

## Foreword

The Lyndon B. Johnson School of Public Affairs has established interdisciplinary research on policy problems as the core of its educational program. A major part of this program is the nine-month policy research project, in the course of which two or three faculty members from different disciplines direct the research of ten to twenty graduate students of diverse backgrounds on a policy issue of concern to a government agency. This "client orientation" brings the students face to face with administrators, legislators, and other officials active in the policy process, and demonstrates that research in a policy environment demands special talents. It also illuminates the occasional difficulties of relating research findings to the world of political realities.

The Tomás Rivera Center is a national institute for policy studies whose mission is to improve the development of public policies and programs affecting the Mexican-origin and greater Latino population of the United States. Since its inception in 1985 in Claremont, California, under the direction of its president, Dr. Arturo Madrid, the center has been principally concerned with those issues that affect the educational, economic, and social status of Hispanics in American Society. The Texas office, under the direction of Dr. Ricardo Romo, has focused on Texas by organizing seminars, compiling and distributing information, and promoting discussion of vital issues addressed by this policy research project (PRP), The Economy of the Urban Ethnic Enclave.

In the Spring of 1989, the Tomás Rivera Center, with the support of the Rockefeller Foundation, provided funding for the PRP on the Economy of the Urban Ethnic Enclave. Under the direction of Professor Jorge Chapa from the LBJ School of Public Affairs and Professor Gilberto Cardenas from the Sociology Department, the PRP strived to determine the correlates of the economic prospects for urban enclaves of the city of San Antonio. In addition to Dr. Romo, Leo Gomez and Belinda De La Rosa from the Tomás Rivera Center have been instrumental in the completion of this PRP.

The curriculum of the LBJ School is intended not only to develop effective public servants but also to produce research that will enlighten and inform those already engaged in the policy process. The project that resulted in this report has helped to accomplish the first task; it is our hope and expectation that the report itself will contribute to the second.

Finally, it should be noted that neither the LBJ School nor The University of Texas at Austin necessarily endorses the views or the findings of this study.

Max Sherman  
Dean

## Preface

Small businesses have traditionally been a strong part of the city of San Antonio's economy. In 1988, 29,000 small businesses, those with fewer than 100 employees, were located in Bexar County.<sup>1</sup> Nationally, small businesses generate over 48 percent of all new jobs. Moreover, they are more likely than larger firms to employ less skilled and less experienced workers. Although over 60 percent of San Antonio's population is African-American or Mexican-American, these groups account for only 25 percent of all business ownerships.<sup>2</sup> Moreover, over one-third of these minority-owned businesses have only one employee. Finally, less than 10 percent of San Antonio's sales volume is from minority-owned businesses. Any comprehensive economic development plan undertaken by San Antonio must focus on small businesses. Moreover, emphasis on minority-owned businesses must occur because the potential economic development of this area has been underutilized. Developing these types of businesses will increase both employment and the tax base, two priorities of any economic development plan.

Several researchers have suggested that the immigrant groups that have the greatest degree of economic mobility and success are those that have formed ethnic economic enclaves. Jews, Japanese, Koreans, and Cubans are often mentioned as groups that have used enclaves as a means of economic mobility. Enclave economies consist of small businesses owned and managed by ethnic immigrants as well as by nonimmigrant ethnic groups. The conceptualizations of ethnic economy has more recently gone beyond ethnic ownership and management and may also include operations that are nonethnically controlled but that have all other characteristics normally associated with ethnic establishments such as principal product, labor force, clientele, major competitors, and location that is dominantly ethnic. Characteristic of these enclave businesses is that they tend to hire members of the dominant ethnic group at all job levels.

The Economy of the Urban Ethnic Enclave PRP studied characteristics of businesses within selected commercial districts in predominantly Mexican-American neighborhoods and the nature of their links with the larger economies of San Antonio, the region, and the nation. The PRP also investigated Mexican immigration and the effects of the establishment of enterprise zones to the economy of the Mexican-American enclave in San Antonio. The PRP designed and implemented a detailed survey of the businesses in the Mexican-American enclave of San Antonio known as the West Side. In addition, other methodologies such as participant observation and interviews with city officials, members of the media, and community leaders were also used. This research provides an empirical data base that allows future measurement and assessment of crucial indicators of the economic status of the ethnic enclave, including rates of demographic change, industrialization, home ownership, occupational mobility, unemployment, poverty, underclass formation, and informal economic activity. This information is vitally needed in the formation of public policy that will greatly affect this enclave as well as all the residents of the city of San Antonio.

## **Chapter 1. Business Survey**

A business survey of San Antonio's West Side was carried out in the spring of 1990 as a key part of the Policy Research Project, The Economy of the Urban Ethnic Enclave. This survey was conducted to determine the condition of minority and disadvantaged firms in the area -- which has long been characterized by poverty and great economic hardship - and to ascertain how much the city government and other organizations have assisted economic development in the area. This chapter will briefly provide an overview of the survey and highlight some of the basic findings.

Although the survey of business firms was conducted primarily in the West Side, the survey also included a small number of firms from a contiguous portion of the South Side (a predominantly Mexican-American neighborhood). The West Side includes a number of housing projects, the Union Stock Yards, Our Lady of the Lake University, the San Antonio Produce Market and is criss-crossed by a handful of teeming commercial streets (appendix A). The West Side is home to some 155,000 people, approximately 90 percent of whom are Hispanic. The standard of living there is well below the rest of San Antonio and Bexar County, as evidenced by a doubled poverty rate as well as substantially lower household income levels and home values. The economic growth experienced in San Antonio during the 1980s was centered in northern areas of the city, and as such, largely skipped the West Side. It is hoped that the survey results and subsequent reports will help provide a basis for enlightened policy proposals and initiatives leading to a more successful future for both West Side residents and the city.

### **ETHNIC ENCLAVES**

Until recently, little research had been done on Mexican-American business communities. However, a rich literature on ethnic business communities in general has emerged over the past two decades. Gradually, a model of an ethnic enclave economy has evolved based on the experiences of numerous ethnic and immigrant groups in establishing their own businesses. One of the most influential ethnic enclave economy models was developed by Alejandro Portes and his associates. This model is especially relevant to this study because it is the only one based on the experiences of a particular Latino community in the United States, specifically the Cuban-American community in Miami. Portes and his associates present a particularly optimistic elaboration of the ethnic enclave economy. They stress occupational mobility, as well as overall ethnic economic integration and diversity on levels comparable to the primary sector of the larger economy.

The authors take issue with the generalizability of this model on a number of grounds. First and foremost, the generalizability of the Cuban immigrant experience is limited by a number of factors, primary among them being the prominent role played by beneficial U.S. government policy toward Cuban exiles. In addition, Miami has been a financial center for Latin American investment and trade (a process in which the Miami Cuban community has played a leading role). Such factors bear so heavily on the formation and evolution of the Cuban enclave economy as to render the Cuban case atypical of U.S.-based ethnic enclaves. The Portes model is overly oriented toward internal dynamics and fails to consider the fact that the Cuban enclave is integrated into the surrounding larger economy on favorable terms, while many other ethnic and racial business

communities are integrated on less favorable or negative terms. In contrast, the authors' understanding of ethnic enclave economy, while acknowledging the importance of internal dynamics in the creation of a viable enclave economy, also includes the dimension of linkage to the larger economy.

