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Small Business and Local Economic Development: Opportunities in Oakland

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The University-Oakland Metropolitan Forum is a partnership of the University of California at Berkeley; California State University, Hayward; Mills College; Holy Names College; the Peralta Community College District; and the Oakland community.

University of California at Berkeley
Institute of Urban and Regional Development

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EXECUTIVE SUMMARY

1 THE ROLE OF SMALL BUSINESS IN THE ECONOMIC LIFE OF A CITY

Small business plays three primary roles in cities: as a creator of jobs, as a force for diversifying the local economy, and as a stabilizing influence on neighborhoods.

Job Creation

Several studies show that small business is an important job generator, particularly in recessionary economies; some have credited small business with as much as 66% of net new employment growth, although small business employs only 33% of the labor force. Other work finds that a few startup firms, by growing quickly, create the majority of small business jobs.

Landis and Guhathakurta's 1989 research demonstrated that Oakland has not kept pace with the employment gains of the Bay Area in the early 1980s. The city lost 1% of its 1981 employment base while the region and the nation experienced substantial employment increases (16% and 8%, respectively). Given the important role of small business as a job generator during economic downturns, small business may be even more important to Oakland's economy than elsewhere.

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In fact, while the city lost 1,350 jobs in the first half of this decade, the number of business establishments increased by 387; all the increases were in firms with fewer than 20 employees. The aggregate job loss hides the fact that Oakland small business (firms with fewer than 20 employees) added 3,114 employees and medium-small businesses (20 to 99 workers) added 709 employees; the only size category to lose jobs was large businesses, which showed a decline of 5,170 workers.

Economic Diversity

Numerous small firms will also improve the economic diversity of a city by creating linkages to other firms as they contract for raw materials, intermediate products, supplies, and advertising. These linkages to other firms strengthen an economy by lessening its dependence on one employer or industry, thereby keeping the health of the economy somewhat insulated from the health of its major employers.

Between 1981 and 1986, Oakland lost substantial employment in its traditionally strong sectors of manufacturing (-3,183 jobs) and transportation and communication (-4,881 jobs). Increased diversity of business activity would help to insulate the city from further job losses in these important sectors.

Neighborhood Development and Stability

Small business also plays several roles in neighborhood development. First, it is a stabilizing influence, helping to create a sense of home and community. Small businesses provide essential goods and services within a small area, helping residents to define their home territory. Small firms also provide first jobs for teenagers, as well as part-time work for seniors and for parents of young children. Furthermore, small businesses provide meeting places for residents and support neighborhood business associations that lobby city government for amenities and services. The role of small business is especially important in ethnic neighborhoods and communities of recent immigrants, where neighborhood shops provide traditional goods and services not found in the remainder of the city. Small businesses also provide a niche and a protected market for minority business owners, who are more likely than other business owners to have small firms.

The Landis and Guhathakurta paper shows that Oakland's downtown, airport, and port areas all lost employment during the first part of the 1980s, while jobs in the neighborhoods increased. The new jobs tended to be in the neighborhood-serving sectors of retail trade, personal services, and real estate. This finding underscores the importance of small business to Oakland's neighborhoods.

2 THE STATE OF SMALL BUSINESS IN OAKLAND

In 1986, 85% of Oakland's business establishments had fewer than 20 employees; an additional 12% had between 20 and 100 workers. These two smallest categories employed 60% of all Oakland workers. The industrial sectors that tended to have the smallest establishments were resource industries, such as agriculture and mining, and retail trade. The sectors with the lowest proportion of small firms were manufacturing, wholesale trade, and transportation/communication/utilities.

3 SMALL BUSINESS ASSISTANCE AGENCIES: HELPING SMALL BUSINESSES GROW

Small business is generally acknowledged to have high failure rates, high labor turnover, and low wages and benefits. The low wages and benefits are partly due to the job training inherent in the work of an inexperienced labor force; small business is more likely than big business to hire teenagers and part-time workers. High labor turnover and failure rates may be due in part to underlying problems that plague small business owners: general lack of management expertise and insufficient capital funding.

Oakland's system for delivering small business assistance services addresses the needs of small business owners by providing managerial and technical assistance, entrepreneurial

Executive Summary

training, loans, loan packaging, loan guarantees, and a range of seminars and continuing education programs to entrepreneurs.

The more than 25 small business assistance providers reach a broad range of client groups, with special services targeted to the needs of minority and women business owners and to youth. The system suffers, however, from a lack of coordination between agencies, the small scale of many of the assistance providers, and competition among the agencies for limited funding.

1: INTRODUCTION

1.1 REPORT STRUCTURE

This report discusses small business and its role in economic development efforts in Oakland. This first chapter introduces the report's client, the University-Oakland Metropolitan Forum; the second chapter describes the Forum's Small Business Task Force and its recent goal-setting sessions.

The main body of the report is Chapters 3 through 6. Chapter 3 discusses the role of small business in local economic development, making the connection between the economic development literature and Oakland's economy. Chapter 4 examines establishment and employment data for Oakland, noting which industrial sectors have a high proportion of small business and have increased both the number of firms and the number of jobs. Chapter 5 briefly discusses problems typically associated with small business, such as high failure rates. The chapter then describes the small business assistance agencies in Oakland, which were created to address the problems that small business owners face. Chapter 6 concludes the report by proposing policy and projects for the Small Business Task Force and, by extension, the City of Oakland; it also notes further research needs.

1: INTRODUCTION

1.2 THE UNIVERSITY-OAKLAND METROPOLITAN FORUM

The University-Oakland Metropolitan Forum is a partnership dedicated to using the resources of colleges and universities to enhance the quality of life in the Oakland region. Participating institutions of higher education include Holy Names College, Mills College, and the University of California at Berkeley. The Forum broadly represents the Oakland community, with more than 300 persons involved at this time, and provides settings for nonpartisan analysis, discussion, and leadership on critical issues facing Oakland.

Panels on Economic Development, Education and Youth, and Civic Vision are the principal operating units for the Forum's ongoing activity. (An organization chart is included as Appendix 1.) Each panel, led by respected community leaders, develops its mission and work plan through meetings of the full panel and its steering committee. The panels create task forces to follow through on more specific issues and projects.

In 1988, the Economic Development Panel of the Forum established the Small Business Task Force to better understand the small business component of the Oakland economy. (The mission statement of the Economic Development Panel is included as Appendix 2.) The Small Business Task Force and its decisions are described in Chapter 2.

2: THE SMALL BUSINESS TASK FORCE AND ITS DECISIONMAKING PROCESS

In early meetings of the task force, members decided to 1) examine available data to draw a current picture of the state of small business, 2) describe and assess the system of assistance services provided to small business, and 3) create a program to improve the economic environment for small business in Oakland. This chapter outlines goals that the task force has agreed upon and discusses some choices the task force will face as it reviews this report.

2.1 GOALS

In monthly meetings during the first half of 1989, the task force debated many possible goals and targets for a small business assistance strategy. The three primary goals are as follows:

1. To create jobs
2. To increase the diversity of Oakland's economy
3. To enhance stability in Oakland neighborhoods

As a means of reaching these goals, the task force agreed upon three sub-goals:

1. To increase the survival rate of small businesses.
2. To increase the sales, profitability, and employment potential of existing small businesses.
3. To increase the business formation rate, with special attention to specific groups such as minorities and women.

2: The Small Business Task Force

Future decisions the task force must face include those of determining geographic boundaries and responding to the policy implications raised by this research. Recent discussions have centered on whether to focus limited resources on small businesses that can more readily be expected to succeed, or whether to expend energy and money on businesses in geographic areas of Oakland that are the most economically depressed and therefore present greater risks of failure.

2.2 TASK FORCE MEMBERSHIP

The Small Business Task Force members are:

Arnold Bellow, Oakland Business Development Corporation
Blanche Carr, Pryde Roberts Carr
Edward Church, Urban Strategies Council
Bruce Coll, AT & T
David Drury, Berkeley Planning Associates
Blair Egli, Bank of America
Henry Izumizaki, University-Oakland Metropolitan Forum
Mary Morris Lawrence, League of Women Voters of Oakland
Lynette Lee, East Bay Asian Local Development Corporation
Diane Lewis-Banks, Oakland Office of Economic Development and
Employment
Michael McPherson, Oakland Business Development Corporation
Victor Rubin, University-Oakland Metropolitan Forum
Kathleen Sullivan, Youth Entrepreneurial Services
Selma Taylor, East Bay Small Business Development Corporation
Michael Teitz, Department of City and Regional Planning,
University of California. Berkeley
Andrew Thomas, OCCUR

**3: THE ROLE OF SMALL BUSINESS IN
THE ECONOMIC LIFE OF A CITY:
JOB CREATION, ECONOMIC DIVERSITY, AND NEIGHBORHOOD DEVELOPMENT**

The cornerstone of many local economic development programs is creating jobs. Communities want local business investment in general, but most demand that such investment produce employment, particularly for youth or for workers displaced by industrial restructuring. This chapter discusses the role of small business in job creation and local economic development, setting the stage for research into the state of Oakland's small business. This chapter concludes with a discussion of what these roles imply for policymaking in Oakland.

3.1 THE ROLE OF SMALL BUSINESS IN JOB CREATION

3.1.1 Small Business vs. Big Business: the Job Generation Controversy

The question of how important small business is to employment growth has been debated hotly since at least 1979. Resolving the issue has obvious and important implications for economic development policy. The studies noted below show that small business generates a higher proportion of jobs than large firms in times of economic recession; that small businesses in different industrial sectors (such as manufacturing and retail)

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have different job generation rates; and that the job generation rate of small business varies with the age of the firm. We must avoid the tendency to choose one figure to fill in the blank: "Small business creates ___ % of new employment growth"; rather, we must try to understand what small business means to Oakland in the current economic cycle and in the industries important to Oakland's economic base.

In 1979, David Birch was the first to suggest that small businesses, rather than large corporations, produce a disproportionate share of new employment growth, but his assertion has not gone uncontested. In his book, The Job Generation Process, he discusses data from the Dun and Bradstreet credit files that indicated 66% of the increase in U.S. employment between 1969 and 1976 occurred in firms employing fewer than 20 workers. This finding is startling because these small firms employed only one-third of the labor force at that time. Furthermore, Birch says that 82% of net new jobs in that time frame were created by firms with fewer than 100 employees. According to Birch, then, large firms are not doing their share to generate growth in the domestic economy. This study led to changes in local government policies because of its implication that economic development strategies would work better if cities stopped chasing big industry and concentrated on making economic conditions favorable for small-firm growth. The study's

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influence subjected it to enormous scrutiny, which set off a continuing debate about the study's methodology and assumptions:

Armington and Odle were among the first to argue with Birch's findings about the contribution of the smallest businesses to job generation. In their article "Small Business -- How Many Jobs?" (1982), they argue with Birch's assumptions and claim that their analysis of the same data for 1978 to 1980 shows that only 39% of net new employment was created by firms with fewer than 100 employees. This was a different time period than that originally used by Birch, so Birch and McCracken followed up with a study for the years 1978 to 1980, when they found that 70% of jobs were created by firms with fewer than 100 employees. Clearly, there were major differences in the way these studies were performed if the two research teams reached such different results.

3.1.2 The Debate Resolved?

Storey and Johnson's Job Generation and Labor Market Change (1987) compares in great detail the results of the Birch and the Armington and Odle studies, bringing several important issues to light. First, the Dun and Bradstreet data is only a sample and therefore may not adequately represent all the small businesses in the country. In fact, because Dun and Bradstreet rely on unemployment insurance and credit rating information, their data

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base does not represent well the very smallest businesses, which may have neither employees nor credit.

The assumptions that Birch and Armington and Odle make in trying to apply the sample data nationwide have critical effects on the analysis. For example, Dun and Bradstreet data report employment for an entire enterprise and also report employment at each of the enterprise's branches. The sum of the branch employment is less than the total enterprise employment. Armington and Odle chose to use the figure for total enterprise employment, assuming that some of the branch employment figures were missing. Birch, on the other hand, believed that the branch employment figures were correct, and the difference between enterprise employment and total branch employment represented overseas employment. This difference in methodology alone meant that Armington and Odle counted 10 million more jobs than did Birch, nearly all of which were in large firms. This factor, compounded by several others, leads to the huge difference in results between the two studies.

