

## **CHAPTER IV**

### **Program Impacts**

The key question is: what impacts has Working Capital had on businesses in Lawrence? In this chapter, I outline three types of impacts: 1) community impacts; 2) changes in business operations and networks; and 3) individual business performance. In analyzing the first two types I draw largely upon qualitative information obtained from interviews with program staff and participants. In looking at the third impact, I set-up a framework based upon what I learned through my interviews and then turn to a consideration of empirical evidence from loan applications to test whether the data support these impressions. General data were obtained from the 325 approved loan applications submitted by 170 different businesses participating in the program. Additional analysis is derived from an in-depth analysis of loan applications from a sample of 48 businesses.

#### **COMMUNITY IMPACTS**

The impact upon the community may be determined by measuring a variety of different outcomes. These may range from the physical revitalization of blighted storefronts, to the strengthening of skills and labor market competitiveness of participants, to the formation of role models for others in the community. For the purposes of this paper, I chose to focus on three main areas: 1) the institutional development and legitimacy of a representative community organization; 2) the promotion of positive images both within and outside the community; and 3) the provision of consumer goods and services.

### *Institutional Development and Legitimacy*

The introduction of the Working Capital loan program in 1992 played an important role in fortifying the Minority Business Council. Offering credit to businesses previously unable to access sources of credit became a useful instrument for organizing business owners. High participation rates both demonstrated the high level of business activity occurring within the Latino community, and helped solidify the credibility of the Council as representing the interests of business owners in the community. This legitimacy has translated into recognition from such institutions as banks, City government and State agencies. Currently, LMBC is developing a program primarily with the Bank of Boston and the Executive Office of Economic Affairs to provide 2nd tier loans to businesses either graduating from the Working Capital program or whose credit needs are not met by the micro-loans. The 2nd tier loan program will offer individual loans from \$5,000 to \$20,000. The Minority Business Council has also been designated one of 8 organizations state-wide to serve as minority business development centers. The relationships that are being developed will bring continued access to credit and training to businesses of different types and sizes over time.

### *Positive Images*

The success of this program in reaching large numbers of entrepreneurs has helped to reinforce, both internally and externally, more positive images of the Dominican and Puerto Rican communities. Kim Stevenson from the City of Lawrence Community Development Department pointed out that the existence of the Council and the wide net cast by Working Capital helps to reinforce the image of community members as business owners and entrepreneurs. She notes that walking along Essex street in downtown Lawrence you are struck by the many social service agencies ranging from the welfare office, to a teen pregnancy and parenting agency to a center for drug abuse. Psychologically, this promotes the constant impression that this is a community filled only with problems that

are treated by outside agencies. The location of the Minority Business Council on this same street with its steady stream of entrepreneurs coming and going counteracts those negative images and highlights a whole other element within the community (Stevenson, 1995). The Minority Business Council is managed by local business owners and presents the image of community members as entrepreneurial business owners.

### *Provision of Goods and Services*

The support offered to businesses generates community benefits through the activities of the businesses themselves. Entrepreneurs provide consumers access to goods and services at greater convenience and lower cost. Several business owners explained they are able to attract and keep customers by extending credit, otherwise not available to many consumers.

Some businesses extend benefits to community members through the provision of valuable services that would otherwise be unavailable. For example, one borrower runs a music academy for young people. According to the owner, the academy provides young people in the community with a chance to channel their energies into music rather than towards other destructive means. The clothing designer whose goal to start a school for young women to learn clothing design and manufacturing was described in the previous chapter, provides another example of the type of community services businesses can play.

## **IMPACTS ON BUSINESS OPERATIONS AND NETWORKS**

Working Capital offers entrepreneurs assistance in three main areas: access to credit, business training, and opportunities to network with other businesses. The group-lending process reinforces a reliance upon other entrepreneurs in order to access credit and to learn how to improve the business. While the main objective of the program is the provision of loans to

entrepreneurs lacking access, the process of forming loan groups is also meant to encourage business training through shared information and to develop linkages among businesses.

By providing consistent access to credit to entrepreneurs through loan groups Working Capital in Lawrence has served an important formalizing role for businesses in two ways: 1) by changing the attitudes of entrepreneurs through the process of evaluating loan applications of the group; and 2) by institutionalizing existing relationships among business owners through loan groups. In this section, I explore this formalizing influence and then attempt to judge what impact if any this has had upon markets for products.

#### *Change in Attitudes of Individuals toward Business*

One of the most dramatic impacts of program participation particularly with the income supplement business is the change in attitude of the entrepreneur toward the business. Several entrepreneurs claimed they had not really considered what they did to be a business. One business owner, Angela, remarked before starting the Working Capital program that she saw her clothing sales ventures as a means of earning some extra income. Now she and her husband consider it a business. While both work full-time in other jobs, they now hope to one day establish the business as a full-time venture.

