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# BALANCING SOCIAL AND ECONOMIC OBJECTIVES: THE CASE OF CALIFORNIA'S COMMUNITY DEVELOPMENT CORPORATIONS

By Edward J. Blakely and Armando Aparicio

## ABSTRACT

Community development practice is primarily concerned with building social and economic development institutions that lead to community self-sufficiency. The community development corporations formed by the federal government and foundations were designed to promote this form of economic and social independence. However, the economic and social goals of self-determination are increasingly in conflict as government resources shrink and public support of social programs dwindles. This paper examines the balancing of these two conflicting types of goals in thirty-four California community development corporations. The results indicate that both social and economic goals suffer from the lack of resources and the lack of skilled practitioners to organize and run the community development corporations.

## INTRODUCTION

Community development corporations, or CDCs as they are popularly known, have become involved in a plethora of business ventures. Community development corporations are now providing local child care and operating high-technology assembly plants, service stations, and even rental car agencies. As nonprofit corporations, community development corporations have developed elaborate legal structures to make profits from these commercial enterprises while maintaining their tax-exempt status. This new corporatist business thrust is increasing among community development corporations and represents both the potential fiscal salvation of as well as a new social risk for these organizations.

The community development corporation is the largest and best-

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known legacy of the 1960s War on Poverty. Many community development workers are associated with these organizations, particularly in inner-city urban areas (Blakely, 1989). For community development professionals, the community development corporation is the clearest demonstration of organized and structured economic self-help. Professional community development specialists in a variety of settings have promoted community development corporations as the only realistic means of breaking the cycle of poverty at its source (Rubin, 1986). The potentials of these organizations to achieve their economic mission have never been fully evaluated. This paper provides one of the few attempts to assess the dual mission of the community development corporations and the balance they must strike between their social goals and economic viability.

The need to balance social and human development activities with economic self-sufficiency is important to community development professionals for two reasons. First, it is clear that inner-city and depressed rural areas will have to generate their own economic wealth with little help from the federal government. Second, community development corporations offer the only real opportunities for developing strong political institutions with the capacity to redistribute wealth at the neighborhood level (Martinez & Carlson, 1986).

## DEFINING THE COMMUNITY DEVELOPMENT CORPORATION

A community development corporation is a nonprofit, neighborhood-based, economic development organization directly controlled by community residents. Control is exerted by the board of directors and employees of the organization. Community development corporations are multipurpose community institutions that promote economic development projects designed to improve neighborhood socioeconomic opportunities. Community development corporations engage in a wide variety of activities ranging from organizing community politics to providing social welfare services and operating small businesses. In short, community development corporations replicate the government at the neighborhood level. They must establish credibility and demonstrate economic viability to command the respect of local residents and achieve their political objectives (Kelly, 1977).

Community development corporations were developed in the late 1960s as a countermeasure designed to halt the flow of capital from low-income communities. These corporations were chartered initially by the federal government through the now-defunct Office of Economic Opportunity (Garn et al., 1976). They were asked to perform two missions within either urban or rural low-income communities. The primary role of these organizations was to rekindle or stimulate the development of a viable economic base in a targeted distressed area. The community development corporations received government grants and loans to assist business development activities in specific target neighborhoods. In addition to government resources, many community development corporations managed to attract significant amounts of foundation and corporate support for specific business or housing ventures.

Another role of the community development corporations was to transform and revitalize social cohesion in the depressed target areas (urban or rural) and develop employment and social services for low-income residents. In effect, every community development corporation was supposed to generate sufficient income for its community to become economically and politically autonomous (Blakely, 1989).

## BALANCING BUSINESS DEVELOPMENT AND SOCIAL PROGRAMS

Since 1981, community development corporations, as well as other community agencies, have faced severe cutbacks in federal and state government assistance. Consequently, as a survival strategy, community development corporations have developed a variety of means to generate the revenue necessary to meet overhead expenses and create new programs. The most logical option for community development corporations was to augment foundation and government support with income derived from owning and operating their own private business enterprises. As a result of the increased emphasis on profit-making activities, key questions have been raised about the meaning and effects of this change. Martinez and Carlson (1986) ask, "In adopting a more businesslike stance [and] in attempting to maximize revenue-generating opportunities, do CDCs tend to lose sight, to some degree, of their fundamental commitment to the community?" (p. 4).