On the basis of the authors' critique of the Portes model of ethnic economies, they propose the following characteristics as being germane to the study of the Mexican- American ethnic enclave economy. First, in general terms, an ethnic enclave is a specific residential-business area where the majority of the merchants and residents are ethnically similar. The ethnic economy is the sum of all economic activity in an ethnically specific territory. Further, numerous measurable factors are of specific importance in characterizing ethnic enclave business activity. The descriptive variables used in this study include:

- ethnicity of the owner, proprietor and/or manager,
- ethnicity of employees,
- ethnicity of clientele,
- ethnicity of other businesses in the area and of major competitors,
- product/ethnic service orientation,
- language(s) used in business transactions,
- profitability as being linked to the immediate area,
- owners/managers born in a foreign country,
- owners/managers and employees living in the immediate area,
- owners who obtain their business from family members who previously owned it,
- owners/managers who assist former employees in starting their own small business,
- firms employing foreign-born workers,
- business service networking among ethnically similar businesses.

It is not necessary for a business community to include all of the criteria listed above in order to be considered an ethnic enclave economy. Rather, a community may be considered as such if the ethnicity or location being studied meets most of the above criteria -- particularly those on the upper half of the list. The West Side clearly fits this characterization of ethnic enclave economy, as shall be shown.

## **METHODOLOGY AND COVERAGE**

For the purposes of this survey, business was defined as any private or government establishment offering services to the public -- ranging from a large corporation to a small firm run out of a residence. However, schools and post offices were not included. On the basis of that definition, 1,588 businesses were located in the survey area. This number was specifically determined by employing the city crisscross directory of major streets and on-site inspection of side streets. On the basis of on-site inspections, it was estimated that some 20 percent (318) of these businesses were no longer operating or improperly listed. This reduced the total number of available firms to 1,270. Of these 1,270 businesses, 591 (47 percent) were contacted. Final completed interviews were obtained for 314 (53 percent) of all firms contacted. In addition, interviewers noted at least some basic information (e.g., business physical appearance and clientele) on the remaining 277 noncomplete respondents. Two reasons stand out for those 277 incomplete interviews: in 51 percent (141) of those cases the owner or manager was unavailable and there was a 39 percent (108) refusal rate.

Thus, the survey response rate was 53 percent (314/591), 47 percent of all businesses in the area were contacted, and 25 percent (314/1270) of the businesses completed interviews. Such high response and overall completed interview rates are especially significant given the length of the survey, which contained 84 items and took approximately 40 minutes to complete. The survey was carried out in face-to-face interviews by bilingual students. The survey was available in both English and Spanish, and the respondent determined which language was used.

The questionnaire was designed to elicit information concerning business history characteristics, including operations and procedures such as ownership, gross sales, principal product or service, clientele, multiplier effects, and enclave ethnicity. A battery of questions also solicited information about the contact or impact of city and other public agency programs and initiatives including program participation and perceptions concerning the business environment. Further questions were asked to ascertain the interaction between firms and financial institutions, advertising, labor force relations, the impact of immigration, and the ideologies of firm operators.

The broad coverage noted above adds credibility to the report's analysis of the data and reduces potential sample biases. Testing for potential bias in the sample population was conducted by comparing basic business characteristics (e.g., location; business type; ethnicity of owner, employees, and clientele; size; language spoken; etc.) of three survey population groups: the sample population (completed interviews), the contacted population (noncomplete interviews), and the entire contacted population (completed and noncompleted interviews). Comparisons for 17 variables showed few biases.

However, one significant bias did stand out. Firms which appeared to conduct business entirely in English had a much higher noncompleted interview/refusal rate (60 percent) than bilingual firms (35 percent) or Spanish language businesses (52 percent). In contrast, there was no similar variable bias concerning either the language(s) used on the business signs or the probable ethnic origin of the owner variable. Thus, English dominant firms may be underrepresented in the survey sample, due to noncooperation, but Anglo-owned firms are not. However, only very minimal or no bias existed for the other 16 business characteristics tested. Therefore, the survey sample appears to be representative of the West Side business community as a whole, given that over 45 percent of all firms were contacted and only one internal bias was found.

#### **Characteristics of the Survey Sample Population**

Business characteristics included the individual respondent's role in the business, the business type, business age, gross receipts, number of employees, as well as respondent ethnicity, age, gender, education, and place of birth. In general, West Side businesses were found to be small, service-sector oriented, relatively young, and Mexican-American owned. Respondents tended to be Mexican-American, male, middle-aged, owners, U.S.-born, and high-school graduates or less educated.

The survey was administered primarily to business owners and managers. Of the 309 completed surveys analyzed (five arrived too late to be included in the analysis), the owners were interviewed 64 percent of the time, managers were interviewed 27 percent of the time, and other people (usually a member of the owner's family) answered the survey 9 percent of the time. Thus, the survey results represent a variety of structural perspectives from within the businesses.

The distribution of business types found among the West Side businesses contacted in the survey process clearly illustrates a heavy concentration in the least profitable service sector areas of the economy. Fully 81.3 percent of the businesses contacted were from retail trade (53.7 percent), repair service (15.2 percent), personnel service (7.8 percent), and entertainment (4.6 percent) sectors. Meanwhile, the more lucrative economic categories account for just 13.3 percent of the businesses, with just 3.8 percent in manufacturing and 9.5 percent in the more profitable services, including finance, communications, transportation, business services, insurance, real estate, professional services, and public administration (table 1).

**Table 1. Type of Business (Industrial Categories)**

<u>Category</u>	<u>Frequency</u>	<u>Percent</u>
Manufacturing (Durable and Nondurable)	24	3.8
Wholesale Trade	26	4.1
Retail Trade	342	53.7
Finance, Insurance, & Real Estate	17	2.7
Repair Services	97	15.2
Personnel Services	50	7.8
Entertainment & Recreation	29	4.6
Professional Services	28	4.4
Other	<u>24</u>	<u>3.7</u>
Total	637	100.0

In addition to being concentrated in the less profitable service sectors of the economy, West Side businesses tend to be small in terms of gross receipts. For example, of the 200 respondents who identified the range of their 1989 business receipts, over 50 percent grossed less than \$45,000, and the median gross receipts were just \$40,335. Further, nearly one-third of the firms surveyed reported grosses of less than \$15,000 (table 2).

Interestingly, a significant relationship was found between gross receipts and business type. For example, over 70 percent of the firms within each of the three largest business categories (i.e., retail trade, repair services, and personnel services) gross less than \$100,000 per year. Further, among the firms earning less than \$100,000 annually in those three largest business categories, well over one-half (from 52 to 80 percent) grossed less than \$30,000 per year.

**Table 2. Reported Gross Receipts for 1989**

<u>Amount</u>	<u>Frequency</u>	<u>Percent</u>	<u>Cumulative Percent</u>
< 15,000	61	30.5	30.5
15,000 - 30,000	26	13.0	43.5
30,000 - 45,000	18	8.9	52.4
45,000 - 60,000	18	8.9	61.3
60,000 - 75,000	10	5.0	66.3
75,000 - 100,000	7	3.5	69.8
100,000 - 250,000	28	14.1	83.9
250,000 - 500,000	10	5.1	89.0
500,000 - 750,000	5	2.5	91.5
750,000 - 1 million	7	3.5	95.0
+ 1 million	<u>10</u>	<u>5.0</u>	100.0
	200	100.0	

West Side businesses tend to employ few persons. Three-quarters of those businesses surveyed (n=491), employed three or fewer employees, while only 11.8 percent employed more than five people. The median number of employees was 1.6 (table 3).

