Historically Underutilized **Businesses:**

Opportunities for Growth in North Carolina

By William Munn, Ph.D., *Policy Analyst*

BTC
Budget & Tax Center

Background

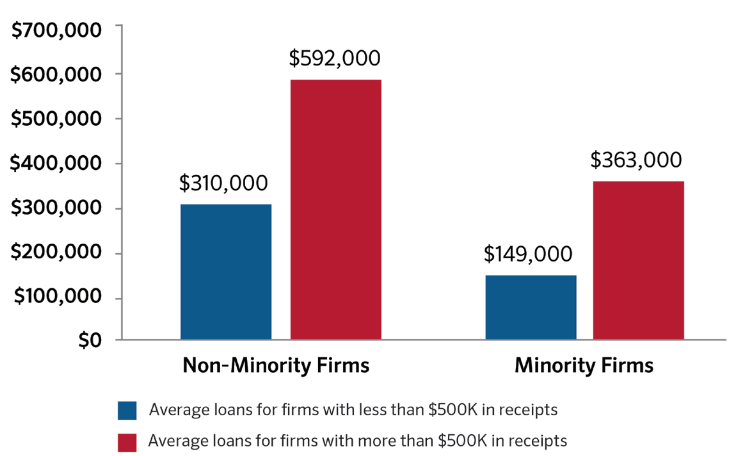
Businesses owned by individuals deemed to be historically disadvantaged have faced challenges, past and present, accessing capital and navigating industry social structures. This hinders their ability to compete in the procurement market, which is the process intended to promote fair and open competition for public sector business while minimizing risk, such as exposure to fraud and collusion.[1,2,3] Even in North Carolina regions with large proportions of non-white residents, public contracts are going to firms owned by women and/or people of color at abysmal rates.[4]

Access to Capital and Opportunity

A seminal report completed in 2010 by the Minority Business Development Agency captured disparity in capital access. The study found that, while young minority-owned[5] firms, defined as those owned by people of color and women, create jobs at similar rates as young non-minority firms. Additionally, while minority-owned firms outpace growth of non-minority firms, minority firms face crippling setbacks in the effort to secure capital.[6] The authors reveal that minority-owned firms are less likely to receive loans than non-minority- owned firms. For example, their data shows that, among firms with under $500,000 in receipts, 23 percent of non-minority firms were awarded loans compared to 17 percent of minority firms.[7]

When receipts accelerate past $500,000, 52 percent of non-minority firms received loans compared to 41 percent of minority firms. Minority firms received lower loan amounts than non-minority firms. Such unequal access to loan capital creates structural disadvantages for minority businesses. To highlight inequity in resources, the study found that minority firms were more likely to be denied loans than their non-minority counterparts. For firms with receipts less than $500,000, minority firms experienced loan denial rates of 42 percent compared to those of 16 percent for non-minority firms.

FIGURE 1: Disparity in Access to Business Capital



SOURCE: Fairlie, Robert W., Alicia M. Robb, and David Hinson. "Disparities in Capital Access between Minority and Non-Minority-Owned Businesses." (2010).

For firms with more than $500,000 in receipts, the rate of loan denial was almost twice as high for minority firms as it was for non-minority firms.

It is likely because of the incongruent threat of loan denial that minority firms choose not to apply for capital. Thirty-three percent of minority firms did not apply for loans for fear of rejection, compared to 17 percent of non-minority firms. Among high-sales firms, 19 percent of minority firms compared to 12 percent of non-minority firms avoided applications for loans for fear of rejection. Often, businesses unable to secure traditional financing vehicles turn to online lenders, credit cards and personal funds to finance their enterprises. On top of the fear and difficulty of securing loans, when minority firms do get approved for smaller loans, they grapple with higher interest rates. Minority firms paid an average of 7.8 percent interest on loans compared with an average of 6.4 percent for non-minority firms. Thusly, a 10-year commercial loan for $300,000 for a minority firm would require a repayment of $432,984, costing the firm $132,984 in interest. For the same loan amount, a non-minority firm would repay $406,943, costing only $106,943 in interest. All of these factors lead to severe undercapitalization in minority-owned businesses.[8]