Storey and Johnson point out that the time frames of these studies are critical. During years of recession, it is small businesses that tend to generate an extra large share of new employment because big firms are shedding labor and implementing austerity measures. Small firms in the aggregate tend to ride

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out economic storms better and do not cut their labor forces so much during downturns in the business cycle (this point is discussed further in Chapter 5). In boom times, however, small firms do not expand as fast as large firms; when the economy is growing, it is large firms that add the majority of new jobs. Table 3.1, which shows three different periods of an SBA study, illustrates this point. From 1976 to 1980, a period of expansion, firms with fewer than 100 employees created only 42.5% of net new jobs (refer to the second group of studies, with the source listed as B). But from 1980 to 1982, the trough of the recession, small firms created 222.8% of net new jobs, while large firms contracted seriously.¹ The distinctions between the two time periods are lost completely if one examines the entire period of 1976 to 1982, when the same study shows that small firms created 52.6% of new employment.

The effect of the time frame on the results also points to another problem, which is that the discussion generally focuses on the share of employment growth created by small business, rather than on the absolute number of new jobs created by small firms. As Storey and Johnson point out, the phenomenal proportion (232.6%) of growth attributed to the smallest firms

¹This figure is greater than 100% because large firms lost employment; the total job growth, therefore, was less than job growth attributable to small business.

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from 1980 to 1982 represents about 2.3 million jobs. Yet, the much smaller proportion (36.3%) attributed to small business between 1976 and 1978 represents about the same number of jobs because in those years the U.S. was adding many jobs in all firm size categories.

TABLE 3.1

PERCENTAGE OF NET NEW JOBS GENERATED, BY SIZE CLASS OF FIRM:
RESULTS OF VARIOUS STUDIES, 1969-1982

Time Period	Original Source	Size of Firm (No. of employees)					Net Employment Change (Thousands)
		0-19	20-99	< 100	100-499	500 +	
1969-76	A	66.0	15.5	81.5	5.2	13.3	6,759
1969-72	A			82.0			
1972-74	A			53.0			
1974-76	A			65.0			
1976-78	B	36.3	15.8	52.1	10.4	37.5	6,427
1976-80	B	29.1	13.4	42.5	10.6	46.9	10,892
1976-82	B	38.5	14.1	52.6	9.8	37.6	11,871
1978-80	B	29.9	5.9	35.8	7.3	56.9	4,465
1980-82	B	232.6	-9.8	222.8	-31.4	-91.4	979
1976-80	C	36.0	15.0	51.0			11,533
1978-80	D			39.1			7,104
1978-80	E			70.0			

Codes for Original Sources:

A: D. Birch (1979) "The Job Generation Process"

B: U.S. Small Business Administration (1985) "The State of Small Business"

C: C. Armington (1983) "Further Examination of Sources of Recent Employment Growth" (memo)

D: C. Armington and M. Odle (1982) "Small Business -- How Many Jobs?"

E: D. Birch and S. McCracken (1983) "The Small Business Share of Job Creation"

SOURCE: Reprinted from Storey and Johnson (1987) p. 43

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Storey and Johnson do not rest at exposing the discrepancies between the earlier studies but revise the assumptions of both studies to show how sensitive such work can be to underlying assumptions. Their results split the difference between the two earlier research efforts; they show that firms with less than 100 employees created about 50% of net new employment between 1979 and 1980. Storey and Johnson comment that this figure is no more gospel than those of the previous studies, but they provide it in order to caution readers from blindly accepting numbers simply because of their publication status.

3.1.3 Small Business in California

On the other side of the debate, Teitz, Glasmeier and Svensson (1981) provide support for Birch's findings and, furthermore, focus on the experience of California firms. Their study shows that firms² with fewer than 20 employees created 56% of net new job growth in California between 1976 and 1979, when only 28% of all employment was in these small firms.

Although the above statement is true in the aggregate, it is clear that no single figure can represent the importance of small business in job generation. Teitz et al. note that there is

²A firm must have participated in the California unemployment insurance system in order to appear in the sample. This requirement leaves out many of the smallest firms, such as family-run businesses and self-employed people.

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substantial variation in small business' proportion of job creation when examined by industrial sector, by year, and by age of business. In the case of manufacturing, for example, large firms were the most important job generators in the late 1970s; firms with 250 or more employees created 52% of net new jobs, whereas small firms created only 19% of new jobs (Appendix 3.1).

The authors also point out that the proportion of total job creation for each size category varies substantially from year to year. For example, firms with fewer than 20 employees created 71% of net new jobs in fiscal year 1976-77, 38% in 1977-78, and 120% in 1978-79 (offsetting losses in the largest firms). These figures also highlight two of the points noted in Storey and Johnson (1987): that the time frame of these studies affects the study results, and that the small business percentage of job creation can be a misleading statistic.

One of the most important findings of the Teitz study is that only a few of the expanding small firms generated nearly all the small business employment growth. Of 621 firms that entered the sample³ with 0 to 9 employees in the first quarter of 1976, only

³The study tracks employment changes in firms "entering", "continuing", and "exiting" a sample of firms that participate in the state unemployment insurance system. The authors are careful to point out that, for entering firms, they cannot distinguish between startups and firms that have simply changed ownership, therefore allowing them to appear in the sample for the first time. Likewise, they cannot distinguish between failed firms and those

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18 firms (3%) grew to employ 20 or more workers after one year of operation. One of those firms made it into the category of "100 to 249 employees", and 17 firms employed between 20 and 99 workers. Just over 40% of the original 621 firms gained employment in their first year of operation, but 39% either lost employment or ceased operations.

Teitz et al. go on to say that the small startups tend to be better job generators than are established small firms; between 1976 and 1979, a few new small firms generated much more of the growth in the small business sector than did more established firms. Although the distribution of job growth by size class is similar for both entering and continuing firms (Table 3.2), entering firms created more jobs (Table 3.3) with fewer firms (Table 3.4). The net result is that startup firms with fewer than 20 employees added an average of 7.7 jobs over the study period, but the comparable growth for established small firms was only 1.7 jobs (Table 3.5). Furthermore, average job growth (regardless of size) in entering firms was 16.4, compared to 2.7 for continuing firms.

that have changed ownership or been merged with others.

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TABLE 3.2

PERCENTAGE DISTRIBUTION OF NET JOB CHANGE, BY SIZE CLASS OF FIRM,
1976 - 1979

Status of Firm During Study Period -----	Size Class of Firm (No. of Employees)				Total -----
	1-19 -----	20-99 -----	100-249 -----	250 + -----	
Entering Firms	41.3%	27.9%	11.2%	19.6%	100.0%
Continuing Firms	41.3%	26.7%	12.7%	19.3%	100.0%
Exiting Firms	25.3%	32.7%	18.8%	23.2%	100.0%
All Firms	56.3%	22.4%	5.4%	15.9%	100.0%

NOTE: /1 Entries in the 1,000+ category were excluded from the sample

SOURCE: Teitz, Glasmeier, and Svensson (1981), p. 27

TABLE 3.3

NET JOB CHANGE, BY SIZE CLASS OF FIRM, 1976 - 1979

Status of Firm During Study Period -----	Size Class of Firm (No. of Employees)				Total -----
	1-19 -----	20-99 -----	100-249 -----	250 + -----	
Entering Firms	55,610	37,621	15,116	26,353	134,700
Continuing Firms	41,823	26,982	12,823	19,540	101,168
Exiting Firms	(28,880)	(37,257)	(21,397)	(26,502)	(114,036)
All Firms	68,553	27,346	6,542	19,391	121,832

NOTE: /1 Entries in the 1,000+ category were excluded from the sample

SOURCE: Teitz, Glasmeier, and Svensson (1981), p. 27

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TABLE 3.4

AVERAGE NUMBER OF FIRMS, BY SIZE CLASS OF FIRM, 1976 - 1979

Status of Firm During Study Period -----	Size Class of Firm (No. of Employees)				Total -----
	1-19 -----	20-99 -----	100-249 -----	250 + -----	
Entering Firms	2,397	279	32	16	2,724
Continuing Firms	8,127	3,223	600	383	12,333
Exiting Firms	1,625	298	49	17	1,989

SOURCE: Teitz, Glasmeier, and Svensson (1981), pp. 30, 33, 37

TABLE 3.5

MEAN JOB CHANGE PER FIRM, BY SIZE CLASS OF FIRM, 1976 - 1979

Status of Firm During Study Period -----	Size Class of Firm (No. of Employees)				Total -----
	1-19 -----	20-99 -----	100-249 -----	250 + -----	
Entering Firms	7.7	44.9	155.8	539.4 /1	16.4
Continuing Firms	1.7	2.8	7.3	17.9	2.7
Exiting Firms	-5.9	-41.7	-146.6	-509.7 /1	-19.1

NOTE: /1 Entries in the 1,000+ category were excluded from the sample

SOURCE: Teitz, Glasmeier, and Svensson (1981), pp. 30, 33, 37

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3.2 THE ROLE OF SMALL BUSINESS IN ENRICHING ECONOMIC DIVERSITY

Other research indicates that smaller firms enrich a local economy by increasing its diversity of activity. Consider the Pittsburgh regional economy in the 1950s or 1960s, an economy based on steel. Several major firms were the dominant employers in the region. Those conglomerate firms tended to provide everything they required from within the firms or their out-of-town subsidiaries, from raw materials to legal counsel. There was little interaction with the local economy, other than that of contracting for the region's labor.

However, small firms cannot provide everything in-house, and will contract with other firms for raw materials, intermediate products, supplies, transportation services, electrical power, packaging, advertising, and other inputs. The smaller firms do not have a cafeteria, a medical clinic, or a credit union, so their employees require these services from other sectors of the local economy. These linkages to other firms strengthen an economy by lessening its dependence on one employer or industry, thereby keeping the health of the economy somewhat insulated from the health of its major employers.

MacPherson (1988) notes, in fact, that the more innovative small firms are the ones that tend to have the most linkages to the rest of the economy. He tracked the the number of times small

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manufacturing firms in Ontario subcontracted work to consultants in the producer services industries, finding that the firms with the most innovations and the most exports were the ones most likely to subcontract to process engineers and product designers. He comments that this is a good sign because producer services (which include finance, insurance, real estate, as well as business services) are the fastest growing component of Canadian service employment.

3.3 THE ROLE OF SMALL BUSINESS IN NEIGHBORHOOD DEVELOPMENT

3.3.1 As a Force for Neighborhood Stability

Small business also plays a role in stabilizing the urban fabric of a neighborhood by providing essential goods and services within a small community and by recycling dollars within that community (Berkeley Planning Associates, 1989). "Mom and Pop" grocery stores are the prototypical example of this type of business, but other small, often family-run businesses are community fixtures as well. They not only supply groceries, ice cream sundaes, hair cuts, and shoe repairs, but they also provide part-time work for high-school students and parents of young children, first jobs for undocumented workers and immigrants trying to save enough capital to start their own business, meeting places for teenagers and seniors, and neighborhood business associations that lobby city government for amenities and services.

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In communities of recent immigrants, the stability of the neighborhood may be even more important than usual, because people are looking for a home after the tremendous upheaval of leaving country and language behind. As a community creates itself, its residents open businesses that sell specialty foodstuffs (tortillas, black bean paste) or provide services found in the old country (herbalists, acupuncturists). Through the experience of being business owners, people begin to establish new roots, make a role for themselves in a community, and create the home environment that they seek to re-establish in a new land (Izumizaki, 1989). Minority-owned businesses often remain small because the the business is more a means of survival and subsistence for an immigrant family than a profit-making venture in the conventional sense. It may be more important to the business owners to teach their children a way of life than it is to employ many workers and have a substantial profit margin.

3.2 As a Niche for Minority-Owned Business

In cities with large ethnic communities, minority businesses have both a local-serving and a city- or region-wide role. As described above, minority small business owners provide specialty foodstuffs and services; they often benefit from the protected market that comes with locating in an ethnic neighborhood (Berkeley Planning Associates, 1989). Furthermore, language and

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culture, which may hamper minorities in business activities that require a citywide market, give minority small business owners an advantage in geographic submarkets. For example, recent Southeast Asian immigrants not only find special cooking ingredients in neighborhood shops; they may also feel more comfortable shopping at stores where the owners speak their language than they would at a more generic Safeway.

In addition, newly-arrived immigrants may specialize in industries or occupations learned in their previous homeland which, in the new country, supply more than the ethnic community. For example, the Sicilian and Chinese fishers who moved to San Francisco's North Beach in the late 1800s originally supplied local retail markets but eventually drew on a citywide customer base (McEvoy, 1986). More recently, the Asian restaurants of Oakland's Chinatown district draw patrons from all over Oakland and adjacent cities. Another example is the recent emergence of a new type of shopping "mall" in the weekly flea markets at the Coliseum and Alameda drive-in theatres and at the Ashby BART station in Berkeley. At these markets, the owners are largely ethnic minorities but the customers are residents of all races from all over the Bay Area. When they started, the flea markets generally sold only used goods, but now they sell all manner of new packaged goods (clothing, shoes, tools) and fresh fish and produce.