**Table 3. Reported Number of Employees**

<u>No. of employees</u>	<u>Frequency</u>	<u>Percent</u>	<u>Cumulative Percent</u>
0	37	7.5	7.5
1	139	28.3	35.8
2	122	24.8	60.6
3	74	15.1	75.7
4	44	9.0	84.7
5	17	3.5	88.2
6	17	3.5	91.7
7	7	1.4	93.1
8	6	1.2	94.3
9	1	0.2	94.5
10	2	0.4	94.9
10+	<u>25</u>	<u>5.1</u>	100.0
Total	491	100.0	

Note: Unpaid family members were not counted as employees. Thus, the overall labor used by West Side firms is somewhat understated in the above employment figures.

The median age of businesses on the West Side was 12.8 years, although the results were somewhat polarized. Over 44 percent of the respondents' businesses were ten years old or less, while 31.9 percent were over 20 years old. However, firms that were less lucrative and less "professional" types of businesses -- such as retail trade, repair services, personnel services, and entertainment -- were, in general, the least likely to have survived more than 10 years.

The age range of the respondents themselves was fairly evenly distributed, with the largest proportion of them falling between 36-45 years old. The median respondent age was 42.3 years. Further, the respondents tended to be male (72 percent) and the majority (56 percent) had a high-school education or less.

Respondent ethnicity tended to be overwhelmingly of Mexican heritage (self-identified). In conjunction, 74 percent of the respondents were born in the U.S., while 23 percent were born in Mexico. Based on the above, it is possible to outline a summary composite of the "typical" respondent and business (table 4).

**Table 4. Summary Characteristics of the Typical Respondent and Business**

Respondent:	Median Age	42.3 years
	Sex	Male
	Ethnicity	Mexican-American
	Education	High School Graduate
	Position	Owner
	Place of Birth	United States
Business:	Median Gross Receipts	\$40,335
	Median Business Age	12.8 years
	Type	Retail Trade

### General Findings

The picture which emerges is one of a complex and unique urban ethnic enclave economy, which is in many ways quite distinct from other previously studied ethnic enclave economies (e.g., Cuban-Americans in Miami, Japanese-Americans and Korean-Americans in California, etc.). This survey has helped outline the essential characteristics and distinctive nature of the Mexican-American enclave economy.

Mexican-American employees made up from 75 to 100 percent of the employees in 78.4 percent of the businesses, while both Mexican national and Anglo employees accounted for less than one-quarter of the employees in over 90 percent of the businesses. Additionally, 59 percent of the respondents reported that most of their firm's employees were West Side community residents, suggesting a high degree of linkage between work and residence.

Both English and Spanish were spoken in just over one-half of the businesses, while only English was spoken in one-third of the businesses and only Spanish was spoken in less than 15

percent of the businesses. Ethnicity was a prominent factor in terms of West Side firms' clientele. Of the businesses surveyed some 72 percent of the clientele was of Mexican heritage (table 5).

**Table 5. Ethnicity of Clientele**

<u>Ethnicity</u>	<u>Frequency</u>	<u>Percent</u>
Mexican-American	201	70.1
Mexican National	5	1.8
Anglo	4	1.5
Other	1	0.4
Mixed	40	14.0
Unknown	<u>35</u>	<u>12.2</u>
Total	286	100.0

Business ethnicity proved to be highly significant when compared with business size. Mexican-American-owned firms were overwhelmingly smaller, while, inversely, Anglo-owned businesses were mostly large (table 6).

**Table 6. Business Size Distribution by Ethnicity**

<u>Ethnicity</u>	<u>Percent of Firms &lt; \$100,000</u>	<u>Percent of Firms &gt; \$100,000</u>
Mexican-American	77.4	22.6
Anglo	30.4	69.6

Further evidence of this ethnic economic polarization was found in the fact that 65.3 percent of all Mexican-American businesses grossed less than \$30,000, while no Anglo businesses fell into this category. Meanwhile, at the other extreme, six of the nine firms claiming gross receipts over \$1 million were Anglo businesses, while only two Mexican-American firms fell into this category. Thus, a strong relationship exists between income generation and ethnicity.

Ethnicity also was strongly related to business type, as Anglos and Mexican-Americans were concentrated in different business categories.

**Table 7. Top Five Business Types by Ethnicity**

<u>Anglo</u>		<u>Mexican American</u>	
Retail Trade	30%	Retail Trade	54%
Repair Services	26%	Repair Services	18%
Wholesale Trade	11%	Personnel Service	9%
Manufacturing, Durable	7%	Entertainment	4%
Finance	7%	Manufacturing, Nondurable	3%

Anglo businesses are more likely to operate in high-income fields (e.g., wholesale trade and finance), while Mexican-American businesses are more likely to operate lower-income-generating businesses (e.g., personnel service and entertainment). Nonetheless, both were concentrated in retail trade and repair services, but Mexican-Americans were much more so (table 7).

West Side businesses appear to have few market linkages to the rest of the San Antonio economy, as internal market self-sufficiency was dominant. Some 65 percent of the respondents reported that neighborhood residents and businesses were their most frequent customers. Moreover, 41 percent of the West Side business owners felt they were very dependent on neighborhood income, and 35 percent felt they were at least somewhat dependent on neighborhood earnings. Further internal focus is evidenced by the fact that the majority of business respondents viewed other West Side businesses as their primary competition.

West Side business linkages to formal financial institutions also appear to be minimal. In terms of start-up capital, over 59 percent of the respondents reported that they used personal savings; 12 percent received funds from their families or friends; 8.5 percent used funds from commercial lenders; and 1.3 percent found access to government funds.

Analysis of commercial loan practices found only one-half of the respondents had ever applied for a loan, although of those who had, some 75 percent received a loan. Numerous cross-tab analyses revealed that very few business characteristics significantly affected whether or not a business received a loan, with a few exceptions. Business size (in terms of gross receipts) was found to be significantly related, i.e., larger firms were more likely (82 percent) to receive loans if they applied, than smaller ones (72 percent). Further, the relationship between ethnicity and loan receipt was strong, as 94 percent of all Anglos who applied for loans were granted them, in contrast to a 72 percent success rate for Mexican-Americans who applied. Despite high loan receipt rates for those who apply, it is paramount to keep in mind that one-half of all West Side firms have never applied for a loan. Therefore, an important task remains in seeking out explanations and potential remedies for this weak linkage with commercial lenders.

Further lack of institutional linkages was found in the fact that most businesses had not contacted a Chamber of Commerce or any government agencies providing business assistance to local businessmen (table 8). These results held for each ethnicity.

**Table 8. Organizations Contacted for Assistance**

<u>Organization</u>	<u>Percent Yes</u>
San Antonio Chamber of Commerce	13.8
Hispanic Chamber of Commerce	9.3
Small Business Administration	19.9
Texas Department of Commerce	6.3
University of Texas - S. A. Business School	5.5
San Antonio Small Business Advocacy Program	4.5
Department of Employment and Economic Development	6.6
One-Stop Business Shop	4.9

Of the assistance programs listed above, few of them have had any contact with West Side businesses. Informal observations indicated that most West Side business people surveyed were unaware of resources and services available in San Antonio. There appears to be a serious lapse in city program outreach to the largely minority-owned, low-income small businesses that predominate on the West Side. For example, despite the availability of technical assistance to increase minority business utilization in the awarding of city contracts, 92 percent of West Side Mexican-American-owned firms surveyed had not placed any bids for city work. Moreover, three city-initiated programs to assist and facilitate West Side growth are largely unknown or unused by the West Side business community (specifically, the West Side Enterprise Zone, Target 90, and West Side Si).