The group interaction component has helped entrepreneurs move from supplemental to growth-oriented businesses. A cosmetics vendor pointed out that previously she had consumed much of her profits, using the bulk orders as a means of getting products for herself at discounts. As a result of participating in the program, she thinks more in terms of increasing sales to generate greater earnings that can then be re-invested. She uses her loans to purchase merchandise in bulk and therefore has been able to increase the level of her sales and the business income.

Business owners who take on the responsibilities of group officers feel this provides even greater opportunities for personal and business growth. Angela's husband participates in the loan group and has recently become treasurer. He takes this responsibility very seriously. He keeps a log of each group member and makes sure each member remains current on his/her repayments. This position, he explains, has improved his own record-keeping. As a result, their business has become more methodical in tracking payments and following up on those customers with outstanding credit.

Miguel, an established entrepreneur owner of a full-time music academy believes borrower groups help orient businesses to how credit works not only through the individual's loan but also through the role of loan officer assumed by each group member. Because each group member assumes responsibility for repayment, each evaluates the loan application of others to assess the risk involved. He explains,

We are responsible for deciding on loans. If we approve a loan we take responsibility for ensuring that it gets paid back. This helps you get to know the process deciding upon a loan. In this respect it [the loan group] has been an invaluable experience because it helps to de-mystify the process of how banks decide on loans. Therefore it gives you more confidence because you know what the process is. You have an idea of how banks think (Miguel, 1995).

#### *Change in Nature and Type of Interaction between Entrepreneurs*

In Lawrence, many entrepreneurs have connections with one another prior to forming a loan group. Chapter III outlined the many networks in place for micro-businesses in the Lawrence economy. The cooperative arrangements generated to reduce costs, increase access to supplies and provide information on new products and markets, strengthen business competitiveness. Thus, the

extensive integration of businesses in Lawrence was not created by the Working Capital program.

The program, however, has exerted a formalizing and institutionalizing influence upon these networks similar to individual businesses. By joining a group and becoming responsible for each member's loan repayment, entrepreneurs take interactions more seriously. In addition, the loan groups cut across types and sizes of businesses providing smaller ventures an opportunity to learn how to grow a business and to understand obstacles faced as a business becomes more established. Even if entrepreneurs know each other prior to starting with Working Capital, they may not share specific information about how their business operates. By participating in a loan group they submit loan applications with detailed information about their products, markets and use of loans. In addition, entrepreneurs submit cash-flow statements with projected monthly revenues and expenses for a six-month period. Of all the entrepreneurs with whom I spoke not one felt that sharing information about their business with the loan group concerned them or had any harmful impacts on their business. In general, the feeling was that the loan group acted to support and counsel the individual and ultimately helped the entrepreneur make more informed decisions about how to proceed.

According to Enterprise Agent Leonor Sanchez, the process of forming and establishing groups has strengthened existing relationships among entrepreneurs. The loan group provides a forum for business owners to talk about how their business is doing. When one entrepreneur does very well s/he shares her/his success with the group. Leonor mentions the cosmetics vendor who expanded beyond the multi-level marketing arrangement with one company to purchase large quantities in bulk from various suppliers for re-sale at flea markets. This entrepreneur shared her idea with other loan group members in cosmetics sales. Word has spread to other groups and many have

expressed interest in pursuing similar strategies. Leonor has discussed with her the possibility of attending other loan group meetings to further distribute the information.

Networks of solidarity and support seem to have grown and strengthened as a result of participation in the program. Many entrepreneurs find the group offers both personal growth and renewed interest in building the business.

#### *Fostering new networks through Working Capital*

While many business owners have operated within an existing network of businesses prior to joining the program, new relationships also form. The business networks outlined in the last chapter focused primarily upon interactions between like businesses and information sharing by sector. The loan groups provide an opportunity for businesses to meet with and learn about businesses outside their industry. Despite the large recruitment of group members by entrepreneurs<sup>7</sup>, groups do provide some opportunity to expand the circle of businesses. This seems to occur primarily within groups.

One woman explained how she produces decorative figurines that may be used to decorate cakes for catered parties but may be made larger as household knickknacks or as Christmas tree ornaments. She produces these goods for parties that she caters. Other entrepreneurs in her loan group became interested and asked her to give them a demonstration for the loan group.

Through his participation in the program, Bart met a Working Capital borrower from a group in New Hampshire who also operates an electronics repair business similar to his. As a result of this new contact, Bart has obtained access to a new network of suppliers for TV's and VCR's. The entrepreneur

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<sup>7</sup>As described in Chapter II.

frequently shares work that he is unable to finish or repair himself. He has a steady stream of inputs from a variety of locations including repair shops in the area. They met at a Working Capital meeting in New Hampshire and realized they were in the same line of business. Now this other entrepreneur sends him extra machines when he can't fix them or has too many. The arrangement has been collaborative in spirit. Neither man sees the other in a competitive manner.

This example, however, seems less frequent. Few business owners reported much interaction and information sharing occurring systematically between groups in the program.