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Perhaps because of the need to create community and the familiarity of old work patterns, small business owners in Oakland are more likely to be minority than they are to be white.

Table 3.6 shows the proportions of black, Asian, and Latino ownership of service and retail establishments in Oakland. This census data does not separate firms by small and large sizes, but it is possible to use as a proxy the categories of "establishments with payroll", which includes larger businesses, and "establishments without payroll", which includes sole proprietorships, partnerships, and family-owned businesses. With this caveat in mind, the table shows that one-third of Oakland retail businesses and three-fifths of service establishments are at the small end of the spectrum; that is, small enough not to have paid employees. Yet all minority-owned businesses have a much higher proportion of these smallest businesses, with 92% of black-owned retail stores and 65% of Latino-owned retail stores too small for paid employees. Fully 88% of black-owned service establishments and 81% of Asian and Latino service firms are small according to this proxy definition.

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TABLE 3.6
MINORITY OWNERSHIP OF OAKLAND RETAIL AND SERVICE ESTABLISHMENTS, 1982

RETAIL ESTABLISHMENTS

TYPE OF OWNERSHIP	All Establishments		Black Owners		Asian Owners		Hispanic Owners	
	#	%	#	%	#	%	#	%
All Establishments	2,770	100%	993	100%	707	100%	133	100%
Establishments with Payroll	1,847	67%	78	8%	306	43%	47	35%
Establishments w/o Payroll	923	33%	915	92%	401	57%	86	65%

SERVICE ESTABLISHMENTS

TYPE OF OWNERSHIP	All*		Black Owners		Asian Owners		Hispanic Owners	
	#	%	#	%	#	%	#	%
All Establishments	3,821	100%	1,778	100%	702	100%	218	100%
Establishments with Payroll	1,574	41%	205	12%	133	19%	42	19%
Establishments w/o Payroll	2,247	59%	1,573	88%	569	81%	176	81%

* Reflects data for 1977; 1982 data not available due to Census errors

SOURCES: U.S. Census of Selected Services, 1977, 1982; U.S. Census of Retail Trade, 1982; U.S. Census of Minority-Owned Business Enterprises, 1982.

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3.4 CONCLUSION: IMPLICATIONS FOR POLICY

Landis and Guhathakurta, in a 1989 paper published by the Oakland Forum, demonstrate that Oakland has lost private-sector employment during between 1981 and 1986, a time when the Bay Area region and the United States have climbed out of the recession, posting employment gains of 16% and 8%, respectively. Given that Oakland has not recovered as strongly, and given the role of small business as the major job generator during recessionary periods, small business may be even more important in Oakland than it is elsewhere. In fact, during the years 1981 to 1986, while Oakland lost 1,350 jobs, the city gained 387 business establishments, all of them small (less than 20 employees). Here as elsewhere, if large firms do not expand during economic downturns, then small firms must take up the slack.

Landis and Guhathakurta also show that, in the first half of the decade, Oakland lost a substantial portion of employment in its traditionally strong sectors. The city lost 3,200 manufacturing jobs, an 11% decrease in 5 years, and 4,900 jobs in transportation, communication and utilities, down 26% from 1981 totals. Although there were increases in service jobs to offset these losses, it is clear that the city must concentrate on diversifying its economy further to insulate itself from possible further declines in these sectors.

Small business is increasingly important to neighborhood stability and strength, and in fact, the neighborhoods are where all the employment

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gains and most of the establishment gains have occurred in recent years. Landis and Guhathakurta show that the downtown, the port area in West Oakland, and the Airport/Coliseum area together lost more than 3,200 jobs in the first half of the decade. The strongest job growth occurred in the neighborhoods of Montclair, Grand Lake, and East Oakland, all of which gained at least 1,000 jobs. Furthermore, these jobs tended to be in the neighborhood-serving sectors of retail trade, personal services, and real estate.

The role of small business in job growth, diversity of business activity, and local economic development makes clear the importance of small firms to Oakland's economic recovery. An explicit policy to foster the development of small business would be timely now, given the clear connection between what small business can accomplish and what Oakland needs. It is clear that Oakland's small businesses are an important part of the economic life of the city, and as such, need to be fostered and encouraged.

4: THE STATE OF SMALL BUSINESS IN OAKLAND

This chapter looks at the available data for small business in Oakland and identifies the industrial sectors in which small businesses are important. The data highlight those industries in which small businesses predominate, where new small establishments are being added, and where small businesses are adding employees. The chapter starts with a brief look at the sectoral and small business composition of Oakland and ends by outlining promising industrial sectors for further attention.

Before proceeding, it is necessary to make two notes on language. First, "establishments" are not equivalent to "firms" or "businesses" (see below), but, after the next paragraph, I use the words interchangeably for the sake of variety. Second, although there are many definitions of "small business", I will use two. This paper refers to small businesses as those establishments with fewer than 20 employees; medium-small businesses are defined as firms with at least 20 but fewer than 100 employees.

4.1 NOTES ON THE DATA

This analysis relies primarily on data from County Business Patterns, published by the U.S. Bureau of the Census. This data set counts the

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number of business establishments⁴ in each three-digit Standard Industrial Classification (SIC) code and in each of nine size categories. "Establishments" are workplaces with different addresses, so separate establishments may be either individual firms or branches of firms. With the establishment as the unit of analysis, it is likely that the data overestimate the number of smaller firms and underestimate the number of large firms because County Business Patterns counts many small branch plants as individual small firms rather than as part of one big firm. In industries where many small branches are a common pattern of firm organization, this method of collecting data could create interpretation errors when examining firm sizes. Furthermore, "firm" implies that a business is locally-controlled and can open or close as its local owners decide; however, managers of small branch plants cannot determine the location and size of their operations with the same autonomy exercised by owners of small firms.

The Bureau of the Census uses unemployment insurance records to generate this database. County Business Patterns, therefore, underestimates the very smallest firms, those owned and staffed by sole proprietors, partners, or family members who do not draw salaries.

⁴Note that federal, state, and local government establishments, including the military, are not included in this data.

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Estimates of employment were generated from establishment data by using the midpoint of each size category. For the category of 1000+ employees, each establishment was assumed to have 1000 workers (see Landis and Guhathakurta, 1989, p.1). The size categories are as follows: 1 to 3 employees, 4 to 9, 10 to 19, 20 to 49, 50 to 99, 100 to 249, 250 to 499, 500 to 999, and 1000 or more.

County Business Patterns generally provides data only on a county-wide basis, but the Oakland Forum has received data for each Oakland zip code. These codes were then aggregated to arrive at totals for the entire city. This approach has some problems, primarily because zip code boundaries do not coincide with city boundaries. Therefore, data for Oakland unavoidably include a portion of Emeryville (94608) and all of Piedmont (94611 and 94610). In addition, small portions of primarily residential areas in Oakland are located in Berkeley zip codes 94704 and 94705 and have been left out of this analysis.

Data for both 1981 and 1986 were treated the same way, so we expect that these data problems do not substantially affect trends over time.

4.2 GENERAL INDUSTRIAL AND SMALL BUSINESS BACKGROUND

Data from County Business Patterns indicate that there were 8,828 business establishments with employees in 1986. This represents an increase of 387 firms, or 4.6%, over 1981 figures (Table 4.1). Over the five years, Oakland added 397 small firms and 2 medium-small firms; the

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city lost 12 large firms (those with more than 100 employees). Table 4.2 shows that in 1986, 84.9% of establishments were small (had fewer than 20 employees), and 12.3% were medium-small (had at least 20 but fewer than 100 workers).

These 7,495 small firms employed 26.5% of all Oakland employees in 1986, and the 1,086 medium-small firms employed 33.0% of the total (Table 4.3). Total employment in 1986 was 157,603; this represents a net loss of 1,350 jobs, nearly 1% of the 1981 total (Table 4.4). However, the smallest firms added 3,111 employees, medium-small firms added 709, and the largest firms lost 5,170 workers.

Table 4.2 indicates that the resource (agriculture and mining) and retail trade industries have the highest proportions of small firms. More than 90% of the establishments in each of these sectors have fewer than 20 employees. The manufacturing, wholesale trade, and transportation/communication/utilities (TCU) industries have the lowest proportions of small firms; in each of these sectors, fewer than 80% of the firms are small. However, these same three sectors have the largest proportions --more than 20% -- of medium-small firms. In every sector, no more than 7% of establishments have more than 100 employees.

TABLE 4.1
GROWTH IN OAKLAND ESTABLISHMENTS BY INDUSTRIAL SECTOR, 1981-1986

	<u>Total No. of Firms</u>	<u>Small Firms</u>	<u>Med-Small Firms</u>	<u>Large Firms</u>
AGRICULTURE /1	7	6	1	0
MINING	-151	-137	-12	-2
CONSTRUCTION	104	129	-12	-13
MANUFACTURING	130	114	12	4
TCU /2	-516	-380	-103	-33
WHOLESALE	468	357	102	9
RETAIL TRADE	-20	38	-55	-3
FIRE /3	-59	-77	9	9
SERVICES	424	347	60	17
TOTAL	387	397	2	-12

NOTES: Small firms have less than 20 workers; Med-small firms have 20-99 workers, and large firms have 100 or more.
/1 Agriculture includes fishing and forestry.
/2 Transportation, Communication, Utilities
/3 Finance, Insurance, Real Estate

Source: County Business Patterns

TABLE 4.2
OAKLAND ESTABLISHMENTS BY SIZE CLASS AND BY INDUSTRIAL SECTOR, 1986

	<u>Total Number of Firms</u>	<u>Small Firms (Percent)</u>	<u>Med-Small Firms (Percent)</u>	<u>Large Firms (Percent)</u>
AGRICULTURE /1	56	96.4	3.6	0.0
MINING	13	92.3	7.7	0.0
CONSTRUCTION	476	85.1	12.4	2.5
MANUFACTURING	783	72.9	21.7	5.4
TCU /2	331	72.8	20.6	6.6
WHOLESALE	815	78.0	20.2	1.8
RETAIL TRADE	1,902	91.6	6.9	1.5
FIRE /3	902	86.8	11.0	2.2
SERVICES	3,550	86.0	11.1	2.9
TOTAL	8,828	84.9	12.3	2.8

NOTES: 1/ Includes Forestry and Fishing
2/ Transportation, Communication, and Utilities
3/ Finance, Insurance, and Real Estate

Source: County Business Patterns

TABLE 4.3

OAKLAND EMPLOYMENT BY SIZE CLASS AND BY INDUSTRIAL SECTOR, 1986

	Total No. of Employees	Employees in Small Firms (Percent)	Employees in Med-Small Firms (Percent)	Employees in Large Firms (Percent)
AGRICULTURE /1	311	77.8	22.2	0.0
MINING	162	53.9	46.1	0.0
CONSTRUCTION	8,111	28.1	33.5	38.4
MANUFACTURING	25,368	17.6	31.9	50.5
TCU /2	13,917	11.3	22.3	66.4
WHOLESALE	14,731	29.7	49.8	20.5
RETAIL TRADE	24,619	40.1	37.5	22.4
FIRE /3	14,506	26.4	31.3	42.3
SERVICES	57,161	28.4	29.9	41.7
TOTAL	158,886	27.0	32.9	40.1

NOTES: /1 Includes Forestry and Fishing
 /2 Transportation, Communication, and Utilities
 /3 Finance, Insurance, and Real Estate

SOURCE: Calculated from County Business Patterns (see Landis and Guhathakurta, 1989, for method.)

TABLE 4.4

GROWTH IN OAKLAND EMPLOYMENT BY INDUSTRIAL SECTOR, 1981-1986

	Total No. of Employees	Employees in Small Firms	Employees in Med-Small Firms	Employees in Large Firms
AGRICULTURE	99	64	35	0
MINING	58	59	0	0
CONSTRUCTION	679	135	144	400
MANUFACTURING	-3,183	758	-220	-3,722
TCU	-4,881	325	282	-5,486
WHOLESALE	-220	-219	51	-52
RETAIL TRADE	-1,712	568	-604	-1,677
FIRE	922	-61	-1,264	2,248
SERVICES	6,888	1,485	2,285	3,119
TOTAL	-1,350	3,114	709	-5,170

SOURCE: Calculated from County Business Patterns (see Landis and Guhathakurta, 1989, for method.)

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Transportation/communications/utilities lost the most firms between 1981 and 1986; the 516 fewer firms represent a loss of 61% of the sector. Wholesale trade, on the other hand, gained 468 firms, an increase of 135%. Wholesaling firms, on average, got smaller in the first half of the decade, because despite the increase in establishments, the sector lost 220 jobs.

