront serving tourists as well as affluent residents from throughout South Florida. As a matter of public policy, a substantial fraction of the spaces in the mall were set aside for businesses owned by members of minority groups.

Targeting Firms with the Greatest Business Potential

Whether operating under principle two or three, business assistance programs inevitably face more demand for their services than can be met with available resources. When facing choices, principle four recommends that business development be targeted to firms with the greatest commercial potential measured in such terms as stability, growth, and long-run profitability. The central reason is that the community development benefits of business development are generated only to the extent that firms survive and prosper.

Stated generally, this principle seems noncontroversial. Controversy soon arises, however, in specific cases. The first case concerns the extent to which the firms to be assisted should have manifest community roots. As was discussed earlier, one approach to business development focuses on support for entrepreneurs from the community. In contrast, we have argued that the inner-city businesses with the greatest potential may exhibit characteristics often associated with the least apparent community roots: medium and large enterprises rather than small ones, existing firms rather than new starts, enclave branch plants rather than locally owned businesses, and export-oriented firms rather than those serving a local market.

A second case concerns mom-and-pop retail and service businesses with limited growth potential. Because these businesses and their proprietors are often long-standing members of the community, to ignore such firms would be an extreme policy not sustainable in most community development movements. Nevertheless, the majority of assistance provided to retail and service firms should be targeted to the subset of local firms that are qualitatively more solid and adaptable than such firms and that typically provide a higher level of retailing services to their customers.

A third case involves buy-ethnic campaigns. Earlier, we saw that interbuying is strong in some inner-city communities and ethnic groups and virtually absent in others. Where an organic ethnic economic enclave exists, it makes sense for business assistance to take advantage of the commercial opportunities it provides. But where it does not exist, trying to develop it is generally a fruitless and counterproductive activity.

The "Mainstreaming" Orientation of Effective Business Development

Precisely what constitutes effective business assistance will vary by specific circumstances, of course, including what types of firms are being assisted, their state of development, the types of assistance being offered, and the groups being targeted. The varying needs of particular groups of firms suggest that a multiplicity of business assistance programs, each with a different orientation, may be appropriate to cultivate within the same city. Some might be tailored to serve specific ethnic or gender groups (Keely 1989). Others may be tailored to firms at a particular stage of growth (such as new start-ups clustered in incubator buildings) or in a particular industry (as is a program for small metal-working firms in Los Angeles).

Nevertheless, certain characteristics should be common to all such efforts. The fifth principle argues that effective business development assistance should consistently encourage firms to participate in the commercial "mainstream."

Business development programs can implement this principle by employing staff knowledgeable about business operations, as indicated by formal business training and commercial experience. Of course, some talented and successful business developers have come from other professional backgrounds. But these other backgrounds sometimes lead to emphasizing forms of business assistance that are not the highest priority for assisted firms. For example, when urban planners provide business assistance, they sometimes overemphasize aesthetic building facades, as well as static neighborhood plans that reduce the responsiveness of businesses to consumer demands (Jacobs 1963). Similarly, career public servants often emphasize forms of business assistance easy for government to provide (e.g., nonrefundable tax credits) even when assistance in this form is not useful to firms (Rasmussen et al. 1982). Generally, firms most urgently require detailed help in addressing specific operational problems in marketing, finance, accounting, inventory management, purchasing, personnel, and similar subjects. For this reason, it is often appropriate for business development assistance to be provided by specialized organizations—such as business incubators or the small business development centers sponsored by the U.S. Small Business Administration (Allen 1988)—rather than community-based organizations or public economic development agencies.

A mainstreaming approach is also in terms of the appropriate form of business assistance. When business assistance was introduced several decades ago as a means of assisting the disadvantaged, many doors were firmly and automatically closed to minority entrepreneurs and businesses located in the inner city. Such "redlining" has by no means universally disappeared; one pocket where it appears to remain with particular virulence is venture capital, where large sums are allocated in part on the basis of subjective personal judgments (Silver 1985). Nevertheless, in many metropolitan areas, substantial change has occurred in the willingness of mainstream business organizations—banks, purchasing agents, joint venture partners, and others—to give business proposals by nontraditional entrepreneurs a fair hearing (Bates 1991).

Business development initiatives in the 1990s need to reflect these changed circumstances. Early minority business development and inner-city business development efforts typically were implemented through separate institutions exclusively serving disadvantaged businesses, and many of these institutions still survive. In many localities today, however, a more efficient approach would involve assisting firms to deal with mainstream institutions.

This mainstreaming approach should prevail throughout the relationship between business development organizations and the firms they assist. The relationship should begin with a mutual understanding that assistance is transitional rather than permanent—lasting only until certain business objectives are met. Then the assistance should emphasize formalization of business functions (including tax payments, accounting records, legal structures, and business plans) to prepare the firm to function in the mainstream business environment. Finally, the assistance agency should link its client firms to the mainstream business community.

For example, suppose a small minority-owned retail firm requires financing to expand its inventory. A traditional business assistance approach might provide a loan, usually at below-market interest rates, from a special minority business loan fund. A contemporary assistance organization might, instead, first suggest that the firm modernize its accounts receivable system to reduce its need for working capital. Then the organization might help the firm obtain supplier credit rather than purchasing its inventory on a cash-and-carry basis. Finally, it might advise the firm to change its debt structure so that a market-rate loan could be obtained from a commercial bank operating under conventional lending rules.

In many cases, this counseling is similar to what traditionally has been provided informally by local branch banks to small firms (at least favored small firms) in their market areas. Many banks are increasingly reluctant to engage in informal business counseling, however; under an emerging legal doctrine called *lender liability*, they now fear being sued for giving bad advice. Also, as smaller banks are merged in the ongoing process of bank consolidation, discretionary loan decisions often have been taken from local bank managers and centralized and depersonalized in a system of *formula lending*. As its name implies, this approach de-emphasizes individual judgment on the part of loan officers in favor of using firms' financial ratios as the sole criterion for lending decisions.

THE BOTTOM LINE

Like most concepts in community development, the idea of shaping business development and community development to take advantage of each other is not a panacea, nor is it simple to implement. Important differences in social and economic circumstances prevail among cities as well as ethnic groups. Implementing the principles set forth in this article requires creative adaptation, not simply applying an off-the-shelf model. In this sense, business development is generally more difficult to implement and requires more institutional strength on the part of planning agencies than, for example, low-income housing development, for which well-established standard project models are often available (Vidal 1992). But when the linkages examined in this article are creatively and selectively exploited, business development offers important opportunities to improve the quality of community life in the inner cities of the United States.

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