While board members from low-income areas have expressed their commitment to both the social and economic needs of community residents, they are also asking hard questions about the relationships between the business functions of community development corporations and their social responsibilities. On the other hand, business-oriented board members tend to view "business as business." Their bottom line is the profit and loss statement—not jobs for poor residents of the neighborhood. The National Center for Economic Alternatives has suggested that "most CDCs tend to get more conservative over time—less [community] activist and more attuned to economic and financial considerations" (Mestre, 1980, p. 17). Furthermore, Father A. J. McKnight, president of the Southern Community Development Foundation, observed that "as cooperatives get more businesslike, they seem to lose their social and educational aspect" (Mestre, 1980, p. 20).

Finally, it appears that, given the conditions in which community development corporations operate today, they are neither private entities nor public agencies. As a result, they are automatically bound to experience a conflict of commitment or pressures from different constituents. In sum, development organizations at the community level have a built-in structural conflict over the allocation of limited resources. Colburn and Leguizaman (1987) believe that "the circle [conflict of commitment] will not end until the public and private sectors discover that more can be gained from cooperation than from conflict" (p. 12).

## SURVEY OF CALIFORNIA COMMUNITY DEVELOPMENT CORPORATIONS

In California, there are hundreds of community action agencies and community-based organizations that specialize in community economic development. It is difficult to determine, based on the definition offered earlier, which of these community organizations are community development corporations. For this reason, three statewide lists of nonprofit organizations that most closely resembled "community development corporations" were examined.

### The Survey

The surveyed organizations were identified from directories of the California Community Economic Development Association, the California Department of Housing and Community Development, and the California Department of Commerce. These three agencies act as coordinating bodies for information exchanges among California's nonprofit community development organizations. The three lists contained the names of nearly three hundred organizations. Based on their activities, a total of seventy-five agencies from these lists were clearly community development corporations. After checking for correct addresses in current telephone books, the final verified list contained fifty-eight community development corporations. Thirty-four subsequently responded to the survey for a response rate of 58 percent. Figure 1 presents the geographical locations of the organizations surveyed.