Undercapitalization encumbers business growth. Business performance as measured by annual receipts shows that businesses owned by people of color and women persistently perform lower than their counterparts, nationally and in North Carolina. In 2012, data from the U.S. Survey of Business Owners showed that in North Carolina, overall businesses owned by people of color and women make up 12.2 percent of all firms with paid employees, but only 5.4 percent of total receipts.[9] Upon closer examination in regions that have high representations of Black populations and firms, the share of their total receipts is below 3 percent. For example, in the Northeastern corridor of the state, 21 percent of the firms are owned by African-Americans, which only account for 2.8 percent of receipts. Women-owned firms fare little better as their enterprises account for 20.7 percent of businesses overall but only 9.7 percent of receipts.[10]

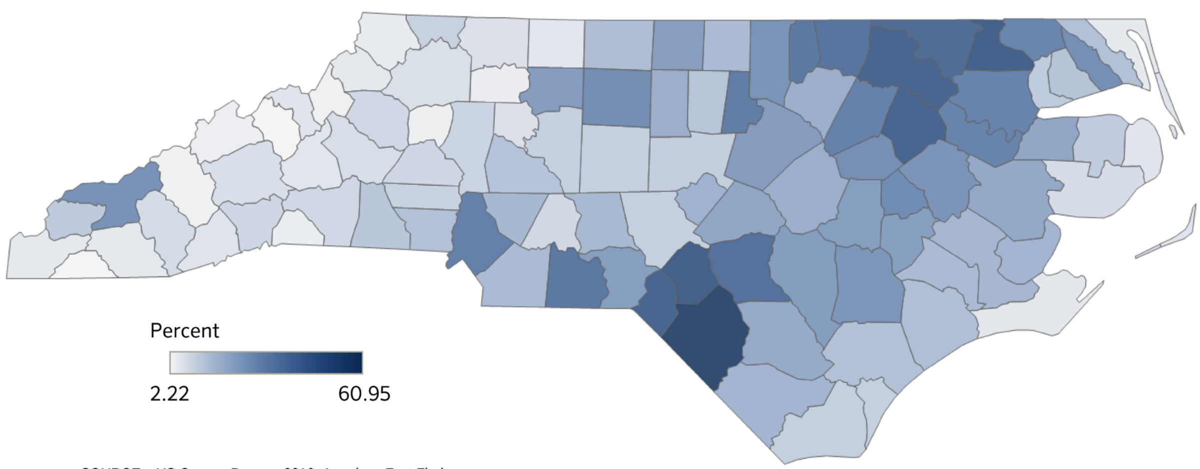
On top of the fear and difficulty of securing loans, when minority firms do get approved for smaller loans, they grapple with higher interest rates.

In 2010, Lois Shelton postulated that business social structures used discriminatory industry practices “to stratify firms into higher and lower performing groups by ethnicity.” These practices range from lower access to financing to the bait and switch routine. Entrepreneurs define bait and switch as a situation when something valuable such as construction plans promised over the phone become unavailable when a contractor of color arrives in person to pick them up. Also, Black contractors with superior forms of certification are routinely denied access for prequalification when White contractors with less certification are granted such status.[11] This, Shelton argues, affects disadvantaged business enterprise growth in industries with more concentrated social structures and higher wealth creation potential such as construction, finance, manufacturing and wholesale trade.[12] The author said that biased industry practices that are actively practiced are done so to help preserve the advantaged position of existing large business interests, to the detriment of underutilized firms. Shelton suggests this serves as the basis for the social stratification of firms into growth and performance sections based on the relative position of the firms’ owners in the ethnic group hierarchy.[13] According to the literature, one should expect to find this stratification to be most embedded in industries with substantial wealth creation potential, due to greater incentives to maintain control, and in industries with a more concentrated social structure, due to greater ease in implementing discriminatory practices.[14]