As expected from the establishment data, the resource and retail trade industries have the highest proportion of employees in small businesses (Table 4.3). Small-firm employment constitutes only one-quarter of all construction, wholesale, and finance/insurance/real estate (FIRE) employment. More than half of all manufacturing workers are employed in large business, and two-thirds of transportation/communication/utilities workers are found in large establishments.

Table 4.4 clearly shows that the majority of employment growth is in the smallest firms; only wholesale trade and FIRE lost employment in these size categories. Even the manufacturing, TCU, and retail sectors, which sustained large overall employment losses, gained employment in the smallest firm sizes.

4.3 CLUSTER ANALYSIS

4.3.1 Methodology and Description of Variables

This paper presents a grouping of the industrial sectors in Oakland according to growth rates and proportion of small businesses. For each of the 66 sectors (two-digit SIC codes) present in Oakland, I calculated the following variables: net change in number of firms between 1981 and 1986, the percentage change in firms since 1981, the net and percentage change in employees between 1981 and 1986, and the proportion of businesses in the sector with fewer than 20 employees (in 1986). The sectors were then grouped for easier interpretation using a computerized cluster analysis technique.⁵ Cluster analysis does not transform the data in any way; it simply groups the sectors according to how similar they are in terms of the variables examined.

⁵To accomplish the cluster analysis, I used the SPSS PC+ computer package. The similarity between cases was calculated by using the Manhattan City Block method, which does not square distances and therefore does not exaggerate the distances between the furthest-apart cases. Cases were grouped using complete linkage, which means that, as groups become larger, the distance between the furthest neighbors in each group was calculated before merging the groups. The benefit to using this method is that the groups are more easily interpretable.

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4.3.2 Results

The cluster analysis resulted in 10 groups of industries; these are presented in Table 4.5. The industries with the highest proportion of small business appear at the top of each group. Table 4.6 summarizes the results by giving the group mean values for each variable. The first six groups show the sectors that have increased employment and, with some exceptions, the number of firms. The last four groups have lost employment and generally have also lost establishments. The following section highlights the differences among the groups as a way of placing the sectors in perspective; the discussion could also feed into decisions on small business or industrial policy. In reviewing the following data, keep in mind that, on average, 85% of all Oakland businesses have fewer than 20 employees, which is my working definition of small business.

Group 1, which includes only business services, appears to be the most promising in terms of growing small businesses. The industry added a hefty 5,642 employees and nearly 200 firms to the 1981 counts, an increase of about half on both measures. Group 2, transportation services, shows the next highest gains, adding 1,760 employees; the additional 26 firms, while not a phenomenal increase, still show substantial growth.

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TABLE 4.5

GROUPS RESULTING FROM CLUSTER ANALYSIS

GROUP	SIC	NAME	Change in Firms 1981-1986		Change in Employees 1981-1986		%Firms w/ <20 Workers
			#	%	#	%	
1	73	Business services	198	44.6	5642	51.7	80.5
2	47	Transportation services	26	48.1	1760	423.6	83.8
3	65	Real estate brokers	-29	-6.2	901	29.7	94.6
3	89	Misc. services	95	42.0	843	39.9	90.7
3	83	Social services	56	23.6	705	17.0	83.6
3	61	Credit agencies	-9	-8.7	1169	74.2	79.8
3	70	Hotels and lodging places	-2	-2.9	955	64.7	74.2
3	16	Heavy construction contractors	2	10.5	1131	284.9	66.7
4	81	Legal services	30	8.2	556	23.1	94.2
4	75	Auto repair services	-25	-9.3	572	34.6	93.8
4	72	Personal services	-1	-0.5	312	15.9	91.2
4	15	General contractors & builders	18	11.3	208	14.2	91.0
4	54	Food stores	49	17.2	521	12.9	88.0
4	86	Membership organizations	3	1.0	342	11.1	87.5
4	64	Insurance agents and brokers	-23	-14.0	199	13.3	87.2
4	27	Printing and publishing	34	36.6	240	10.8	85.0
4	58	Eating and drinking places	-1	-0.2	527	6.5	81.1
4	23	Apparel/textile products	50	69.4	497	29.4	78.7
4	62	Security and commodity brokers	15	68.2	433	87.2	75.7
4	26	Paper and allied products	-1	-5.6	415	55.9	64.7
5	13	Oil & gas extraction	7	350.0	130	2600.0	88.9
6	9	Fishing and hunting	1	100.0	15	100.0	100.0
6	10	Metal mining	1	100.0	-5	-34.5	100.0
6	22	Textile mill products	0	0.0	12	50.0	100.0
6	7	Agricultural services	8	17.0	87	41.3	96.4
6	56	Apparel & accessory stores	10	6.4	112	8.3	91.6
6	24	Lumber and wood products	14	107.7	142	106.0	88.9
6	39	Misc. manufactured goods	3	9.4	101	37.0	85.7
6	33	Primary metal industries	-2	-8.3	35	4.2	68.2
6	44	Water transportation	1	3.7	60	2.5	57.1

TABLE 4.5, continued

GROUP	SIC NAME	Change in Firms		Change in Employees		%Firms w/ <20 Workers
		#	%	#	%	
7	8 Forestry	-1	-100.0	-3	-100.0	100.0
7	14 Non-metallic metals extraction	-1	-33.3	-67	-79.8	100.0
7	31 Leather products	-1	-50.0	-19	-88.4	100.0
7	66 Combined real estate & insurance	-3	-27.3	-26	-34.2	100.0
7	67 Holding & investment companies	-4	-6.9	-174	-41.9	98.1
7	57 Furniture and home furnishings	3	2.4	-49	-4.2	94.6
7	76 Misc. repair services	5	5.0	-126	-11.0	91.5
7	55 Auto dealers & service stations	-42	-16.1	-182	-5.9	90.0
7	78 Motion pictures	0	0.0	-34	-14.2	89.5
7	38 Instruments & related products	1	6.7	-53	-15.5	81.3
7	51 Wholesale non-durable goods	-9	-3.1	-145	-2.9	80.9
7	29 Petroleum and coal products	-3	-37.5	-79	-57.7	80.0
7	50 Wholesale durable goods	-17	-3.1	-75	-0.7	76.5
7	37 Transportation equipment	2	10.0	-81	-6.9	72.7
7	84 Museums, gardens and zoos	0	0.0	-52	-56.8	66.7
7	30 Rubber and plastic products	-4	-18.2	-147	-19.5	55.6
7	45 Air transportation	-2	-6.1	-48	-2.2	54.8
7	32 Stone, clay and glass products	-3	-10.7	-74	-3.4	52.0
7	49 Electric, gas, sanitary service	-3	-50.0	-12	-2.8	33.3
8	52 Building and garden materials	0	0.0	-357	-40.1	92.9
8	80 Health services	-26	-3.2	-769	-5.7	89.8
8	25 Furniture and fixtures	-5	-17.2	-418	-54.1	83.3
8	17 Special trade contractors	5	1.8	-660	-11.9	82.7
8	79 Amusement & recreation services	4	6.6	-773	-39.1	81.5
8	35 Machinery, except electrical	-19	-19.2	-691	-28.7	78.8
8	28 Chemicals and allied products	5	15.2	-707	-39.3	71.1
8	63 Insurance carriers	-9	-13.8	-454	-15.6	67.9
8	36 Electrical/electronic equipment	6	27.3	-331	-24.7	64.3
8	20 Food and kindred products	6	7.5	-649	-8.5	46.5
9	59 Misc. retail	-2	-0.5	-1068	-21.1	94.0
9	82 Educational services	19	27.1	-1283	-33.7	76.4
9	34 Fabricated metal industries	-19	-17.9	-1378	-33.8	67.8
9	60 Banking	-9	-11.3	-1126	-31.4	57.7
9	53 General merchandise stores	-13	-35.1	-1216	-38.9	50.0
10	42 Trucking and warehousing	-5	-3.5	-1899	-34.3	78.7
10	41 Local and inter-urban transit	8	57.1	-1950	-79.6	68.2
10	48 Communications	-5	-13.9	-2793	-51.3	58.1

SOURCES: Data from U.S. Bureau of the Census, County Business Patterns employment change calculated (see Landis and Guhathakurta, 1989). Sectors clustered in groups with a computerized cluster analysis routine; see text for details.

TABLE 4.6

SUMMARY OF CLUSTER CHARACTERISTICS -- Group Means of Variables

GROUP	Change in Firms 1981-1986		Change in Employees 1981-1986		%Firms w/ <20 Workers
	#	%	#	%	
1	198.0	44.6	5641.5	51.7	80.5
2	26.0	48.1	1760.0	423.6	83.8
3	18.8	9.7	950.5	85.0	81.6
4	12.3	15.2	401.5	26.2	84.8
5	7.0	350.0	130.0	2600.0	88.9
6	4.0	37.3	61.9	35.0	87.5
7	-4.3	-17.8	-75.9	-28.8	79.9
8	-3.3	0.5	-580.7	-26.8	75.9
9	-4.8	-7.5	-1214.1	-31.8	69.2
10	-0.7	13.2	-2213.7	-55.0	68.3

SOURCE: Calculated from Table 5.3, above.

Groups 3 and 4 are also quite promising, with steady or substantial employment growth and nearly always increases in the number of establishments as well. However, some of these sectors (such as heavy construction contractors, paper products, hotels,

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and securities brokers) have a low proportion of small business, with the percentage of small firms well below the Oakland average of 85%. Of special note in Group 4 are three manufacturing sectors: printing and publishing, paper and allied products, and apparel and textile products. Together these three sectors have added 1,152 employees and 84 firms.

Group 5, oil and gas extraction, deserves special mention because of the phenomenal percentage increase in both employment and establishments. However, it is unclear if this growth would continue because the industry is so heavily resource-based.

The firms in group 6, with one exception, showed at least moderate increases in employment; only one industry lost firms. The manufacturing sectors of textile mill products, lumber and wood products, and miscellaneous manufacturing have added 255 workers. Each of these industries has above-average proportions of small business.

Groups 7 through 10 are the ones where industries lost jobs. Many of Oakland's traditionally strong sectors showed substantial job losses, including communications, trucking and warehousing, fabricated metals, chemicals, and health services.

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It is difficult to keep in mind the shifts in sectoral employment and establishments over the five-year period, so I created a chart to show these changes. Figure 4.1, displaying selected industrial sectors in 1981, places the numbered sectors (SIC codes) on a graph where the vertical axis represents the proportion of establishments in the sector that are small (have fewer than 20 employees). (The horizontal line near the top shows the average proportion of small business in Oakland industry.) The horizontal axis represents the total number of firms in the sector. Figure 4.2 shows the same data, but positions the sectors according to their characteristics (number of firms, percentage small) in 1986. Figure 4.3 was created by overlaying the figure for 1986 on top of the figure for 1981 and drawing arrows to represent shifts in the positions of the sectors.

The endpoints of the arrows are positioned where the 1981 data would be; the arrows point toward the sector's position in 1986. By looking at Figure 4.3 it is possible to see which sectors have added or lost establishments (the arrows point right or left) and which have increased or decreased their proportion of small business (the arrows point up or down). Diagonal arrows combine shifts on both counts. It is also possible to infer changes in employment from the arrows, although employment is not specifically included on the graph. For example, a long arrow

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pointing straight up indicates that no change has occurred in the number of firms in the sectors, but, because of the dramatic increase in the proportion of firms that are small, one can assume that the industry has sustained job losses.

Figure 4.3 underscores the importance of SIC 73, business services, to the Oakland economy. This industry showed dramatic employment growth over the five years, adding both establishments and increasing firm size (arrow pointing down and to the right), yet the industry is still close to the Oakland average in proportion of small businesses. Likewise, SIC 23, apparel and textiles; SIC 86, membership organizations; SIC 56, apparel and accessory stores; and SIC 54, food stores, have added both firms and jobs. All but SIC 23 have a higher than average proportion of small business.

Nine sectors show substantial employment growth at the same time as average firm sizes are decreasing; these include four service sectors (transportation, SIC 47; legal, SIC 81; social, SIC 83; and miscellaneous, SIC 89), two manufacturing sectors (lumber and wood products, SIC 24; printing and publishing, SIC 27), oil and gas extraction, SIC 13; securities and commodities brokers, SIC 62; and general construction contractors (SIC 15). These arrows point toward SIC codes to the upper right of the arrow endpoints.