### *Reaching New Markets?*

Thus far, the discussion has focused upon strengthening support among businesses and bolstering cooperative arrangements designed to cut costs and diversify products and suppliers. However, in order to establish long-term growth opportunities in the local economy, business networks must also be mobilized in one of two ways: 1) to build up internal markets for locally produced goods and services; or 2) to target cooperative arrangements toward specialized production or sales to tap external markets.

The former is prevalent in ethnic communities such as the Korean American communities or the Cuban community in Miami where consumers and businesses seek labor and suppliers from within the ethnic community due to either cultural isolation or convenience. Common ethnic bonds that cater to the particular needs or tastes of other businesses owners or consumers stimulate chains of supplies and consumption throughout the community. The more extensive the network the greater the utility of each new dollar entering the community.



On the other hand, small firms linked together through a system of collaborative arrangements producing for external markets generate economic benefits to the entire region. This has been exemplified in specialized production industries such as ceramic tiles, textiles, clothing, shoes of Northern Italy (Piore and Sabel, 1984), high-technology of Rte. 128 and Silicon Valley in the U.S. (Sabel, 1989) and shoe-manufacturing in Brazil (Schmitz and Nadvi, 1994). While these examples emphasize production-based economies, certain communities have capitalized on jointly tapping external markets in the retail and food service industries as in the growth of Chinatowns in many large urban centers of North America as a center for Chinese restaurants, food markets and other retail stores.

#### *Building Internal Markets*

Ideally, networking with other businesses offers potential benefits such as increased sales through customer referrals, sub-contracting of services from one micro-business to another and purchases of inputs among micro-businesses. This networking component seemed particularly important given that 69% of all borrowers indicate that word-of-mouth is the primary form of advertising. Thus, the greater the exposure to others, the greater the opportunity to really impact business revenue. Few entrepreneurs reported significant increases in sales resulting from referrals made through contacts established at Working Capital, however. Several borrowers indicate they have not met many other entrepreneurs outside of their loan groups.

The Minority Business Council has sought to address this by sponsoring events and activities that encourage business owners to socialize and meet with each other and members of the broader community. For Valentines Day, the Council sponsored a joint program with the Chamber of Commerce for micro-entrepreneurs to meet with more mainstream Anglo entrepreneurs in Lawrence.

In addition, the LMBC encourages loan groups to hold their meetings in the organization's offices to provide a common meeting site for business owners. The site is also made available for product demonstrations by entrepreneurs. Making the site available helps to establish credibility and professionalism for entrepreneurs. These meetings and demonstrations have provided some opportunities for Working Capital members to purchase and network with each other.

#### *Cooperative Production for External Markets*

Currently, there are few signs that cooperative arrangements have been established as a means of producing for an external market or of increasing sales to customers or businesses in the more "mainstream" economy. The concentration of businesses in the retail and service sectors limits opportunities to generate the type of clustering of firms characteristic of high growth areas such as Northern Italy where firm interaction is production-oriented to outside markets.

Several examples of businesses that have targeted external markets demonstrate either a tendency toward Latino communities outside Lawrence or a reliance upon family and friends in the Dominican Republic for exporting goods for re-sale. These relationships appear to remain very informal. Loans have helped finance initial purchases of merchandise or allowed for the purchase of larger items that draw higher profit margins maximizing each transaction. However, I did not learn of loan groups or groups of participating entrepreneurs joining together explicitly for export ventures.

#### *Markets Currently reached By Program Participants*

Businesses studied serve primarily local, Latino markets. Of the sample of 48 businesses asked on the loan application to specify their primary market(s) 61% of the responses indicated a local market. Included in the local market were

friends, family, co-workers and others residing in Lawrence. The majority of these businesses sell primarily to Latinos in the local market with very few reaching the local Anglo market. After the local market, the next highest market indicated was the local region with 15% of all responses. The local region is generally comprised of the Merrimack Valley region including Lawrence, Lowell, Methuen, Haverhill and parts of southern New Hampshire. 13% of the responses indicated a regional market that includes all of Massachusetts and some areas of New Hampshire, VT and Maine. Through the interviews it seems that some of these businesses serve a niche market of Latinos across the State while others have also bridged into the Anglo market. 11% of responses indicated that a primary market for their products was exports to other countries. Wilson and Martin (1982) described a strength in the development and generation of the Cuban community was a reliance on and positioning of ties and relations to, Latin American markets. The maintenance of ties between this immigrant community and the Dominican Republic, Ecuador and Peru have helped to generate income for families both in the home country and in Lawrence. From the interviews it seems that the bulk of this activity is generated from shipments home to family or friends who act as sales agents. Products are generally second-hand and while much of the merchandise is clothing and small appliances, there are several cases of cars, motorcycles and larger appliances such as refrigerators, stoves, etc. being shipped.

The international connection to the Dominican Republic is entirely through re-sale of U.S. products. No businesses produce for the Dominican market. Many of those retail businesses indicating an export-oriented market also maintain a consistent customer base in the local Latino market. However, there is little bridging to the broader mainstream economy.