North Carolina's Base of Underutilized Businesses

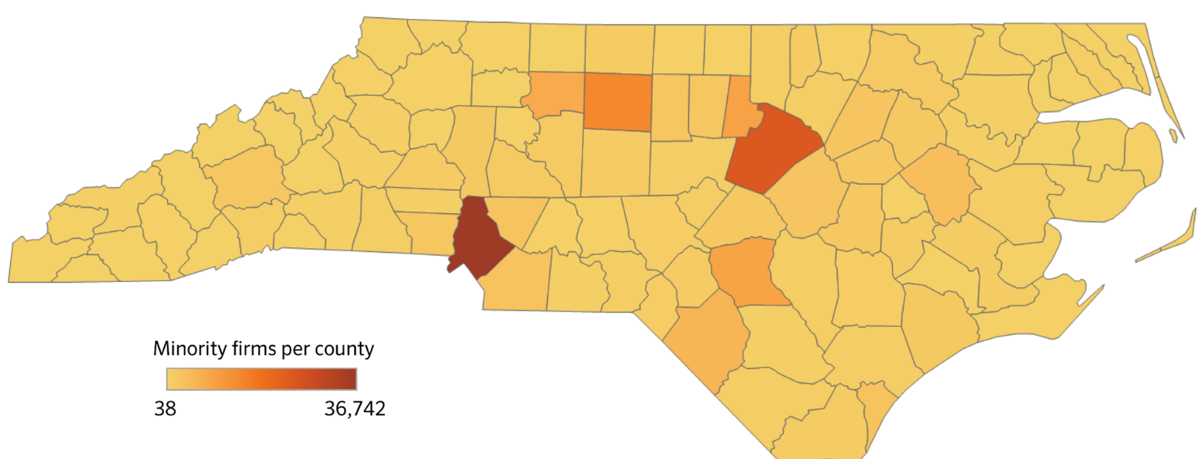
The aforementioned challenges negatively impact the competitiveness of North Carolina's otherwise healthy base of underutilized firms, defined as businesses owned by women and/or people of color. According to the 2012 Economic Census, there are 183,380 firms owned by people of color in the Old State.[15] With the exception of Clay County, every county in the state reports an firm owned by a person of color—from Robeson County, where nearly 61 percent of all firms are owned by people of color, to Yancey County where 3.5 percent of the population is non-white but 38 enterprises of color exist. In line with the demographic makeup of county populations, the majority of businesses owned by people of color are concentrated in the Sandhills (the area around Scotland, Hoke, Robeson and Cumberland counties) and the Northeastern corner of the state. The following figures illustrate that firms that are owned by people of color are concentrated in the Eastern part of the state and in Metropolitan areas.

FIGURE 2: Percent of Total Firms Owned by People of Color



SOURCE: : US Census Bureau, 2016, American Fact Finder.

FIGURE 3: Number of Total Firms Owned by People of Color



SOURCE: : US Census Bureau, 2016, American Fact Finder.

Numerically, Wake and Mecklenburg counties host the highest number of underutilized businesses in the state at 24,275 and 36,742 respectively — a healthy 26 and 36 percent of the total firms in the county.

Underutilized businesses vary amongst type. In Mecklenburg County, which embodies the best representation of businesses owned by people of color and/or women across the state, Asian firms are evenly spread across industrial sectors with 20 percent in Accommodation and Food Services; 16 percent in Professional, Scientific, and Technical Services; 15 percent in personal services; 14 percent in Retail Trade; and 10 percent in Construction.[16] African-American firms are found to be highly concentrated in Administrative and Support and Waste Management (26 percent); Professional, Scientific, and Technical Services (20 percent); and Construction (19 percent).[17] Also concentrated by industrial sector, 34 percent of Hispanic, or Latinx, firms are in Construction, and 17 percent are in Professional, Scientific, and Technical Services.[18] African-American firms are smaller than most underutilized businesses, with an average of six employees, while Hispanic, or Latinx, firms average seven employees and Asian firms average 10 employees. The average size of local facilities for African-American firms is also smaller, at an average of 3,385 square feet, while underutilized firm facilities averaged 6,899 square feet.[19]