Figure 4.1

NUMBER OF FIRMS BY % SMALL BUSINESS

OAKLAND, 1981

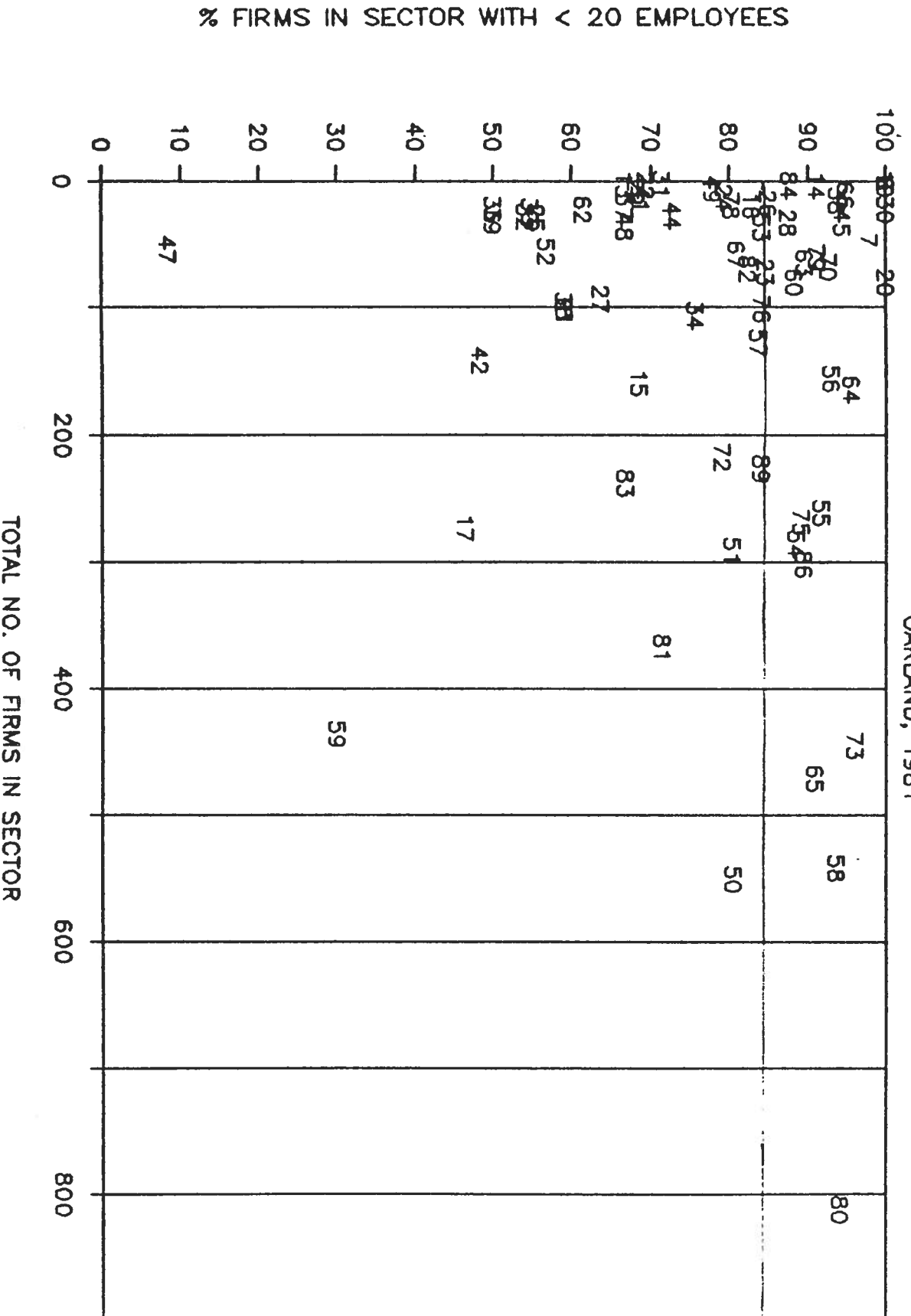
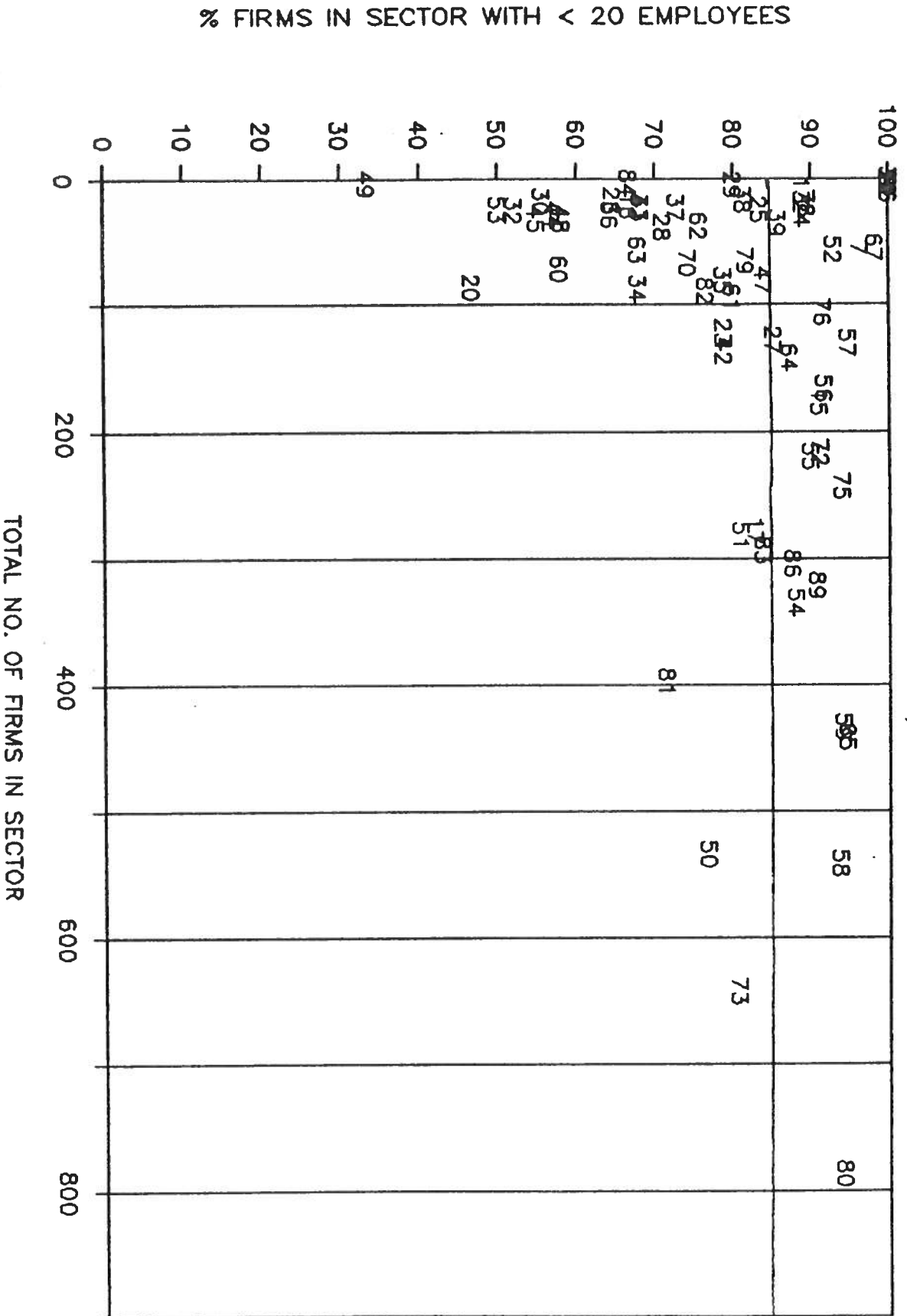


Figure 4.2

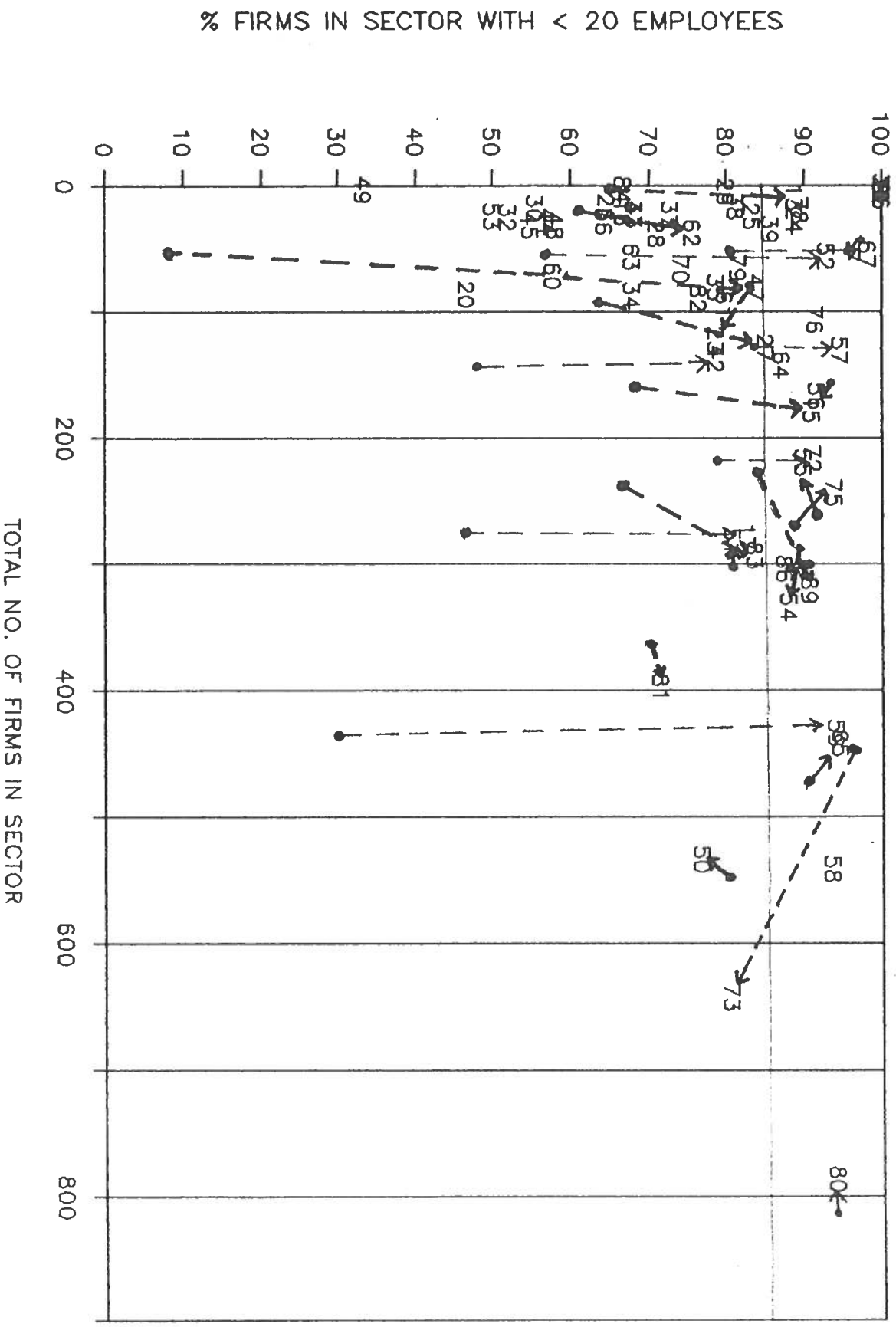
NUMBER OF FIRMS BY % SMALL BUSINESS

OAKLAND, 1986



CHANGE IN NO. OF FIRMS AND % SMALL

OAKLAND, 1981 - 1986



ARROWS INDICATE CHANGE IN INDUSTRY POSITION BETWEEN 1981 AND 1986, AS FOLLOWS:

- ← Decline in No. of Firms
- ↖ Decline in Firms and Firm Size
- ↗ Increase in No. of Firms and decrease in Size
- ↘ Increase in Firms and Firm Size
- ↙ Increase in Size but Decline in Firms

**5: SMALL BUSINESS PROBLEMS AND PUBLIC-SECTOR REMEDIES:
OAKLAND'S SMALL BUSINESS ASSISTANCE SYSTEM**

Chapter 3, in examining the effect of small business on economic development, showed that increased emphasis on small business development could help to address the economic woes of Oakland. However, small business is far from a trouble-free solution. This chapter briefly examines some of the problems associated with small business, such as high failure rates and high labor turnover, and also discusses some of the underlying difficulties that owners face, such as undercapitalization and insufficient managerial expertise.