Furthermore, the city has a mixed track record with West Side business people including the provision of basic city services. A large portion of the Mexican-American respondents (42 percent) felt the city was not very helpful in providing basic services such as roads, sewer, lighting, etc. This negative sentiment was much more widely expressed by the total respondent population with regard to more substantive city services for businesses. Over 70 percent of the respondents found the city not very helpful in obtaining loans and other funding, while over 60 percent found the city not very helpful in providing technical assistance. Notably, these latter services are the type for which the capital-poor, under-educated West Side business community exhibits the greatest need. Thus, the overwhelmingly Mexican-American West Side business community appears to be largely self-reliant in terms of markets, financing, and assistance.

Numerous relationships exist within the West Side, such as those mentioned above, including the extensive reliance on internal community labor, income, and markets, as well as strong self-reliance for finance and assistance. These relationships are core reasons why the West Side remains a vital ethnic enclave economy, rather than a blighted, stagnant urban poverty zone devoid of formal economic activity and associated with secondary labor markets. Numerous other relationships exist as well, which help maintain the West Side as a vibrant ethnic enclave economy.

One important indicator of both the degree of self-containment of the ethnic economic enclave as well as external linkages to the greater urban economy are multiplier effects, or the economic ripples that go on throughout the economic community as money circulates back and forth among businesses, consumers, owners, and labor within and outside the community. Previous discussion suggested a high degree of money circulating between West Side owners, workers, and consumers, as the latter two categories overlap to some extent. In addition, some of the most measurable evidence of economic ripple effects in the West Side is manifest in the number and type of business services that neighborhood businesses employ. West Side firms' use of business services appears to be quite varied, yet they appear to make the greatest use of those which are more commonly thought of as "professional" services (e.g., accounting, insurance) than the more manual, yet skilled "blue-collar" services (e.g., maintenance, contracting), though this tendency is far from decisive (table 9).

**Table 9. Types of Business Services Used by West Side Businesses**

<u>Type</u>	<u>Percentage</u>
Accounting	71.9
Insurance	63.9
Wholesaling	61.4
Printing	54.4
Repair	46.0
Legal	38.8
Maintenance	25.9
Transportation	20.8
Contracting	14.9

Of particular importance to this study was the geographic location (i.e., West Side versus non-West Side) of the business service providers and the ethnicity of the service providers. In this regard, the West Side economic multiplier effects appear to have both an internal and external impact. For example, the location and type of services tend to be clustered around two poles. In general, the more highly used, lucrative "professional" services tend to be provided by non-West Side firms. Meanwhile, the less frequently used, "blue-collar" services tend to be provided by firms from the West Side (table 10).

**Table 10. Location of Service Provider**

<u>Service</u>	<u>Percent West Side</u>	<u>Percent Non-West Side</u>	<u>Percent Both</u>
Accounting	32.8	66.2	0.6
Legal	19.5	78.8	0.9
Insurance	22.8	75.0	1.7
Transportation	48.3	39.7	10.3
Contracting	54.3	26.1	17.4
Wholesaling	29.2	45.5	25.3
Repair	52.7	27.1	19.4
Maintenance	57.0	25.3	16.5
Printing	53.8	41.7	3.8

Such data indicate that a significant portion of business inputs come from outside the West Side economy (i.e., the presence of backward linkages to the greater San Antonio economy), especially among such heavily used services as accounting, insurance, wholesaling, and printing. Thus, by no means is all West Side money circulation purely internal; significant amounts leave the West Side to purchase key business services.

While economic ripple effects of West Side businesses are felt outside the enclave, most often those ripples are between different ethnic groups. The ethnicity of business service providers is another key consideration for measuring the extent of an ethnic economic enclave. In this regard, the West Side more clearly resembles a model ethnic enclave, as Hispanics provide a

(usually large) majority of all but two business services. Hispanic concentration is particularly great in the more "blue-collar" services, although the accounting category provides a striking contrast to this trend (table 11).

**Table 11. Ethnicity of Service Provider**

<u>Service</u>	<u>Percent Hispanic</u>	<u>Percent Black</u>	<u>Percent Other</u>	<u>Percent Anglo</u>
Accounting	67.8	28.7	0.0	2.6
Legal	51.4	44.8	1.0	2.9
Insurance	37.2	56.7	1.8	4.3
Transportation	64.0	32.0	0.0	4.0
Contracting	75.6	17.1	2.4	2.4
Wholesaling	42.0	46.3	1.2	10.5
Repair	73.9	18.5	1.7	5.9
Maintenance	80.3	14.1	1.4	4.2
Printing	67.7	27.3	0.0	4.3

Two exceptions stand out -- insurance and wholesaling -- both of which are widely used, tend not to be located on the West Side, and are lucrative or of strategic importance to the maintenance and development of the West Side economy, or both. Thus, despite strong numerical support for Hispanic domination among business service providers, crucial relations exist with more Anglo dominated (mostly non-West Side) services. Once again, the data suggests that the West Side is not an entirely self-contained enclave economy, lacking in articulation with the greater San Antonio economy.

Further evidence of the West Side's articulation with the larger San Antonio economy is found in the fact that West Side residents provide labor to firms, institutions, and homes throughout the city. Thus, while the West Side business community has a high degree of internal reliance, cohesion, and articulation in a variety of areas, it is nonetheless linked to the greater San Antonio economy through the labor market.

The survey attempted to evaluate labor-owner relations on the West Side among Mexican-American businesses by comparing them to Anglo firms on the West Side. The reports from Mexican-American owners and managers indicate that they provide employees better opportunities in three areas: promotion, interesting work, and assistance to former employees who start their own businesses. However, the responses from Anglo business people show that they provide employees better conditions in four categories: pay, job stability, training opportunities, and fringe benefits. In addition, both types of firms were approximately equal in three areas: work hours, supervision, and working conditions. Overall, the Anglo firms had slightly better labor relations than the Mexican-American firms. However, the degree of difference was not great in most categories.

Mexican-American firms resemble ethnic economic enclaves in some areas and secondary labor market firms in other areas. The large disparity in financial resources between Mexican-American firms does much to explain these mixed results. For example, 60 percent of the Anglo

firms grossed more than \$100,000 per year, while 61 percent of Mexican-American firms earned less than \$45,000 annually (and 38 percent less than \$15,000).

Thus, enclave theories emphasizing the importance of ethnic solidarity offer the most plausible explanations for the relatively high levels of benefits Mexican-American firms offer their employees. The survey found significant indicators of such ethnic solidarity in that Mexican-American business people were more likely to be ethnically loyal in their hiring practices, and they felt a stronger obligation to the West Side community. For instance, 89 percent of the Mexican-American respondents reported a desire "to serve the needs of the community," and over 80 percent responded that they opened their businesses, at least in part, "to employ residents of the West Side."

The relationship between the business community and the consumer is an important indicator of the success and prosperity of a community and another aspect of an ethnic economic enclave. Earlier, it was noted that West Side businesses are largely focused on internal markets and Mexican-American clientele and that 16.2 percent of the firms offered principally ethnic-oriented goods and services. Significant market differences were found among this latter category, as 76 percent of the ethnic-product businesses relied on the neighborhood for the majority of their customers, while just 57 percent of the nonethnic-oriented businesses were as reliant on the neighborhood market. Still, the survey found that 98.7 percent of the West Side business persons responding said that their business did not specifically target the Mexican-American community. Some two-thirds of the respondents said that they provided a needed product when they began their business, one-half of which are targeted just to the West Side market. Personnel services, professional services, retail trade, entertainment, and repair services were the most likely types of businesses to provide needed goods and services to the West Side community.