Trends in Growth

In 1997, there were 61,551 firms owned by people of color that generated $6.7 billion dollars in sales.[20] According to the N.C. Department of Commerce, businesses owned by people of color grew 66.2 percent, from 79,303 firms in 2002 to 131,826 firms in 2007. The 2012 Economic Census shows enterprises of color growth in North Carolina from 2007 to 2012 to be 39.1 percent, for a total of 183,380 businesses.[21] Over the 15 years between 1997 and 2012, more than 120,000 firms owned by people of color joined the state's vibrant business community. North Carolina enterprises of color revenue generation in 2007 was $16.1 billion dollars, increasing to $20.7 billion dollars in 2012.[22]

While there has been tremendous growth in the number of firms owned by people of color in North Carolina, there has not been a corresponding increase in revenue. In many cases, receipts have receded from 2007 to 2012. Data indicates that firms that are not enterprises of color get 94 percent of receipts while making up 87 percent of firms with paid employees. Enterprises of color earn 5.4 percent of receipts while making up 12.2 percent of firms with paid employees. Consequently, enterprise of color revenue is only 32 percent of what a firm that is not an enterprise of color earns, on average. Firms owned by people of color struggle to expand at the same rate as their non-POC (People of Color) counterparts. Non-POCs firms are twice as likely to be employers, and they hire 50 percent more workers.

How Minority Firms Can Grow the Economy

The population of people of color in the United States continues to grow. U.S. Census data indicates that 37 percent of the U.S. population identifies as part of at least one demographic group of color.[23] California, Texas, New Mexico, Hawaii and Washington, D.C. have populations that are made up of more than 50 percent people of color. As many other states, counties, and cities approach this threshold, understanding and embracing business ownership by people of color is increasingly important.

Without the necessary capital, social and political support, underutilized firms will not realize their full potential.

Firms owned by people of color are a critical part of the American economy. As populations of color continue to increase, their importance will grow alongside their entrepreneurship. In seven states, firms owned by people of color make up 40 percent of all businesses. Across the nation, 29 percent of businesses are owned by people of color and growing.[24]

Eight million firms owned by people of color contributed $1.38 trillion dollars in revenue and 7.2 million jobs to the economy in 2012. Firms owned by people of color demonstrated their importance to the American economy when, during the Great Recession, they increased their share of total business ownership from 22 percent to 29 percent. From 2007 to 2012, 2 million firms owned by people of color were created, while only 1 million non-people of color businesses shuttered. Firms owned by people of color during this time contributed an additional $335 billion dollars in sales and 1.35 million jobs.

Increases in enterprises of color greatly outpaced increases in non-white populations from 2007 to 2012. As the African-American population in the U.S. increased by 6 percent, their business ownership increased by 34 percent. The Latinx population increased by 17 percent, while Latinx-owned businesses increased by 46 percent.

Without the necessary capital, social and political support, underutilized firms will not realize their full potential. In 2002, there were 4 million non-White firms that grossed $661 billion in receipts and employed 4.7 million people. Firms owned by people of color in the US are growing exponentially in spite of the structural challenges to their expansion. If enterprises of color had been able to reach resource parity with their representation in the U.S. population, these firms would have employed more than 16.1 million workers, earned over $2.5 trillion dollars in receipts, and numbered 6.5 million firms.[25] Increasing the flow of capital for minority-owned businesses must be a national priority to re-energize the American economy and increase competitiveness in the global marketplace.[26]

CASE STUDY: **Vistabution**

In 2001, Clarence Mann founded Vistabution as a Right-of-Way (Design/ Build projects) firm. As a Disadvantaged Business Enterprise (DBE) and veteran-owned firm, Mann sought out contract opportunities with the N.C. Department of the Transportation (NCDOT). After securing and delivering upon several right-of-way contracts, the department approached him with opportunities in demolition work. Mann quickly gained the expertise needed, acquired the necessary certification and earned the contract. After mastering the demolition craft and delivering on subsequent contracts, NCDOT once again approached the firm with the opportunity to perform environmental remediation. Mann again gained the necessary expertise, training, licensing and certification to begin delivering on these contracts. Mann began realizing his dream of becoming a firm that could handle all projects under the scope of the right-of-way. Armed with a real estate license, Vistabution is positioned to negotiate with owners, purchase property, inspect the property to assess the need for environmental remediation abatement, and perform demolition on behalf of the NCDOT. This skillset placed Vistabution in a particular niche as a DBE.