A city or state trying to promote small business will typically attack these underlying difficulties by creating agencies to provide technical and managerial assistance and help small business owners obtain capital. Oakland is no exception; more than 25 agencies in Oakland provide such assistance. The second part of this chapter looks at the system of assistance services for small business in Oakland, describing the key players, system strengths and weaknesses, and opportunities for developing the system. Information for this part of the chapter comes from interviews with agency directors or agency personnel in charge of

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small business services in Oakland-serving organizations (see References -- Interview Sources).

5.1 THE PROBLEMS OF SMALL BUSINESS

5.1.1 Small Business Turbulence

Chapter 3 of this report noted that small firms survive economic downturns better than larger businesses, but this is a statement true only in the aggregate. It is also well-documented that individual small businesses have a high failure rate. Teitz's study of California firms showed that more than 30% of the smallest startups (those with fewer than 20 employees) in 1976 did not reach their second anniversary (Teitz et al., 1981). On the other hand, 90% of firms that started with 20 to 99 workers lasted at least two years, and 95% of firms with 100 or more workers were still in operation two years later.

Markusen and Teitz (1985) outline wrenching cyclical and structural changes that contribute to turbulence among small firms. They report that the business environment of small firms is "quite turbulent, subject to seasonal, cyclical, spatial, and sectoral fluctuations of substantial magnitude" (p.215). They find that the worst problems for small business owners are associated with rising costs, recession-related declines in sales, and market saturation of products. They also find that if a small business operates in a market dominated by large firms,

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or if it depends on a few major suppliers or customers, the small firm is quite vulnerable to changes in the business behavior of the larger firms.

When faced with declining demand for products, business cycle downturns, or loss of a major supplier, a large firm may cut back on staff and wait for better days, but a small firm may not have the cash reserves to weather the storm. When considering failure rates, it is important to remember the two scales of small business markets. Those small firms, typically manufacturers, that serve a city- or region-wide market are subject to the same economic constraints as big business, but because of their reduced scale, they may cross the line to non-profitability much faster. Small businesses that are primarily neighborhood-serving, on the other hand, will continue to do business even if times are hard -- people will still need to buy groceries and visit physicians. These small businesses will tend to survive economic downturns. Or, if not these actual firms, their replacements will survive because small business startup rates, as well as failure rates, are high (U.S. Small Business Administration, 1988). When one small firm fails, another opens its doors. Therefore, it is crucial to remember that the discussion of job generation in preceding chapters refers to net new jobs created; although small business adds many jobs each year, it loses many as well, due to staff cutbacks and business

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closures. The net result, however, is an increase in small business jobs in most years.

Failure rates vary by industrial sector, and although failure data for small and large businesses are not available by sector, it appears that the sectors with the highest failure rates are also those that tend to be dominated by small businesses. Some of the more volatile industries are those that are heavily resource-based (agriculture, mining) and many types of services. The U.S. Small Business Administration, in its 1988 report The State of Small Business, detailed business failure rates by industrial sector for 1986 (Appendix 5.1). For all U.S. businesses, the average failure rate⁶ per 1,000 firms was 146; the average failure rate in mining was 415 and for agriculture was 250. The overall failure rate for services was 178, but this figure disguised a lot of variation. Only 61 out of 1,000 legal services establishments failed in 1986, but 406 per thousand business services firms closed shop. County Business Patterns data collected for the city of Oakland in 1986 (discussed in detail in Chapter 4) showed that, on average, 85% of Oakland businesses were small (had fewer than 20 employees). Yet, in nearly all of the sectors with high failure rates, the proportion of small business was much greater than the average: 92% of

⁶A business failure is defined as a closing of a firm listed in the Dun and Bradstreet credit files.

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mining establishments, 96% of agricultural firms, 86% of service establishments, and 94% of legal services firms were small by this definition. Alone among the sectors mentioned with high failure rates, business services had a lower than average proportion of small businesses, at 81%.

Federal and local governments recognize the high failure rate of small businesses and often seek to improve their survival rates as part of an overall economic development strategy. In Oakland, for example, the city government funds programs that target capital, as well as management and technical assistance, to small business. These efforts are discussed further in in the second part of this chapter.

5.1.2 The Quality of Jobs in Small Business

Some argue that the amount of new job growth in small business is irrelevant; because of the turbulence associated with the lifespan of small business, the jobs generated are unstable and carry little potential for employee advancement (Bluestone and Harrison, 1980). On the other hand, others argue that small business plays an important role in job training, and that employee advancement occurs as a result of successive jobs in different firms rather than as moves up the career ladder within a single firm. A recent study completed for the Small Business Administration finds that labor turnover rates are much higher in

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small firms (here, less than 100 workers) than in large; median job tenure in small business is two years, compared to four years in large firms (Berkeley Planning Associates, 1988).

Much of the discrepancy in turnover rates is due to the relative youth of small-business employees; small business is often the first job experience for new workers.⁷ However, even among workers aged 21-85, there is a significant difference between job tenure in small and large firms. This may be because small business often employs other hard-to-place workers with special needs. For example, new mothers returning to work until their children are old enough for school may desire part-time work that would be difficult to find in a larger corporate environment. Seniors forced to retire because of health considerations or because of mandatory retirement ages may also desire part-time work in small firms.

The same study also found that workers in small firms are consistently paid less well than their counterparts in large firms. Some of this is due to lower wages in the industries dominated by small business, but the statement holds true even when controlling for industry and occupation (Berkeley Planning

⁷A 1986 Oakland Private Industry Council study confirms this for Oakland, finding that small firms hire more than half of all entry-level workers.

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Associates, 1988). Likewise, workers in small firms are much less likely than their big-business counterparts to have benefits such as health insurance. Lower rates of pay may be attributable to the job training inherent in the work of inexperienced employees. Fewer health benefits may be provided because more of the workers tend to be part-time.

5.1.3 Problems Underlying High Failure Rates

As Malizia (1985) notes, small business owners usually have little or no formal managerial training, and often do not have even rudimentary knowledge of bookkeeping, financial planning, and marketing. Interviews with small business assistance agencies confirm this finding; two broad categories of small business troubles are management difficulties and inadequate capitalization. Management consultants working for the East Bay Small Business Development Center note that entrepreneurs, although technically skilled in producing goods or services, often have no experience in running a business (Morgan, 1988). Furthermore, these consultants confirm Markusen and Teitz's (1985) finding that small business is chronically undercapitalized, pointing out that inability to obtain sufficient capital is symptomatic of the lack of managerial expertise.

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5.2 THE SMALL BUSINESS ASSISTANCE SYSTEM IN OAKLAND

Management problems and undercapitalization are key contributors to the generally high failure rates of small business; these problems can be addressed with advice and training in marketing, bookkeeping, and business and financial planning. Teitz, Drury and Fogarty (1985) comment that most of these services are provided in the marketplace, but that public agencies may find it appropriate to provide such services at minimal cost in order to promote economic development or to provide additional opportunity to targeted minority business owners. Teitz (1987) goes on to say that it is also important "to look for ... constraints at the local level that might be removed and for resources and market opportunities that might be tapped" (p. 9).⁸ The City of Oakland, the State of California, the United States government, and other funders agree with this assessment, contributing to the support of many Oakland-based small business assistance providers.

5.2.1 An Overview of the System

Public and non-profit agencies in Oakland provide a variety of no- or low-cost services to small business. These include management and technical assistance (M&TA), entrepreneurial

⁸Constraints may include, for example, the unwillingness of banks to lend what the bankers consider small amounts (\$50,000 or \$100,000) to entrepreneurs (Rosen, 1989).

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training, loans, loan application assistance (also referred to as "loan packaging"), loan guarantees, and a range of seminars and continuing education courses for small business owners. Although there are more than 25 agencies that assist small business (Appendix 5.2), seven agencies are the central core of the service delivery system. In addition, several other agencies have special niches in the delivery system. Profiles of the core agencies, derived from interviews with agency personnel (see Appendix 5.3 for interview questions), appear in alphabetical order in the following sections. A summary of selected agency characteristics appears as Table 5.1.

5.2.2 Core Agency Profiles

California Regional Urban Development Corporation

This 11-year-old agency provides loan guarantees to small business. Cal Regional has \$4.7 to \$4.9 million available as collateral on the loans they guarantee, and the agency's funding primarily comes from the 1.0% to 1.5% fees charged for the guarantees. Additional funding is provided by Oakland's Office of Economic Development and Employment. The agency currently has 41 clients, to whom it has guaranteed approximately \$3 million; about \$2.4 million is available as pledging collateral for 1989.

TABLE 5.1

SUMMARY OF INTERVIEWS WITH SELECTED ASSISTANCE AGENCIES

	Oakland Business Devel. Corporation	East Bay Small Bus. Devel. Center	Golden State Business League	California Regional
FTE Staff	8	3	15	8
Age	15	4	20	11
Referrals to Other Agencies:				
-- M&TA	---	---	EBSBDC (startup only)	EBSBDC MBDC
-- Loan Packaging	---	OBDC Cal Regional	MBDC Cal Regional OBDC	EBSBDC MBDC
-- Capital	banks	banks	banks SBA Cal Regional	SBA
What are your main programs?				
1	loans	M&TA	procurement	loans
2	M&TA	loan pkg	mkt asst	
3		training	bonding	
Who are the system's important players?				
1	EBSBDC	OBDC	OEDE	N/A
2	GSBL	GSBL	Public Works	
3	Cal Regional	Cal Regional	Port	
4	MBDC	MBDC		
5	OEDE	Port		
What would help you do your job better?				
1	more M&TA	evaluation	followup on M&TA clients	system leadership
2	startup training	procurement		expanded EBSBDC
3		loan packaging		
4		targeted new training		

SOURCE: Interviews with agency personnel; see References for names.

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Although the agency previously provided M&TA, it is reducing the amount of counseling assistance because of a lack of funding; in recent years, the East Bay Small Business Development Center (see below) has provided loan packaging and M&TA for Cal Regional's clients. The agency's director, Lois Barnett, notes that if Cal Regional had more capital, it could improve its capital-to-earnings ratio, thereby allowing it to pay for increased loan packaging services from the East Bay SBDC. Barnett points up a marketing problem common to the service providers, saying, "if we had more applications, we could serve more clients."

The client profile for Cal Regional is fairly simple. Cal Regional does not generally assist startup operations; in recent years, all of Cal Regional's clients have been existing businesses requiring expansion or credit-line funding. Furthermore, all of its clients are in the business of providing services; none manufacture goods or engage in retail trade. Although Cal Regional assists small businesses throughout the Bay Area, 37% of its clients are in Oakland.

East Bay Small Business Development Center

This agency was founded four years ago when the California Department of Commerce and the U.S. Small Business

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Administration cooperated to open several small business development centers throughout California. The centers were started to provide technical and managerial advice to small businesses in order to maximize job creation potential and minimize business failure rates (California Department of Economic and Business Development, 1983, p. 4). Although federal funding has ceased, the majority of the financial support for the East Bay SBDC still comes from the California Department of Commerce. In addition, the Center has contracts for specialized small business services, such as loan packaging for targeted communities, with several East Bay cities; these contracts provide about one-third of the Center's operating budget.

The Center's two part-time consultants provide the bulk of M&TA services to existing businesses on a one-to-one basis; these include business planning, financial management, administrative systems development, marketing advice, and information and referral. In addition, the Center packages client loan applications for both conventional and SBA-guaranteed loans. For a small fee, the Center holds one-day and evening seminars and training workshops for both startups and established businesses. In conjunction with the Peralta Community College District, the Center runs a pre-business startup course, for college credit, that covers all the

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basics of business and financial planning and marketing. Generally, the only assistance provided to startups is in the form of training seminars.

Currently, the Center provides one-on-one counseling (averaging two hours per client per month) to about 20 different clients each month. The clients who come in for loan packaging receive more assistance, up to 40 hours over a two-month period. In addition, the Center answers about 60 shorter information and referral calls each month. Selma Taylor, the agency's director, believes that followup calls to her clients would help her to evaluate the agency's performance, but she notes that she and her staff do not have the time. Most of the money the Center receives is supposed to go to direct intervention, not for evaluation.

The Center serves primarily Alameda County business owners, but occasionally clients calling from Contra Costa County, San Francisco, and San Jose will get information and referrals over the telephone or will attend one of the training sessions. Of the Center's clients, 61% are service businesses, 19% are in retail trade, 7% manufacture goods, 6% are in wholesale trade, 2% are in construction, and the remaining 5% are in other categories. Slightly more than half (53%) of the Center's clients are minority business

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owners, but this figure has been decreasing somewhat in recent years because of increased marketing in southern Alameda County, where there are fewer minority residents. The Center's clients are also fairly evenly split along gender lines: 46% of the businesses are men-owned, 41% are women-owned, and 13% have mixed ownership.