The survey also measured the economic and political affiliation of West Side business owners and managers on the basis of their economic actions and political attitudes. It was found that the West Side does not fully fit the ethnic enclave model, possibly indicating a lack of the economic attitudes found in more classically defined (and more economically successful) ethnic economic enclaves, such as the Cuban community in Miami. In accordance with the enclave model, West Side businesses evidenced strong reliance on internal, noninstitutional sources for start-up capital, and they showed significant diversification in the sense that only a small minority promoted mainly ethnic-oriented goods and services. However, West Side business behavior diverged from the ethnic enclave model in that occupational mobility was largely lacking and in that Mexican-American business people almost entirely failed to participate in business-related ethnic organizations. Thus, on the basis of these actions, economic attitudes among West Side business people are somewhat mixed and do not appear to fully fit previously constructed ethnic enclave economy models.

A significant degree of diversity was also found among West Side business people with regard to political affiliation. The proportion of Mexican-American respondents registered to vote is 77 percent. Moreover, Mexican-American party identification is Democratic (52 percent), while "no preference" and "independent" identification both outnumber Republican (8 percent). Mexican-American ideological identification was almost evenly split between liberal (23 percent), conservative (22 percent), moderate (29 percent), and no preference (26 percent). Rather, more immediate, material concerns appear to be of political saliency. For instance, West Side politics have taken more direct, grassroots forms, such as Communities Organized for Public Service (COPS), which has been very successful in organizing residents around specific community needs and forcing the city to respond.

The survey also covered in depth one political topic of particular relevance to the Mexican-American community, namely Mexican immigration and immigrants. In general, West Side business people appeared to hold contradictory views regarding Mexican immigration and immigrants. For instance, they overwhelmingly held positive opinions towards the role and effects of Mexican immigrants. Some 73 percent of the respondents believe Mexican immigrants are a help to the local economy, over 75 percent believe that Mexican immigrants take jobs that no else wants, and over 82 percent think they are important consumers for Mexican-American businesses. However, West Side business people also saw immigration in negative terms, as shown by the following: over 60 percent of the respondents felt that too many Mexicans are entering the country, 65 percent felt that employer sanctions against those hiring undocumented immigrants should continue, and over 71 percent stated that they avoid hiring undocumented immigrants. These two apparently contradictory response patterns may be the result of West Side businesses having an interest in maintaining the status quo with regard to immigration and their access to immigrant labor and consumers. Whereas, they perceive that a substantial increase in Mexican immigration would perhaps alter their circumstances from somewhat favorable to nonviable.

A series of comparisons were done in order to see which, if any, of six factors had potential explanatory power for the respondents' attitudes toward immigration. Ethnicity, education, and income were found to have little, if any, explanatory power (i.e., response patterns broken down along ethnic, education, and income lines were quite similar to general response patterns to the same question). In contrast, place of birth, ethnicity of clientele, and one's weighting of the importance of retaining Mexican cultural values have greater explanatory power, in that response patterns broken down along those three variables did vary significantly from general response patterns to the same questions. Thus, more traditional socioeconomic variables such as income, education, and ethnicity do not appear to explain respondents' attitudes toward Mexican immigration and immigrants as well as the more culturally and economically specific variables. Overall, West Side business people appear to have ambivalent sentiments regarding Mexican immigration and immigrants.

## CONCLUSION

This analysis of business owners and managers on the West Side of San Antonio was carried out in order to identify the condition and viability of firms located there. Further, it sought to determine the existence and viability of several economic levels, including the linkage and articulation between the enclave economy and the larger economy of San Antonio, as well as the role, function, and relative importance of the enclave economy to the West Side community. Moreover, this survey strove to determine the potential for economic growth and expansion of the West Side and the role and function of government entities in developing enhanced prospects for enclave firms.

The survey itself had a number of central focus areas in order to elicit the specific information relevant to the aforementioned research purposes. These focus areas included

- background characteristics of the firms;
- owner/manager contact with public agencies and participation in their programs;
- participation in institutional programs and initiatives;
- perceptions and views of owners;
- managers' problems;
- immigration;

**contact and experience between firms;  
experience with banks and lending institutions;  
a number of ethnicity indices (e.g., owners' attitudes, employees, product orientation, clientele, competitors, etc.).**

**The findings indicate that a viable, deeply rooted, and experienced commercial sector exists on the West Side. It is a sector that displays a high level of entrepreneurial spirit and motivation, and by virtue of its proximity to the downtown center, potentially enjoys a strong competitive advantage. Evidence of this viability is demonstrated through the ethnic and cultural basis of economic networks, which in some cases appears to be monopolistic. Given the limited presence of competitors, this may be an asset that could be organized to further assist economic development of the West Side, and it is one area that is completely missed by current intervention and assistance initiatives, such as enterprise zone policies and minority small business contracting -- as currently structured.**

**Further evidence from the findings suggests that the firms located on the West Side generate a substantial number of jobs for the residents and serve as important sources of income for minority firm operators -- all told, some 2,000 jobs in the 314 firms surveyed, including self-employment opportunities for some 200 owners. This finding is consistent with the fact that most jobs in the area are created by small businesses. Moreover, our findings indicate that the firms surveyed provide significant levels of opportunity for self-employment for former employees who have gained experience and assistance from their previous employers in establishing new firms and business operations, either in the West Side or beyond. The collective evidence suggests that entrepreneurial activity (whether at the level of informal activity or in formal organized business) is an important route of social mobility for Mexican-Americans in the West Side enclave economy.**

**Overall, the survey found evidence of substantial enclave economic activity, but in contrast to other enclaves it is not economically prosperous. Nevertheless, the West Side, Mexican-American enclave provides an important role and function in maintaining the economic base of San Antonio's West Side. The following is a brief summary of the findings:**

- 80.5 percent of the respondents were Mexican-American,**
- 16 percent produce or render an ethnic-specific product or service,**
- 72 percent of the clients were Mexican-American,**
- 60 percent of the major competitors were Mexican-American,**
- 77 percent of the competitors were from the West Side,**
- 76 percent of the firms reported that their profitability was linked to the West Side community,**
- 85 percent of the labor force were Mexican-American,**
- 50 percent of the firms employed one or more workers who were born in Mexico,**
- 23 percent of the owners or managers were born in Mexico,**
- 64 percent of the firms were owner operated,**
- 66 percent of the firms utilized both English and Spanish on a daily basis,**
- 60 percent of the employees lived on the West Side,**
- 55 percent of the owners or managers live on the West Side,**
- 32 percent of the respondents indicated that they had former employers who had subsequently opened their own businesses (50 percent of those respondents reported they have assisted former employees in establishing new firms),**
- 72 percent of the firms were inherited or purchased from a family member or via personal savings,**

81.3 percent of the firms were in retail trade (53.7 percent), repair service (15.2 percent), personnel service (7.8 percent), and entertainment (4.6 percent).