Clarence Mann, Owner and CEO of Vistabution

After the tremendous success that Vistabution enjoyed with NCDOT, Mann explored additional certifications and found the NC Office of Historically Underutilized Businesses. Vistabution applied and gained HUB certification in 2007 during his firm-wide focus on business development. Vistabution was one of the first firms to take part in the North Carolina Contractor's College. Since then, Vistabution has worked closely with the HUB office; they have been connected with several general contractors and public sector contracting opportunities. These public sector contracting opportunities now make up nearly 80 percent of their business. Vistabution states that public sector work is preferable due to the stable and continuous nature of the work and remittance. Also, working with the public sector lets the firm operate as a primary contractor instead of as a subcontractor, which has numerous advantages.

Vistabution sees its business growing in the right-of-way acquisitions arena as it estimates that NCDOT will spend $2 billion dollars in the highway division. Mann's company is adding a consultancy role where teams from the firm will conduct right-of-way acquisitions on behalf of NCDOT.

The NC Office of Historically Underutilized Businesses has been crucial to Vistabution's success by connecting it to business intelligence and access to resources, contracting and capital acquisition. Mann credits Vistabution's growth from a small to medium sized firm to their personal relationship with each staff member from the NC HUB office. Their growth was so significant that in 2016 they were awarded the Excellence in Business honor, which recognizes exponential business expansion. The firm strongly attributes the awarding of most of their contracts to guidance and support from the HUB Office.

While enjoying success, Vistabution has been committed to reaching back and mentoring small firms on the path to success and utilization of the NC HUB Office. The firm has been intentional in teaching potential prime contractors about safety, environmental remediation and other industry knowledge. Mann understands that success is not a zero-sum prospect, and he is generous and strategic with his company's mentoring efforts.

The Historically Underutilized Business (HUB) Program as a Remedy

The History of Disadvantaged Business Enterprises and the USDOT

In 1980, the United States Department of Transportation (USDOT) began its Disadvantaged Business Enterprise (DBE) program in an effort to remedy past and ongoing discrimination in federally-assisted highway, transit, airport, and highway safety financial contracting markets nationwide.[27] Established by regulation under the authority of Title VI of the Civil Rights Act of 1964, the program began as a people of color and women's business enterprise program that sought to overcome structural and institutional barriers and obstacles.[28] In 1982, Congress formally established the DBE program to ensure nondiscrimination in awarding and administration of contracts, help remove barriers to participation, and assist the development of firms. DBEs were specifically defined as for-profit small business concerns where socially and economically disadvantaged individuals own at least a 51 percent interest and control management and daily business operations. Congress has reauthorized the DBE program several times since its inception, most recently in the "Fixing America's Surface Transportation Act'' (FAST) in 2015. The FAST Act illuminates Congress's findings regarding the continued need for the DBE program due to discrimination and related barriers. These findings revealed significant obstacles for minority-owned enterprises applying for USDOT contracting opportunities. The Act also requires that 10 percent of the amounts made available for any Title I, II, III and IV programs and 23 U.S. Code 403 have to be expended with disadvantaged business enterprises. The DBE program's integrity is dependent upon systematic procedures that ensure that only actual small firms, owned and operated by socially and economically disadvantaged individuals are certified as DBEs in USDOT programs. The responsibility of such verification and certification falls upon state transportation agencies.

The Creation of the North Carolina Office of Historically Underutilized Businesses

USDOT's efforts were an effective model, and, based on that strategy nearly 20 years after DBE's inception, Executive Order 150 created the Historically Underutilized Business (HUB) Office in North Carolina in 1999.[29] With the stroke of a pen, Gov. Jim Hunt established an office that would endeavor to 1) increase the amount of goods and services acquired by state agencies from HUB firms, 2) make progress toward eliminating barriers that reduce participation of HUB firms, 3) encourage purchasing officers and relevant personnel to identify and utilize HUB vendors and contractors, 4) educate HUB firms on doing business with the State of North Carolina, and 5) provide resources for HUB firms. Two years later, in 2001, the office was codified, established by law and provided operational funding.