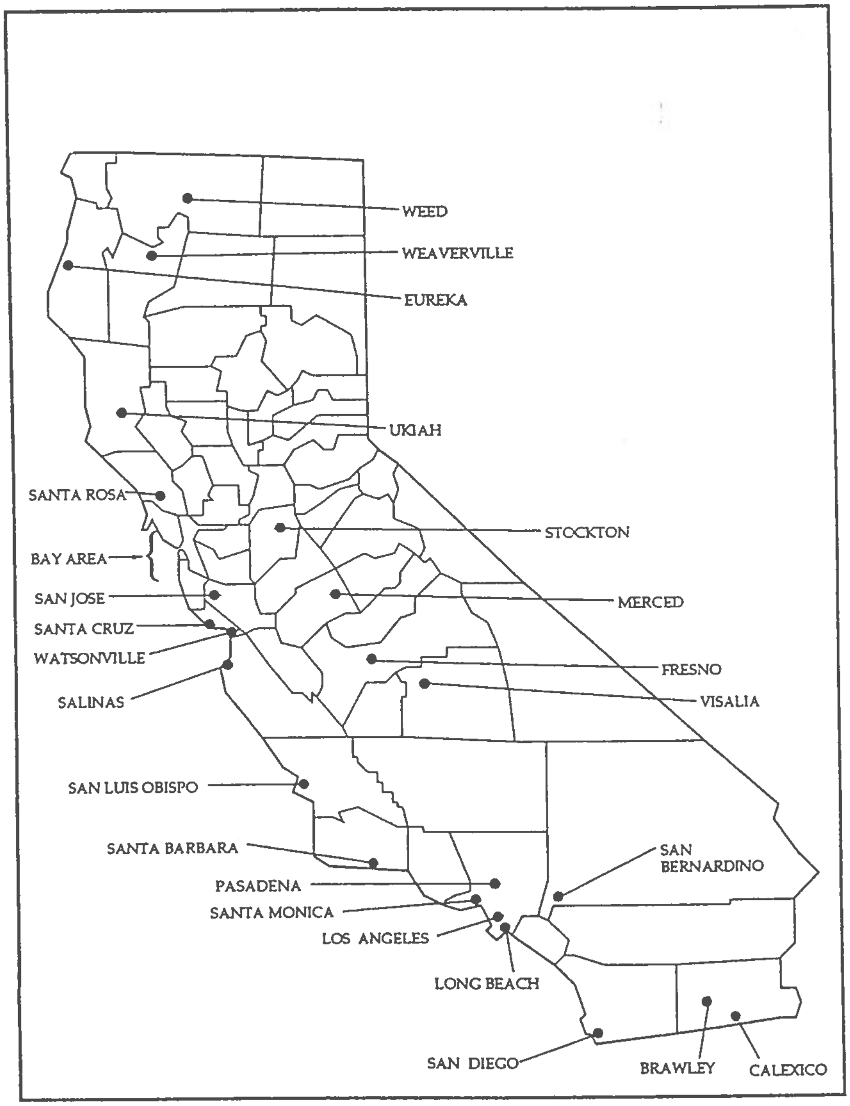


**Figure 1. Geographic Distribution of Survey Respondents in State of California.**

## Survey Findings

The following results provide a descriptive analysis of the survey findings and are based on both the data and field observations.

**Table 1. Missions of Community Development Corporations**

| *Type of Mission* | *Percent of Respondents with Mission* |
|---|---|
| Delivery of human services, e.g., housing | 88 |
| Employment creation for local residents | 71 |
| Stabilization and development of local businesses | 44 |
| Strengthening of local political base | 32 |
| Other (social services) | 18 |

1) Mission of Organization

Although community development corporations were created to foster social and economic development, each one has a unique set of goals and programs to service diverse communities. The findings shown in Table 1 indicate the breadth of community development corporation missions.

As expected, the delivery of human services is the highest priority. A surprising finding is the comparatively low priority for building a political base. A political base is so fundamental to economic survival that this finding is totally counterintuitive and unexpected.

2) Years in Operation

The number of years in operation might provide insight into the relative stability of the organizations. The average among the survey respondents was 12 years in operation, ranging from a minimum of only 2.5 years to a maximum of 24 years.

Interestingly, most community development corporations surveyed started operating within the last 12 years, or since the mid-1970s, and not during the 1960s War on Poverty era. As a result of these late starts, it could reasonably be argued that strong community activism perspectives may be less evident in the sample.

3) Geography of Service

The geographic sizes of community development corporation service areas tend to dictate the character of program offerings and the types of clients served. The results shown in Table 2 reveal that, although community development corporations were primarily intended for small-neighborhood, inner-city service areas, the surveyed sample are operating in more-extended, county-wide bases. The implications of the larger service areas are not clear; however, it would be reasonable to believe that they indicate agencies are serving more

**Table 2. Client Service Areas of Community Development Corporations**

| *Service Area Size* | *Percent of Respondents Serving* |
|---|---|
| County wide | 59 |
| Neighborhood | 47 |
| City wide | 38 |
| Other | 35 |

diverse populations than those in the traditional inner-city community.

4) Board of Directors Membership

The results shown in Table 3 address the composition of boards of directors. This information can be used to determine the balance between community-oriented and business-oriented constituent interests on community development corporation boards.