On the whole, the results of this survey contrasted with many of the previously constructed theories of ethnic enclave economies, which have largely been based on immigrant experiences, as opposed to long-established ethnic communities not consisting solely or mainly of immigrants. Thus, for the study of the Mexican-American enclave economy, the authors propose several important variations to previously constructed theoretical models. Specifically, greater attention must be given to the nonimmigrant experience of the ethnic enclave and to the array of economic relations in U.S. society affecting ethnic enclave economies and entrepreneurs. Further, a stronger emphasis on ethnic identity and its ideological elements is in order, for those factors do influence economic and political views among enclave entrepreneurs (e.g., in the survey the respondent's Mexican cultural values affected his or her views on Mexican immigration issues). Moreover, a greater recognition of internal economic and class structure is warranted. While this survey indeed found heterogeneity (a characteristic emphasized in other models) regarding such issues, we also found that the Mexican-American enclave economy tended to be clustered around specific economic poles. Finally, more attention is merited with regard to ethnic enclave economy linkage to the larger economy -- in terms of degree, form, and articulation. In today's increasingly integrated world economy, virtually no community remains an isolated island unto itself. Thus, determining linkages is vital, especially in the case of historically subordinated communities.

This survey has laid the groundwork for the development of an ethnic enclave economy model for examining Mexican-American enclave economies, as well as those of other long-standing, nonimmigrant-exclusive minority communities. The survey can be used in framing and in forming future research. Furthermore, it is the authors' intention that their enclave model, as well as the numerous specific findings of this survey, should serve as valuable resources for informed public policy formation that will have a positive effect on Mexican-American enclave communities.

## **Chapter 2. City of San Antonio Contracts: The Minority Community and the West Side**

Small businesses have traditionally been a strong part of the city of San Antonio's economy. In 1988, 29,000 businesses, those with fewer than 100 employees, were located in Bexar County.<sup>3</sup> Nationally, small businesses generate over 48 percent of all new jobs. Moreover, they are more likely than larger firms to employ less skilled and less experienced workers. Although over 60 percent of San Antonio's population is African-American or Mexican-American, these groups account for only 25 percent of all business ownerships. Moreover, over one-third of these minority-owned businesses have only one employee. Finally, less than 10 percent of San Antonio's sales volume is from minority-owned businesses.<sup>4</sup> Any comprehensive economic development plan undertaken by San Antonio must focus on small businesses. Moreover, emphasis on minority-owned businesses must occur because the potential economic development of this area has been underutilized. Developing these types of businesses will increase both employment and the tax base, two priorities of any economic development plan.

### **THE IMPORTANCE OF CITY CONTRACTS TO SMALL MINORITY-OWNED FIRMS**

Local government spending is a vital part of a city's economy. The dollars spent through contracts can be used as an economic development program. Although restricted by state law, cities do have some discretion over who receives contracts. City councils can promote economic development in the minority communities by giving a fair portion of the city's contract dollars to firms located in these communities. Equity in contracting signals a city's commitment to equal participation. Moreover, it places the city in a leadership position to encourage private firms to establish their own equal opportunity contracting plans.

Minority-owned firms face several disadvantages when bidding on city contracts. Most minority-owned firms are small, often employing only family members. All small firms share common problems, but minority-owned businesses face even more challenges than Anglo-owned firms. Minority-owned businesses traditionally have three major problems. First, these firms often have financial difficulties as a result of poor management skills. Due to low revenue levels, they are unable to hire outside financial consultants to assist them and their problems worsen. Second, minority business owners have difficulty establishing professional contacts through networks. Often, the Chamber of Commerce's membership fees are so high that minority business owners are unable to join this type of organization. Without these professional networks, businesses have a difficult time learning about contracting jobs and bidding procedures. Third, since they are small and have relatively low output levels, their costs tend to be higher than larger firms. Thus, they are unable to bid competitively against these larger firms.<sup>5</sup> Additionally, the results of the business survey presented in the previous chapter also indicated that the minority owned firms of the West Side did not have easy access to capital.

The bidding process can be very confusing to business owners not familiar with it. Since small, minority firms lack networks to assist them, they must rely on city agencies to help them understand the process. A city's willingness to establish such a program demonstrates its

commitment to reach out to minority contractors and assist them in successfully winning city contracts.

As the poverty level of the minority community increases, its need for city contract dollars increases. Here, the problems faced by business owners are magnified. In these areas, the city can encourage economic development directly by putting money into actual development projects or indirectly through money paid to local business owners for products or services. Both types of development increase employment and wealth in the community. When the city supports these businesses through contracts, it will receive two benefits for the price of one; the city can expand economic development into a disadvantaged area while getting the products and services needed.

### **THE CREATION OF SAN ANTONIO'S SMALL AND MINORITY BUSINESS ADVOCACY PROGRAM**

In 1987, the City of San Antonio realized that only a small proportion of the city's contracting dollars went to businesses located in the city. Even more distressing, only 2 percent of San Antonio's \$245 million budget for fiscal year 1987 went to minority or women-owned businesses.<sup>6</sup> Former Mayor Henry Cisneros had a national reputation as a strong supporter of racial and ethnic equity in government. This low number was an embarrassment to both the mayor and city. Moreover, the loss of dollars to the community hurt everyone economically. For economic and equity considerations, the city had to take a hard look at its contracting policy.

To address economic development issues for small businesses, including minority contracting, Mayor Cisneros formed a City Council Committee on Small Business Development. This committee's final proposal includes 11 categories of targeted development. Regarding the contracting issue, the committee proposed the development of the SMBA program as a division of the Department of Economic and Employment Development (DEED). This program was designed to aggressively monitor city contracting and to increase minority and women's participation in contracting.

At about the same time, the mayor formed a citizen task force to determine how the city should establish a minority contracting program and what its goals should be. This task force was comprised of representatives from the six local chambers of commerce, with the Hispanic Chamber of Commerce taking the leadership role. Council Member Walter Martinez later became the chairperson. The committee developed nine different proposals to present to the City Council. After intense lobbying by the Hispanic Chamber of Commerce, the City Council established a program of minority targets for making awards. At this time the Supreme Court had not decided the constitutionality of minority quotas. Sensing the possibility that they may be found unconstitutional, the council decided targets would be a way to avoid a number of legal issues.

The contract goals were established by looking at the current number of minority contractors in each area and assessing how much growth was possible. The goals were set for the 1989 fiscal year as follows: 25 percent construction, 25 percent subcontracting on construction if the contract were greater than \$200,000, 35 percent professional services, and 15 percent purchases in minority-owned firms, and 10 percent for women-owned firms in all areas.<sup>7</sup>

When the City Council established the SMBA program in November 1988, it also established a citizen's advocacy committee. This committee monitors the program's actions, assists

with policy decisions and supervises the actions of the City Council. This committee is composed of representatives from each of the six area chambers of commerce as well as three members selected from the community at large.

### **The Purpose and Function of San Antonio's Small Minority Business Advocacy Program Division**

Within the city's DEED division, the SMBA program was established with the goal of providing an equal opportunity for all contractors. The SMBA program defines a minority business enterprise as an

enterprise which is at least 51 percent owned by one or more minority individuals, or in the case of any publicly owned business, at least 51 percent of the stock of which is owned by one or more minority individuals, and whose management and daily business operations are controlled by one or more minority individuals who own it. Minority person(s) shall collectively own, operate and share in payment from such an enterprise.<sup>8</sup>

The SMBA program division is "responsible for program coordination, certification of minority and women business enterprises, monitoring and soliciting the cooperation of city operational staff as necessary for effective implementation of the program."<sup>9</sup> The program staff also verifies that "good faith efforts" are taken by contractors. They publish a monthly newsletter sent to all certified businesses to inform them about upcoming bids and workshops for business owners.