In December of 2001, the General Assembly ratified Senate Bill 914, which saw major changes made to laws governing public construction in North Carolina. Gov. Michael F.

Easley signed the bill, which became effective Jan. 1, 2002. Senate Bill 914 provided flexibility in the public construction bidding process and provided requirements for promoting the use of disadvantaged business enterprises, as well as authenticating and reporting good faith efforts. Specifically, Senate Bill 914 requires public entities to report historically underutilized business participation data on construction projects to the Department of Administration. Public entities use a construction reporting system to report historically underutilized contractor participation. The information compiled by the system is used by both the HUB Office and the State Construction Office. The HUB office prepares annual reports that are requested or required by the Governor's office and the General Assembly from this system.

Today, the HUB Office continues to operate as "an organization that advocates actions which increase opportunities for historically underutilized businesses and promotes diversity and inclusion in state government procurement and contracting."[30] The office has a vision to promote economic opportunities for historically underutilized businesses in state government contracting and procurement that will foster their growth and profitability.[31]

What is a HUB?

In North Carolina, a Historically Underutilized Business (HUB) is a disadvantaged business enterprise which has been certified and is currently participating in the Statewide Uniform Certification Program. The goal of certification is to ensure that applicants are from groups who have historically been excluded from opportunities. HUBs are defined as those at least 51 percent owned by one or more minority[32] persons or socially and economically disadvantaged individuals, or in the case of a corporation, in which at least 51 percent of the stock is owned by one or more minority persons or socially and economically disadvantaged individuals. HUB management and daily business operations are controlled by one or more of the minority persons or socially and economically disadvantaged individuals who own the firm. The term "minority person" means a person who is a citizen or lawful permanent resident of the United States and who is: Black, that is, a person having origins in any of the black racial groups in Africa; Hispanic, that is, a person of Spanish or Portuguese culture with origins in Mexico, South or Central America, or the Caribbean Islands, regardless of race; Asian American, that is, a person having origins in any of the original peoples of the Far East, Southeast Asia, and Asia, the Indian subcontinent, or the Pacific Islands; American Indian, that is, a person having origins in any of the original Indian peoples of North America; or Female. The term "socially and economically disadvantaged individual" means the same as defined in 15 U.S.C. 637, which are those who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities.

The Process of Becoming a HUB

The process to become HUB-certified in the Statewide Uniform Certification Program requires several steps, beginning with registration in the Electronic Vendor Portal (EVP). Next, the applicant must download and review the Required Documents Form as well as the HUB/ SUC application. After completion of both, the applicant will submit all documentation to the HUB Office and wait 45-60 days for a response.

Certification as a HUB vendor in North Carolina promises greater exposure for business opportunities in state procurement and contracting. The names of HUB firms are listed in the Vendor Link System, which is widely used by state agencies, universities, community colleges, local schools, local governments and institutions and the public to locate historically underutilized businesses for goods, services, and construction. In addition to valuable exposure for state contracting, the HUB office provides technical assistance in the form of 1) online vendor registration and HUB Certification, 2) updating vendor profile, 3) bid searching techniques, 4) marketing strategies, 5) one-on-one consultation, 6) business development needs assessment and 7) business resource and financial assistance referrals.

Is it working?