Golden State Business League

In its two decades of existence, the Golden State Business League has concentrated on providing procurement assistance, primarily to construction contractors. In addition, the League provides technical assistance by familiarizing contractors with bonding requirements and helping them identify prospective bonding agencies. Until recently, the agency also operated a U.S. Economic Development Administration revolving loan fund for Oakland small businesses, but the program ended in fall 1988. According to the staff of the Oakland Office of Economic Development and Employment (see below), this program will probably start up again the latter's management.

The agency serves clients all over the state, but also has one contract with Oakland's Office of Economic Development and Employment to serve only Oakland businesses. Otis Turner, the League's director, says that the agency serves

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more than 100 clients each month, but notes that it is difficult to distinguish those who received substantial assistance from those who received only minimal telephone advice. The agency does not serve startups, referring them instead to the East Bay SBDC, the Oakland Business Development Center (see below), or the Minority Business Development Center (see below).

The Minority Business Development Center/Grant Thornton

The Minority Business Development Agency, a division of the U.S. Department of Commerce, contracts with local entities throughout the U.S. to operate minority business development centers (MBDCs). Grant Thornton, an accounting and management consulting firm, holds this contract for the San Francisco-Oakland area. The Center provides management and technical assistance in business planning, financial management, organizational management, marketing, and procurement. Fees range from \$10 per hour for smaller businesses (firms with less than \$500,000 annual sales) to \$17.50 per hour for larger businesses.

Clients must be 51% or more minority-owned businesses, but they do not necessarily meet any size criteria. Clients must be within a five-county Bay Area region (Alameda, Contra Costa, Marin, San Francisco, and San Mateo).

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The Oakland Business Development Corporation

The OBDC was set up by the City of Oakland eight years ago to provide management and technical assistance to Oakland businesses; the agency still receives funding from the City for this purpose. OBDC also administers SBA loans for expansion and working capital. On average over the past two years, the agency has helped 17 clients each month with in-depth assistance, such as business planning and loan packaging. OBDC also averages more than 50 shorter calls and inquiries each month. Arnold Bellow, OBDC's director, says that increased funding would allow his agency to expand its M&TA services and would enable it to provide training for owners of startup firms.

As noted above, the OBDC provides assistance only to Oakland businesses. Two-thirds of their clients are existing businesses and one-third are startup operations. More of their clients (42%) are in the service sector than in any other industry; 27% are retail operations, 18% are manufacturers, and 12% are construction companies. Their statistics note that 87% of their clients are male and 18% are female; 5% are male-female teams. Just under one-third of their clients are white (30%); the remainder are minorities, with 36% black, 18% Asian, 0% Latino, and 16%

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other minorities. Among the seven community development districts of Oakland, the clients are dispersed as follows: 33% from Chinatown/Central; 15% each from Central East Oakland, North Oakland, and San Antonio; 11% from Elmhurst; 7% from West Oakland; and 4% from Fruitvale.

Oakland Chamber of Commerce

The Chamber, at 84 years of age, is the senior member of small business assistance agencies. It provides a wide variety of M&TA services and training seminars to its members. The agency provides SCORE counseling (Service Corps of Retired Executives), business development activities, networking activities, periodic startup and training workshops, and a limited business reference library. In addition, the Small Business Council is an advocacy group that also provides advice to small business owners.

The Chamber averages 100 to 150 hours of counseling activity per month, with the time spent per client ranging from five minutes to one hour. The Chamber also receives between 150 and 250 informational calls each month.

Except for the training workshops, no fees are charged; however, the small business owner must become a member of the Chamber in order to receive services. The Chamber estimates

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that its membership comprises about 10% of the business community; 90% of its members are located in Oakland, with the remainder in Emeryville, San Leandro, and other East Bay communities.

Oakland Office of Economic Development and Employment

This 10-year-old City department provides management and technical assistance, referrals, and workshops for small business operators. The City, through OEDE, has direct lending authority under a number of federal and city loan programs, including U.S. Housing and Urban Development loans for small business building purchase, rehabilitation and construction; the agency also makes loans to finance the purchase of fixed assets. OEDE also contributes to small business assistance indirectly by funding many of the Oakland service agency programs, including the OBDC's loan operations, Cal Regional's loan guarantees, and Golden State Business League's procurement assistance. In addition, OEDE provides assistance to merchants' organizations in organizing street fairs and other promotional activities.

OEDE is also involved in a range of neighborhood commercial revitalization activities, which include neighborhood studies and assistance to community development corporations. The neighborhood studies focus on detailing demographic and

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economic conditions in the neighborhoods and also identify market potential for neighborhood services and retail businesses. Assistance to development corporations may include project financing and construction advice, as well as legal assistance.

In fiscal year 1986-87, OEDE made loans totaling \$2.8 million; this figure increased to \$3.1 million in 1987-88. (These figures include money made available through Cal Regional.) In the first eight months of fiscal year 1988-1989, OEDE made loans totaling \$33.6 million, approximately \$30 million of which went to Children's Hospital. Averaged over the past three years, OEDE's activity each month includes 12 client referrals, 40 client screenings, and 95 mailings to individual clients.

5.2.3 Other Agency Profiles

Youth Entrepreneurial Services (formerly Oakland Youth Corporation)

YES provides a comprehensive program of small business services: M&TA, incubator space, entrepreneurial training, a cooperative marketing program, a computer resource center, internship programs, continuing education, and numerous networking opportunities for under-30 entrepreneurs, with a focus on those between the ages of 16 and 24. For the

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businesses located in the incubator, \$150 per month pays for rent and three one-to-one sessions for M&TA. The fee for the 180-hour, 2 1/2 month entrepreneurial training course is \$100.

The incubator, which opened in January 1989, has space for eight businesses; as of the end of March, it housed four start-up firms. Although the agency does not have a good measure for the number of firms served per month, it currently works with 78 different businesses. YES runs one entrepreneurial training class per quarter and enrolls about 20 students each time. The agency's goal is to assist in the creation of 40 to 50 businesses per year.

Of the agency's clients, 75% are startups and 25% are existing businesses. As with the other assistance agencies, most of YES's clients are in the service industries: 34% provide personal services, 33% provide business services, 17% are in retail, 12% are in manufacturing, and 3% are engaged in wholesale trade. Most (75%) are located in Oakland. All their clients are minorities: 86% are black, 5% are Asian, 5% are Latino, and 4% are Pacific Islanders. Fifty-one percent are women.

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Builders Exchange of Alameda County

The Builders Exchange provides technical assistance and management seminars about the construction industry to its approximately 600 member firms, the bulk of which are small business. In addition, the Exchange maintains a plan room that contains the specifications, plans, and contract amounts for 10,000 Bay Area construction projects; this information assists members in preparing bids for their own jobs.

Including the members who use the plan room, the Exchange currently assists between 150 and 200 members each month. The Exchange funds its activities with membership dues and rental of extra space in its building.

Community Colleges

Several community colleges in northern Alameda County, including Laney College, Merritt College, and Vista College, offer periodic entrepreneurial training seminars and business planning courses. Often these courses are co-sponsored by the assistance agencies profiled above.

East Bay Asian Local Development Corporation

EBALDC, founded in 1975, is primarily involved in developing affordable housing, building community facilities (such as the Asian Resource Center), and acting for neighborhood preservation. However, EBALDC also offers technical and

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financial assistance to small businesses in order to create job opportunities for low-income people. The agency administers a \$10,000 revolving loan fund for low- or moderate-income entrepreneurs considered "high-risk" by commercial lenders. EBALDC has made 12 loans from this fund over the past 4 years. The agency's activities are funded in part by the City of Oakland, the California Department of Housing and Community Development, and by major Bay Area grant-making foundations.

Oakland Private Industry Council

The Private Industry Council helps small business owners indirectly by assisting them in finding new employees, setting up customized training programs for existing workers, and retraining displaced workers. These services, while more useful for established businesses than for startups, reach mostly small businesses. In fact, employment coordinator Ralph Zackheim notes that the PIC tries to "target small business, because we see more opportunities there."

5.3 SYSTEM STRENGTHS

The key components of a small business assistance system are solidly in place in Oakland. Nearly all the agencies interviewed provide management and technical assistance,

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which is probably universally needed by small businesses that are looking for help. In addition, capital is provided in several ways: the Oakland Business Development Corporation packages SBA loans; the City of Oakland, through its Office of Economic Development and Employment, provides real estate and fixed-asset loans, California Regional Urban Development Corporation guarantees conventional loans, and the East Bay Asian Local Development Corporation has a small revolving loan fund for high-risk businesses.

Furthermore, the assistance system is reaching all types of business and all sorts of business owners. Of the agencies that keep such statistics (East Bay Small Business Development Center, Oakland Business Development Corporation, and Youth Entrepreneurial Services), all show substantial assistance efforts expended on women- and minority-owned businesses. The Minority Business Development Center, of course, assists only minority-owned firms. In addition, Youth Entrepreneurial Services directs substantial efforts at the young, who are the business owners most likely to be ignored by conventional lenders and least likely to receive moral support in a new business venture.

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5.4 SYSTEM WEAKNESSES

The leading problems with the system appear to be lack of coordination, competition among the agencies for the same funds, and the very small scale of the agencies. An additional problem appears to be that some client groups are not being adequately assisted.

The lack of coordination manifests itself in several ways, all of which are frustrating for the business owner to encounter. First, there is no one place where a business owner can go to find out about the requirements that Oakland places on business owners and get the necessary permits. City departments can provide the information, but often do not have the staff to assist business owners in filling out the forms. The City refers most people requiring M&TA either to the Oakland Business Development Corporation or to the East Bay Small Business Development Center. Second, although almost all the agency directors said they would refer clients to other agencies if their own organization could not be helpful, several noted that very few referrals are ever made. Probably this is due to the widespread availability of M&TA services, but it may also be due to some turf-protection strategies.

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Since many of the agencies provide similar services in the same geographic area, all are competing for the same few service contracts offered by local communities and for the same limited funding from philanthropic organizations.

The competition for funding is related to the problem of the scale of operations. Most of the agencies are too small to operate efficiently, with one director supervising two to seven staff people. Many of the directors said that what they wanted most was more money so that they could hire more people and expand their operations. The directors are often full-time fundraisers, but there is not enough money in the pool of existing resources to support all the organizations at the optimal level.

An additional problem is that some client groups are not being reached. For example, Latinos seem to be underrepresented among groups receiving assistance and loans,⁹ and it appears that women-owned businesses may not be getting a proportional share of loans. Many of the agencies will not serve entrepreneurs (startups) because they see them as too risky, but these are the groups that need the most

⁹The Spanish-Speaking Unity Council used to provide small business assistance services, but stopped in recent years. The Hispanic Chamber was not interviewed for this study, but should be.

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help, precisely because the world, particularly the financial world, sees them as risky. Furthermore, the assistance agencies that do not keep statistics on the demographic characteristics of their clients tend to be the older agencies; these probably do not focus substantially on minority- and women-owned businesses.

5.5 POLICY IMPLICATIONS

Although this chapter makes a substantial start on describing the small business assistance system, more information is necessary in order to draw a complete picture of the system. First, it is difficult to understand well the scale of operations of the agencies. Not all keep track of the number of clients assisted; if they do record these data, no two agencies use the same definitions for clients assisted at a minimal level and those served at a more in-depth level. If the agencies agreed on definitions of assistance categories and kept track of their work for six months or a year, further research could enhance the description of scale of services. Second, not all agencies have been reached; additional interviews focusing on the agency list in Appendix 5.2 could help to complete this description of the assistance system. Third, further study may help to identify the optimal size of assistance agencies; armed with that information, individual agencies could work toward reaching

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that scale. Fourth, further work could focus on identifying the assistance targets of each agency; together the agencies could redirect efforts to priority small businesses (whatever they choose as priorities).

The question of priorities is a substantial one that the policymakers and assistance agencies, working in concert, should decide. The Oakland Forum's Small Business Task Force has made a start, but it needs to include other providers and other groups in the decisionmaking. Given that there is a limited amount of funding for the assistance agencies, and therefore limited assistance for small businesses, the agencies can work together to insure that their work has maximum impact. The current focus of the organizations on existing rather than startup businesses suggests that the agencies are risk-averse, trying to maximize returns by focusing on sure bets. Yet, research outlined in Chapter 3 suggested that new small businesses (albeit only a few of them) are the ones most likely to generate jobs. The Small Business Task Force, which includes several service providers, has decided to maximize job creation. This goal suggests that providers should redirect some effort toward startups.

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Clear enunciation of goals will lead the way to informed policy decisions. Conversely, unclear answers or no answers will continue to diffuse the efforts and impact of one of the city's important resources, its small business service providers.