As expected, the majority of board members are from the neighborhood or affected groups. Businesses are significantly represented as well; in some community development corporations, business representation is very high. Also, business representation is higher than that in the "other" category, which is composed mainly of local government officials, students, and representatives from handicapped groups. Regardless of the type of board representation, most boards have very large memberships ranging from eleven to twenty members. The roles of board members in determining the direction of the organizations cannot be drawn from these data.

5) Social Service Programs

One survey question was designed to determine the range of social support or service activities currently offered by community development corporations. The results in Table 4 suggest a strong emphasis on social services that enhance individual personal development through assistance in areas such as child care, training, and

**Table 3. Community Development Corporation Board Composition**

| | *Range of Members by Type* | | |
|---|---|---|---|
| | *Mean* | *Minimum* | *Maximum* |
| Community representatives | 9 | 2 | 31 |
| Business representatives | 5 | 0 | 29 |
| Other | 4 | 3 | 5 |
| Total board membership | 15 | 3 | 60 |

**Table 4. Number of Surveyed Community Development Corporations Providing Specific Client Services**

| *Client Service* | *Number* | *Client Service* | *Number* |
|---|---|---|---|
| Job training and referral | 34 | Child care | 10 |
| Youth/senior | 18 | Recreation program | 7 |
| Personal crisis service | 16 | | |
| Counseling | 15 | Handicapped services | 5 |
| Food distribution | 14 | Health care | 4 |
| Affordable housing | 14 | | |

counseling, and less emphasis on group services such as political education.

6) Budget Size

The operating budget of a community development corporation is an indicator of the agency's financial stability. Table 5 shows that the distribution of budgets is somewhat bimodal, with a large concentration of community development corporations with relatively small budgets of up to $500,000 and another cluster with budgets ranging from $1,000,000 to $5,000,000. There was no clear pattern among agencies by location or size of service area that seemed to account for these differences in resources.

7) Sources of Funds

Sources of funding often determine both the objectives pursued and the methods used by community development corporations. As expected, government is the major source of revenue for nonprofit community organizations (see Table 6). Private foundation and corporate giving are surprisingly low in most categories. It is interesting

**Table 5. Total Budgets of Surveyed Community Development Corporations**

| *Budget Size* | *Frequency* | *Percent of Total* |
|---|---|---|
| Less than $100,000 | 1 | 3 |
| $100,001–250,000 | 9 | 26 |
| $250,001–500,000 | 5 | 15 |
| $500,001–750,000 | 2 | 6 |
| $750,001–1,000,000 | 3 | 9 |
| $1,000,001–2,500,000 | 4 | 12 |
| $2,500,001–5,000,000 | 6 | 18 |
| $5,500,000 | 1 | 3 |
| $12,000,000 | 2 | 6 |

**Table 6. Community Development Corporation Funding Sources by Type of Activity**

| | Source of Funds (Percent)* | | | | |
|---|---|---|---|---|---|
| *Activity* | *Government* | *Corporations* | *Foundations* | *Own Business* | *Other* |
| Housing | 74 | 32 | 32 | 32 | 15 |
| Job training | 41 | 9 | 15 | 15 | 3 |
| Health services | 15 | n.r. | n.r. | n.r. | n.r. |
| Child care | 29 | 9 | 6 | 6 | 6 |
| Bank/credit | 6 | 9 | 9 | 3 | 3 |
| Youth/elderly | 38 | 6 | 9 | 3 | 9 |
| Other business | 15 | 15 | 18 | 41 | 9 |
| Other social | 21 | 12 | 21 | 15 | 6 |

n.r. = Not reported.
* Percentages represent proportion of surveyed community development corporations receiving funding support—regardless of its absolute level—from each indicated funding source. They do not sum to 100 percent because many community development corporations receive funding from several sources for the same activity.

to observe that housing is the major funding support area for foundations and corporations. Housing is a profitable investment for community development corporations and provides foundations with clear physical manifestations of returns on their investments. Also significant is the proportion (41 percent) of community development corporations that are operating business activities. Finally, there was very little activity, regardless of its founding source, in the area of banking and credit services. Access to capital is the fundamental building block for development of an economic base in low-income communities. The absence of funds to use for capital-raising activities undoubtedly retards the formation of new businesses in low-income communities (Bass, 1986).