One of the important roles that the SMBA program shares with other divisions in DEED is to simplify the city's contracting process. The bidding procedure differs depending on the type of contract, its amount, and the city agency that is responsible for the contract. All contracts for construction and purchases are awarded to the lowest bidder. To improve minority competition for these types of contracts, the SMBA program shows firms how to go about filing a complete bid and assists them in getting the financial help they may need to become competitive.

Professional service contracts are awarded on the basis of the lowest responsible bidder. The word responsible gives the awarding agency more discretion as to who receives the contract. Hence, they have more control over awarding it to minority-owned businesses. The SMBA program assists these businesses with proposal writing and meeting the necessary requirements to be considered responsible.

According to the charter of the City of San Antonio, the City Council can authorize city officials to approve contracts if the amount is less than \$3,000 and is awarded to the lowest qualified bidder. The majority of the contracts are awarded by the City Council. However, the Purchasing and General Services Department provides centralized acquisition of supplies, services, and equipment used by all city departments and these contracts are not awarded by the City Council. All of the Purchases and General Services Department's contracts are for smaller amounts, so small business should be able to aggressively compete for them.

## **The Small and Minority Business Advocacy Clause**

Since many of the minority-owned businesses are small, they are unable to bid on large contracts. However, they are capable of subcontracting for larger firms who have won city contracts. To encourage the use of minority subcontractors, the City Council adopted a SMBA clause. This clause applies to all city construction or professional contracts of \$10,000 or more and to vendor contracts of \$3,000 or more. As a part of the bidding process, contractors must acknowledge a "good faith effort" to involve or try to involve qualified minority firms in subcontracting and procurement positions while they are working on the city's project.

If a firm violates this clause by providing false information about subcontractors, it can be barred from bidding on any more city contracts. This is the only circumstance in which the SMBA program can take a police action against a business. This clause is enforced by City Ordinance 69403, which prohibits discrimination based upon race, color, national origin, religion, sex, age, or handicap when awarding subcontracts funded in part by the city.

## **CITY CONTRACTS AWARDED TO MINORITY-OWNED BUSINESSES**

After discovering the low number of contracts that the City of San Antonio awarded to its minority community, the city established a series of minority contracting goals through the Small and Minority Business Advocacy (SMBA) program. Most of the goals were met in its first year, and it is considered a successful program. However, the SMBA program did not include one segment of minority-owned businesses, those located on the West Side. As one of the poorest areas in San Antonio, this community is in desperate need of economic development. The city would further its economic development plan by focusing on revitalizing this area. Through contract opportunities, the city can encourage business development, which will then improve the entire neighborhood.

After analyzing the city's listing of certified small and minority businesses, it was obvious that only a small number of West Side businesses participate in this program. Moreover, for fiscal year 1989, the city awarded \$112 million in contracts (appendix B). Of this, \$9 million, or 8.4 percent of the contracting dollars went to minority-owned firms. Of this \$9 million, only 3.1 percent, or \$300,000, went to firms located on the West Side. This accounts for less than 3 percent of the City Council's approved expenditures. Only five businesses in the West Side received contracts from the council in that fiscal year (1989). Thus, the SMBA program may be successful citywide, but it is having minimal effect on the West Side.<sup>10</sup>

### **First-Year Evaluation of the Small Minority Business Advocacy Program**

At the end of fiscal year 1989 the city evaluated the first year of the SMBA program. Of the five goals set by the SMBA task force, three were achieved at the end of that year and one goal was short by only 1 percent<sup>11</sup> (appendix C). For construction contracts, minority-owned firms received 5 percent of the contract dollars while the goal was 20 percent. Minority-owned firms received 30 percent of the construction subcontract dollars and the goal was 25 percent. For

procurement, minority-owned firms received 14 percent of the contract dollars and the goal was 15 percent. Minority-owned firms received 33 percent of the professional services contract dollars and the goal was 32 percent. Finally, for architects and engineers, minority-owned firms received 34 percent of the contract dollars and the goal was 32 percent. The overall total of minority contract awards was 13 percent or approximately \$23 million of the \$179 million awarded. This figure increased by 27 percent over the prior year.<sup>12</sup>

Using these goals as a measurement of achievement, the SMBA program was successful in its first year. These goals were achieved for two main reasons. Until 1987, minority contracting for city projects was not considered a tool for economic development. When the low participation rate of minority firms was discovered, it stimulated discussion and general public awareness of the issue. These created a more favorable condition for minority-owned businesses to compete for contracts. Also, the SMBA program and DEED actively encouraged minority contractors to become a part of the city's contracting process. Overall, the minority community has benefitted from this program. However, some segments of this community may have benefitted more than others.

#### **The Effect of the Small Minority Business Advocacy Program on the West Side**

As mentioned earlier, city contracting can play a vital role in the economic development of economically disadvantaged minority neighborhoods. In order to assess the true success of the SMBA program as a tool for economic development, its impact on such an area must also be examined. One such area is the predominately Hispanic West Side. The West Side has no defined boundaries. However, for the purpose of locating minority-owned businesses, borders are established by IH-35 to the east, Culebra Road to the north, Callaghan Road to the west, and US-90 to the south.

The SMBA program maintains a list of certified minority contractors. This list is given to all city agencies to assist them in the bidding process, and all listed firms receive a monthly newsletter. Therefore, these listed businesses are more involved in the city contracting process and should be in a better position to compete for bids. The list is broken into two groups, general and professional services, and these lists are further broken down by type of business. For general services, 156 firms are listed and 13, or 8 percent, are located in the West Side<sup>13</sup> (appendix B). For professional services, 50 firms are listed and only 2, or 4 percent, are located in the West Side. As shown by these low percentages, few firms on the West Side are taking advantage of the SMBA program.

As previously mentioned, the City Council must approve the majority of city contracts. These awards are recorded in the council's agenda by the name of the business, the amount of the award, and minority or women ownership. In October 1989, general contracts and subcontracts awarded by the City Council totaled a little over \$3 million.<sup>14</sup> Of this total, 83.4 percent went to nonminority-owned firms, 16.6 percent went to minority-owned firms outside of the West Side and none, or 0 percent, went to firms located in the West Side. During the same month (October 1989), professional contract awards totaled \$175,000. Of this, 71 percent went to nonminority-owned firms, 29 percent went to minority-owned firms outside of the West Side and once again none (0 percent) went to firms located in the West Side.

The SMBA program does not keep any of its information by area, and staff were unable to respond to questions regarding the program's impact on the West Side. After looking at the figures, it is obvious that the impact is minimal at best. If this is so, the SMBA program is not a development mechanism for the city at large, but only for comparatively affluent areas. If an economic development program does not target the poorest community, perhaps a reevaluation of its goals is necessary.

Although the SMBA program has worked diligently to increase the number of minority contracts, the reasons for these low numbers must be explored. The first and foremost issue is if there are any firms located on the West Side that can actually participate in city contracting. If these businesses do not exist, the area could not receive substantial contract dollars from the city. Until the existence of businesses on the West Side is demonstrated, the small number of businesses will be used to justify the lack of contracts in the area. The already planned availability study is the best mechanism for demonstrating the existence of businesses. As long as an address, a phone number, or a zip code is included, the location of almost any of the minority-owned firms can be identified. This study would demonstrate what is available and give an accurate idea of what part of the total contracting dollars the West Side should be receiving. A new type of business development program may be needed to encourage indigenous businesses. However, the chance that only 3 percent of the city's businesses are located on the West Side is unlikely.