6: RECOMMENDATIONS

The arguments outlined in Chapter 4 indicate that policy encouraging small business development would be timely now, given the good effect small business could have on areas where Oakland has needs. According to the goals outlined by the Forum's Small Business Task Force in Chapter 2, small business policy should be geared toward creating jobs, increasing the diversity of business activity, and improving the stability of neighborhoods. Sub-goals to achieve these objectives would focus on improving the survival rate of small business, increasing the profitability and employment potential of existing small firms, and increasing the business formation rate, particularly for women and minority entrepreneurs.

6.1 CREATING JOBS

Research shows that small businesses with the most potential for job growth are startup firms, rather than established businesses. Therefore, a policy component would be to target small startups, particularly in industries where Oakland has been increasing employment. Experience shows, however, that small startups are among the riskiest business investments,

6: RECOMMENDATIONS

and Oakland policymakers may be reluctant to commit significant resources to such an effort.

Recommendations:

Create a special pool of capital reserved for the highest-risk business startups. This pool could come from the interest that accrues to other capital funds used for small business financing. The size and effect of the pool could be increased if small business assistance providers pool the funds available to them as a sort of "endowment" and jointly decide the strategy for administering the endowment income. Future Forum work should research how such a pool might be created and administered.

Forum research could also examine potential sources and administration of venture capital. One source might be a portion of the City's pension fund, money that is typically invested in real estate and therefore creates little social value. The state of Michigan, for example, uses 5% of its pension funds as a highly successful venture capital pool, which it leverages with private venture funds (Osborne, 1988). Whatever the source of funds, the City of Oakland could contract with one of the existing service providers to administer this fund, perhaps through a local development corporation arm. If there are no venture capitalists on the

6: RECOMMENDATIONS

staff, the agency should hire some good ones. The venture capital should be targeted toward potentially fast-growing businesses in developing sectors; they must be Oakland businesses that promise to stay a specified number of years. The administering agency would own equity in the firm, as any venture capitalist does, and could ensure that the firm keeps its part of the contract. Venture capitalists receive high returns, which offset losses in firms that do not survive.

6.2 INCREASING DIVERSITY OF BUSINESS ACTIVITY

While the remainder of the Bay Area has been riding the high-tech boom, Oakland has lost jobs in the sectors associated with this type of activity. However, Oakland has increased jobs in some manufacturing and service sectors that benefit from high-technology products and processes. Oakland could encourage innovation and further growth in these sectors by creating sources of high-risk capital. For recommendations along these lines, see Section 1, above.

6.3 IMPROVING NEIGHBORHOOD STABILITY

It is clear that neighborhood-serving small businesses, generally in the retail and service sectors, do not generate substantial amounts of employment or increase the overall diversity of Oakland's business activity. However, they do

6: RECOMMENDATIONS

play an important role in neighborhood stability and therefore should be encouraged in the neighborhoods with a lack of these services.

Recommendation:

Small business assistance providers should de-emphasize assistance to neighborhood-serving businesses in community districts that already have a strong commercial base. The agencies should instead focus their resources on entrepreneurs who desire to establish grocery stores, hardware stores, and similar neighborhood-serving uses in less stable neighborhoods. This focus could take the forms of targeted outreach efforts, as well as improved access to high-risk capital for entrepreneurs in target neighborhoods. The City of Oakland must match this effort with support from community police, fire, and school systems.

6.4 OTHER STRATEGIES

The small business assistance providers should work together to increase cooperation and cross-referral. They could agree to specialize in different areas of assistance, which may improve the effectiveness of each organization. For example, one agency could specialize in neighborhood-serving businesses, another could specialize in venture capital

6: RECOMMENDATIONS

financing, and another could specialize in the even higher-risk investments, with more than the usual follow-up and support of the entrepreneurial borrowers. In addition, the agencies could engage in joint marketing of their services and joint fundraising for their activities, which may free each of the directors to engage in more program development.

Presently, a unique opportunity faces the service providers: the plan for the new retail development downtown includes a small business assistance component. Working together, the service providers should lobby for a small business assistance center within the retail complex, to be funded by the developers. A new agency would not be advisable at this point, since the scale of the existing agencies is already less than optimal. However, the center within the retail complex could house some of the existing agencies. If the agencies are located down the hall from each other, cooperation and coordination will more easily follow. In fact, this center could follow the same principles as a small business incubator, with inexpensive office space and shared functions, such as reception. However, the window of opportunity is small, and the time to create such a proposal is now.

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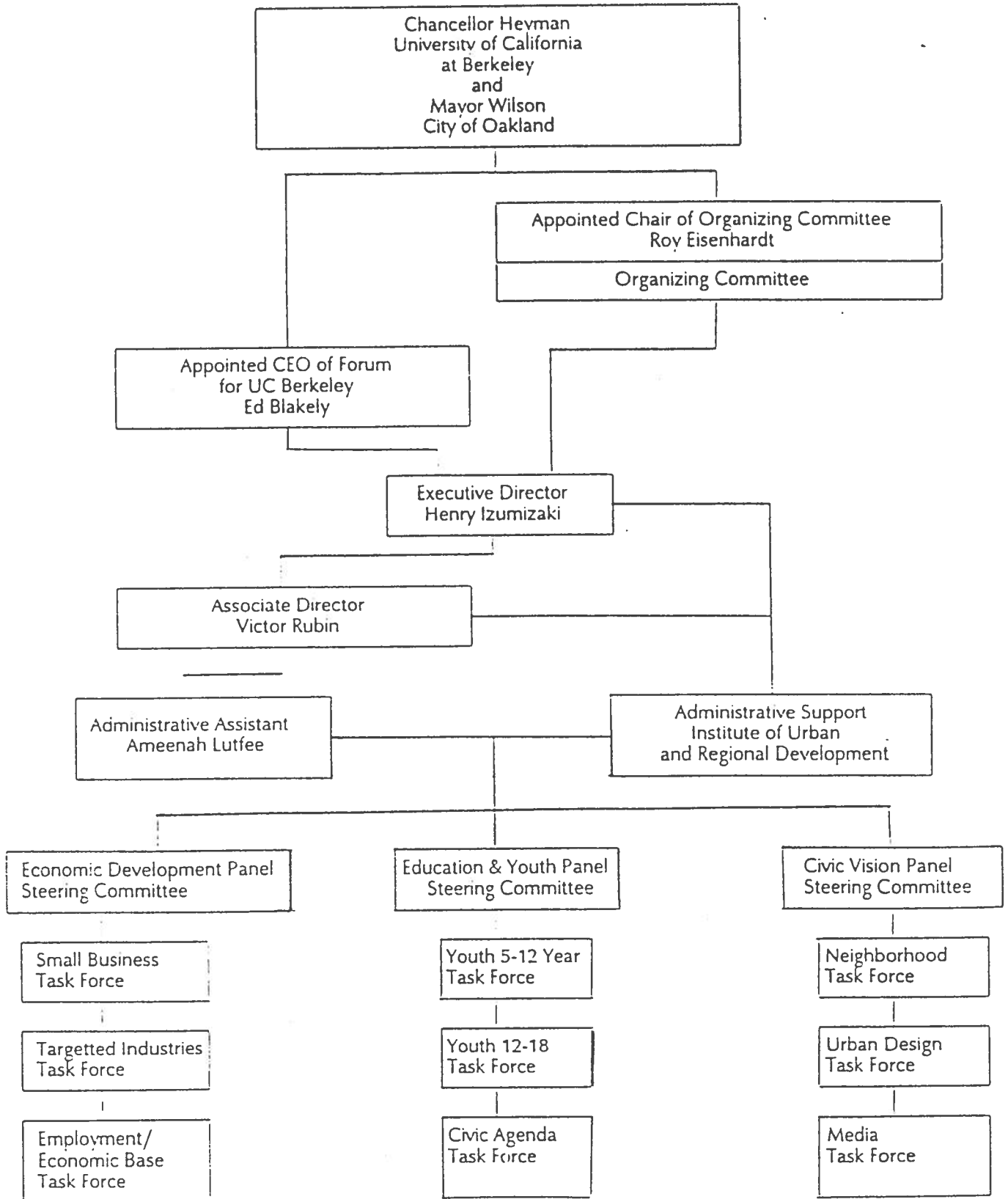
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APPENDIX 1

UNIVERSITY - OAKLAND METROPOLITAN FORUM



APPENDIX 2

Mission Statement

The following mission statement was adopted by the Economic Development Panel's Steering Committee on April 27, 1988.

The mission of the University-Oakland Economic Development Panel is to assist Oakland to develop a leadership role in the greater Oakland/East Bay metropolitan region that will take advantage of its human and physical assets in order to enhance the quality of life for all of its citizens.

The objectives of the Panel are to:

1. Create a regional economic base model that will assist in determining current and future economic performance of the city's economy within the metropolitan region;
2. Identify business and commercial activities that will complement the existing economic base;
3. Determine the means to take advantage of Oakland's human resources, location, and infrastructure in economic development planning;
4. Assess Oakland's economic development processes and programs in order to provide for orderly economic development planning for the Oakland metropolitan economy;
5. Describe the assets, limitations, and barriers in designing and implementing long-range economic development planning in Oakland; and
6. Develop an approach and process for an economic plan for Oakland in the metropolitan region.

APPENDIX 3.1

Net Job Growth by Size Class of Firm and by
Manufacturing/Non-Manufacturing Sectors, 1976-1979

SECTOR	Net Added Jobs by Employment Size Class				Total
	1-19 workers	20-99 workers	100-249 workers	250 + workers	
Manufacturing	6,641	8,894	1,827	18,530	35,892
Non-Manufacturing, Services	61,912	18,452	4,715	861	85,940
Total	68,553	27,346	6,542	19,391	121,832

SECTOR	Percentage Distribution of Net Added Jobs				Total
	1-19 workers	20-99 workers	100-249 workers	250 + workers	
Manufacturing	18.5%	24.8%	5.1%	51.6%	100.0%
Non-Manufacturing, Services	72.0%	21.5%	5.5%	1.0%	100.0%
Total	56.3%	22.4%	5.4%	15.9%	100.0%

SOURCE: Teitz, Galsmeier, and Svensson (1981), pp. 22-25

APPENDIX 5.1

APPENDIX 5.2

AGENCY LIST FOR INTERVIEWS

IN OAKLAND:

Oakland Business Development Corporation
City of Oakland: Office of Economic Development and Employment
City of Oakland: Department of General Services
City of Oakland: Public Works Department
East Bay Small Business Development Center
Builders Exchange of Alameda County
Business & Government Library, Alameda County Public Library
Northern California Black Chamber of Commerce
Hispanic Chamber of Commerce
Oakland Chamber of Commerce
Oakland Private Industry Council
Port Authority of Oakland
Vista Community College
Laney Community College
Merritt Community College
Minority Contractors Association of Northern California
SF/Oak Minority Business Development Center
Golden State Business League
Youth Entrepreneurial Services (formerly Oakland Youth Corporatior)
California Regional Urban Development Corporation

IN SF BAY AREA REGION:

Small Business Administration
Bay Area Women Entrepreneurs
Asian Inc.
State of CA Export Finance Office
U.S. Economic Development Administration
Patent Library (in Sunnyvale)
California Dept. of Commerce, Office of Local Development
California Dept. of Commerce, Office of SB Development
U.S. Department of Commerce library (SF)

APPENDIX 5.3

INTERVIEW FORM FOR SMALL BUSINESS ASSISTANCE PROVIDERS

1. Describe the small business assistance system in Oakland -- who are the important players?
 2. What services do you provide to small business?
 - o program name(s) or description(s)
 - o program activities (e.g., counseling, referrals, teaching)
 - o user fees or charges
 3. Who are your clients?
 - o type of business (startup, existing)
 - o business activity (retail, services, manufacturing)
 - o location (East Bay, Oakland, a particular neighborhood)
 - o demographics of owners (age, race, gender)
 4. How big is your organization?
 - o number of staff, full- and part-time
 - o annual budget (and source of funding)
 - o in-kind services (describe)
 5. I'd like some measure of how many clients you serve:
 - o How many clients do you serve per month or per year?
 - o How many of these are quick telephone referrals, and how many are clients your staff spends at least three hours with?
 - o If you make loans, what is the dollar figure and the number of loans made in the past year?
 6. What was your agency's startup date?
 7. What other agencies do you rely on or send your clients to for these services:
 - o technical/managerial advice
 - o loan application assistance
 - o capital (startup, expansion, credit line)
 8. What would enable you to do your job better?
(If the answer is more money, how would you use it?)
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