## 8) Program Changes

The social balance sheet of the community development corporations was determined by examining which social service programs were created, eliminated, or maintained over the previous several years. This pattern of program alteration is an indicator of both resource availability and priority setting within the community development corporations. The data in Table 7 indicate that (a) despite government cutbacks, organizations managed to create a diverse number of programs, and (b) social services activities were the major target for elimination.

**Table 7. Social Service Program Alterations by Community Development Corporations by Number and Type, 1983–1988**

| *Programs Created* | *Programs Eliminated* | *Programs Maintained* |
|---|---|---|
| 1 Cooperation with other agencies | 1 Co-op conversion | 2 Information/referral |
| 4 Housing related | 6 Housing services | 8 Housing services |
| 1 Community garden | 1 Summer youth jobs | 10 Training/employment |
| 1 Employment services | 1 Crime prevention | 3 Senior services |
| 1 Elderly services | 1 County network | 1 Client advocacy |
| 2 Homeless/shelter | 2 Skills training | 1 Family services |
| 2 Immigration services | 1 Senior citizens | 3 Youth services |
| 4 Food services | 1 AFDC services | 3 Child care |
| 2 Job training | 1 Consumer advice | 1 Sewer and water advisory services |
| 2 Violence prevention | 1 Homeless program | 1 Basic survival counseling |
| 1 Child abuse | | 1 Refugee assistance |
| 1 Infant care | | |
| 1 Counseling | | |
| 1 Single parent services | | |

9) Business Venture Program Changes

The types of businesses that community development corporations created, maintained, or eliminated during the five-year period covered by the survey were also examined. As shown in Table 8, the business services created and maintained were within areas subject to very little external (outside the community) competition. On the other hand, almost all of the business services eliminated over the five-year period were exposed to significant area-wide competitive forces.

## Conflicts Between Social and Economic Goals

Respondents were asked to summarize the conflicts that exist between business development and community service goals (e.g., the difficulty of placing low-income residents in business ventures and maintaining profitability). The related open-ended question frequently provoked the following types of responses:

> CDCs need to fully understand the danger of profit versus social change and the risk involved in capital/cash maintenance (Eleven-year Executive Director).

> The main problem is obtaining outside support for community and social service activities. Government and foundation matching money at least is necessary. Business ventures alone do not produce sufficient income for these services (Six-year Executive Director).

**Table 8. Business Service Program Alterations by Community Development Corporations by Number and Type, 1983–1988**

| *Programs Created* | *Programs Eliminated* | *Programs Maintained* |
|---|---|---|
| 1 Transportation | 1 Low-interest loan | 1 Property management |
| 4 Property management | 1 Thrift shop | 1 Loan program |
| 1 Business advice | 1 Business services | 2 Commercial redevelopment |
| 1 Senior housing | 1 Auto rental | 2 Office |
| 1 Energy production | 1 Cabinet shop | 4 Housing development |
| 4 Construction | 5 Weatherization | 1 Legal and tax services |
| 1 Telecommunications network | | 3 Construction |
| 2 Business training | | 1 Management |
| 1 Public relations | | 1 Revolving loan fund |
| 1 Incubator center | | 1 Gas station |
| 1 Restaurant | | 2 Business advice |
| 1 Economic development consortium | | |
| 1 Accounting/data processing | | |

> The legal aspects of such a mixture (social services and business development) make it a difficult union. Fiscal control and acceptability are a major concern (Four-year Planning Director).

> The biggest conflict is trying to get loan clients to understand that they must qualify for business loans—i.e., have good credit, a solid business plan, and collateral. Most clients think we should loan money to them simply because they are low-income (community) residents (Executive Director).

> (1) [We] cannot provide or sell services profitably; (2) [there is a] perception from community that we are unfair competition to the private sector; and (3) [there is a] public assumption that people working in service programs need not be paid wages competitive with private sector (Four-year Chief Executive Officer).