If more firms are located on the West Side than either the SMBA program certification list or the City Council awards indicate, then the reason for this difference must be explained. The main problem may be lack of information. Businesses on the West Side may not know about the SMBA program or the opportunities available to them through city contracting. Since these businesses lack professional contacts, especially outside of their area, they may not know anyone who has received a city contract and be completely unfamiliar with the process. Education through Spanish-language media and direct mailing could demonstrate to business owners that the city is interested in contracting with them.

If businesses on the West Side are aware of the program, they may have some major misconceptions about it or about city contracting that prevents them from participating. They may feel their firm is too small to compete for contracts. This may be true for large contracts, but the City Council heavily encourages the use of minority subcontractors on large projects, and many opportunities exist for these smaller firms.

Another problem is that these businesses may not meet the necessary requirements to bid. Perhaps they are not licensed or do not have enough money for the bonding required to bid. Overcoming these barriers may seem to be burdensome if they do not believe they will win the bid. This is discussed in greater detail in chapter 3.

The reason behind the low participation rates of the West Side in city contracting is probably a combination of the lack of businesses in the area and the lack of good information about the SMBA program. Addressing these issues needs to start now, but the education process would be more effective after the availability study has located businesses in the West Side. Since the SMBA program has come close to achieving most of its goals, it may be time to think not only about fair representation of minorities, but fair representation from different areas of the city. This approach would target communities like the West Side. Fiscal year 1989 demonstrated that there are a number of minority-owned firms that can successfully compete for large contracts. These firms will not need as much assistance from the SMBA program in the future because in a

sense they have already "made it." Those businesses that cannot even compete in the process are those that need assistance from the SMBA program the most.

### **The Richmond Case and Its Impact on San Antonio**

One of the major criticisms of the target program was that the plan lacked any enforcement mechanism. There is no guarantee any of the goals will be met. Other cities had established quotas or set asides so their minority contract goals would be realized. However, the Supreme Court found this type of quota system unconstitutional in the City of Richmond v. J.A. Croson Company decision. In the court's opinion, Justice O'Connor wrote that "cities can enact race-biased preference only if they can prove past or ongoing discrimination: otherwise preference constitutes an illegal 'quota system'."<sup>15</sup>

In order to establish past or ongoing discrimination, cities must do an availability study to show the number of minority-owned businesses in each industry. This would be a worthwhile venture because it would literally count all the businesses in an area, even in an economically disadvantaged area. If San Antonio does this study, they may find, for example, 100 roofers in the area. Of these businesses, 70 (70 percent) are owned by nonminorities, 20 (20 percent) are owned by Mexican-Americans, and 10 (10 percent) are owned by African-Americans. If Mexican-Americans are currently receiving only 15 percent of the contracting dollars from roofing contracts, then discrimination would be established. The city could then set aside 20 percent of the roofing contracts for Mexican-American roofers, and this would be constitutional. If in the same case, African-American-owned roofing firms received 10 percent of the roofing contract dollars, then no discrimination would be demonstrated, and no quota could be established. In this case, African-American roofers could not receive the benefits of a "minority firm."

The City of San Antonio's 1990 fiscal year budget had appropriated \$200,000 to complete an availability study. However, due to budget constraints, this study was cut and never completed. Moreover, as a result of the Supreme Court's decision, many cities are now undertaking availability studies to maintain their minority set-aside programs. Currently, DEED is negotiating with other city and quasi-government agencies to pool their resources and fund the \$250,000 study.<sup>16</sup> The other agencies, such as the city's hospital districts or the Alamo Dome Project, can then use this information to establish their own minority programs. The prompt completion of an availability study is needed to assure that the City Council's goal of nondiscrimination is met.

### **CONCLUSION**

The SMBA program has come a long way since the committee that formed it started to meet a little over two years ago. With its quick implementation, a number of issues have been raised in the program's first year. In its second year, the SMBA program and its advisory board must resolve these issues. Some are more political than others, and some of them could have an impact on the West Side.

One proposal is to change the definition of an informal bid. Currently, city ordinance stipulates that a contract under \$5,000 can be awarded through an informal bid process. State law allows this level to be raised to \$10,000. Formal bids must be publicized in a certain manner for a certain length of time. For informal bids, the contracting agency calls several firms to solicit their

bids, so the number of firms participating is usually lower. Both informal and formal contracts must be awarded to the lowest bidder. If the ceiling was raised on informal bidding, the city could have more control over who knew about the contract opportunity. A certain number of minority and/or West Side businesses could be included in each informal bid. This system is also susceptible to more abuse. However, with the current emphasis on contracting equity, enough organizations are involved in the process to check any misuses. The Hispanic Chamber of Commerce supports this change because they feel it will help small businesses located in and out of the West Side.<sup>17</sup>

Another problem is a change in the certification process. Until May 1989, minority businesses were certified by the SMBA program through a self-certification process. Now, SMBA staff determines status through verification of ownership and other criteria. This more stringent screening process has reduced the number of firms considered minority owned. Therefore, achieving target goals will be more difficult in subsequent fiscal years.<sup>18</sup> A comparison of the newly certified minority owned businesses and the City Council's list of contracts awarded in fiscal year 1989 revealed that only one-third of the businesses designated as minority owned were currently certified. The other two-thirds were either too large to be certified as small businesses or not considered minority owned under the new guidelines. This may have an indirect, positive effect on the West Side. If the percentage of minority contracts decreases significantly in the 1990 fiscal year over the previous one, the city may be forced to look more deeply in the minority community for other firms so they can achieve their targets. A more aggressive presence in the West Side may be necessary to get these businesses certified.

Another issue is defining what exactly constitutes a "minority-owned" firm.<sup>19</sup> If a national engineering firm locates in San Antonio and its office's top management position is filled by a minority, does this constitute a "minority-owned" business? What if 51 percent of its employees are minorities? What if a company's employees are over 80 percent Mexican-Americans with most living on the West Side? Can this firm be given "minority-owned" status? In all of these cases, the success of the particular firm would benefit the minority community by increasing wages and employment opportunities. In some cases a redefinition of "minority owned" would help the West Side and in other cases it would not. However, any change in definition to include these types of firms would cloud the SMBA program's purpose and create a paperwork nightmare. Moreover, these definitions would not be consistent with the goal of the SMBA program to assist those who take the risk of business ownership.

Finally, the most important issue to the West Side is also the most political. This problem calls for redefining what is meant by a "small business." This problem is unlikely to be solved in the near future, as it is extremely political and is too controversial for current debate.<sup>20</sup> Currently, a small business is defined as a business that makes less than \$1 million a year in revenue or employs less than 100 people. This definition has been criticized because it allows too many large, successful firms to be included in the SMBA program.

Three different options are available for changing the definition. The Hispanic Chamber of Commerce supports altering the definition to read under \$1 million in revenue and under 100 employees.<sup>21</sup> This change would tighten the requirements regarding who can receive special consideration. The SMBA program prefers changing the definition to the one currently used by the Small Business Administration (SBA).<sup>22</sup> This definition differs by each industry, acknowledging that size is a relative matter. For example, a print shop with under \$1 million in revenues and 100 employees may still be a very successful business. On the other hand a concrete firm with the same number of employees and amount of revenues may be very "small" and could use special consideration. This definition would eliminate some comparatively successful