In addition, respondents were asked in which of three areas—more than one choice was allowed—conflicts arose most frequently. Sixty-eight percent stated that conflicts arose over resource allocation between social programs and business investments; fifty-four percent indicated that the cost of social services drained business activities; and thirty-four percent indicated that hiring local residents and doing business with local firms created tensions in the organization.

These comments, combined with responses to other specific questions, suggest that community development corporations are indeed experiencing conflicts of commitment between their social and business objectives. The range of conflicts seems to vary from community to community. The combined responses to the surveys open- and close-ended questions reflect a move away from social service programs and social support efforts among a majority of the community development corporations. Given the current national attitude toward social programs, this finding is not surprising. The tensions this change in emphasis causes within any single community development corporation are difficult to assess.

### Balance Between Social and Business Programs

In order to analyze how well the total sample of community development corporations balance business and social program development, the data on the totality of enterprises started, maintained, and eliminated were examined.

An aggregation of the survey data shown in Table 7 indicates that nearly the same number of both business ventures and social services were created over a five-year period. It seems clear that the quality and type of businesses created, for the most part, did not require large amounts of capital or experience. Furthermore, the number of social services eliminated was more than double the number of business ventures eliminated. None of the business ventures eliminated were related to the construction, rehabilitation, management, or development of housing. This may be due to the stability of the housing business. Also, the eliminated businesses were within competitive sectors vulnerable to market conditions. These businesses (e.g., thrift shops and an auto rental agency) require relatively low levels of investment but are within highly competitive markets.

Only seven business ventures were eliminated over a five-year period compared with sixteen social services. Responses to questions concerning the "balance" between money-making ventures and community service programs suggest that community development corporations are progressively giving up social service programs to attain economic stability. The survey results do not offer a clear picture of the rationale for all of these decisions. This issue needs further study.

## OBSERVATIONS

This study offers a descriptive analysis of the current state of community development corporations in California. The findings suggest that community development corporations are changing with the times by finding ways to offset reduced government funding. This response to changing economic, political, and social circumstances can be viewed in several ways.

First, some community development corporations, at least those in the study sample, have found ways to survive. Second, the institutional framework of community development corporations appears to be flexible, indeed resilient, in a rapidly changing environment. Third, the transformation in economic activities pursued by community development corporations can be viewed as detracting from the original War on Poverty redistributive and community political empowerment objectives of these organizations. Irrespective of what point of view is taken, there is a clear need to inspect the movement of community development corporations into the business arena. The data from this study are not conclusive but may be indicative of the pattern for these organizations at the national level.

The study results also indicate that community development corporations are engaged in microenterprise creation as a major component of their program activities. These businesses are in areas that require very little capital investment and provide personal and business skills rather than produce products. One might ask whether this type of business activity is a valuable use of the time, resources, and energy of any organization that serves low-income people. As Teitz (1989) points out, a "neighborhood's ability to thwart market process is limited . . ." (p. 120). On the other hand, these small-scale activities may be viewed as stepping stones or learning opportunities for a new breed of minority and community-based entrepreneurs. This issue deserves considerable debate among the proponents of the community development corporation movement.

Moreover, the issues of economic or business development create a new set of questions for community development corporations. The survey results revealed that a majority of the respondents viewed business ventures as generating real tensions and few opportunities. However, a mail survey has limitations with respect to assessing all of the subtleties of the emerging strains in community development corporations.

Finally, the metamorphosis of community development corporations into more entrepreneurial roles may represent a trend for all community-based service organizations. If it does (and it probably does based on other related evidence), then community development specialists must also be prepared for this transition (Wade, 1989). They need to have far more economic analysis and business development skills than they currently possess to be relevant in this overtly entrepreneurial environment. Community developers have a responsibility to assist low-income residents as they design and use community development corporations and related organizations to their advantage. Community developers will therefore have to possess more business and finance skills to work effectively both with community development corporations and in low-income neighborhoods.

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