Participation Shortcomings

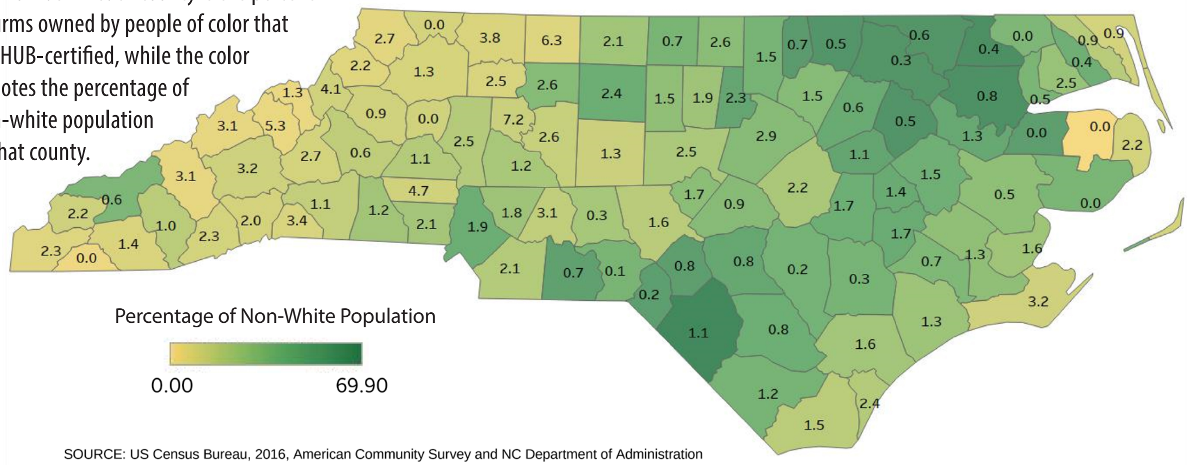
Since its operational inception in 2001, data reveal that eligible firms are not participating in the HUB program.[33] The map on the next page shows the percentage of firms owned by people of color that are currently HUB-certified. For example, Alamance County has 10,990 firms (2,283 of them owned by people of color), and it also has a county population that is more non-white than average at 29.2 percent. However, only 35 HUB businesses exist in the county—a mere 1.5 percent of enterprises of color. Further down I-85, Mecklenburg County is host to 36,742 firms of color, but only 704, or 1.9 percent, are HUB-certified. In the mountains, Buncombe County has 2,113 firms owned by people of color, with only 67, or 3.2 percent, engaged in the HUB program. This is also the trend statewide, as there are 826,332 firms in N.C., 183,664 (22.3 percent of total) of which are owned by people of color. Of those 183,664 firms statewide, only 3,479 (1.9 percent) are certified as HUB businesses.

Inequities by County

In Robeson and Hoke counties, where businesses owned by people of color make up 61 and 50 percent of the total firms, only 1.1 and 0.8 percent have registered as part of the program respectively. In fact, NC counties with the largest non-White populations have the fewest firms certified as HUB by percentage. Bertie, Hertford, Northampton, Edgecombe, Halifax, Warren, Vance and Washington counties all have non-white populations of more than 50 percent, but none have HUB participation rates of more than 0.7 percent. The state average for HUB

FIGURE 4: Percent of Firms Owned by People of Color that are HUB-Certified

The number in each county is the percent of firms owned by people of color that are HUB-certified, while the color denotes the percentage of non-white population in that county.



SOURCE: US Census Bureau, 2016, American Community Survey and NC Department of Administration

participation is 1.9 percent. In Washington County, a county where 23 percent of firms are minority-owned, none of these enterprises are HUB certified.

Exclusion of Businesses

Critics of the HUB initiative might argue that disadvantaged business enterprises are doing well contracting with public entities in North Carolina without the program. This is also not the case. A disparity study undertaken in 2014 by the North Carolina Department of Transportation revealed that only 2.4 percent of contract dollars were distributed to enterprises of color.[34] Again, 22.3 percent of businesses in North Carolina are considered enterprises of color.

A collaborative study forthcoming from the Alliance of Black Elected Officials, North Carolina Justice Center and the Leadership Studies Department at North Carolina Agricultural and Technical State University evaluated the utilization of people of color and women-owned business in public sector contracting and found gross underrepresentation in counties with high percentages of non-white populations. Nearly 15 years after the beginning of the HUB program, Vance County Public Schools only awarded $4,043 in goods and services contracts to businesses owned women and people of colorout of the $4.8 million dollars awarded during the 2014-15 school year. That represents 0.08 percent share for underutilized firms in a county where 58 percent of the population is non-white.[35]

A further disturbing discovery is the evidence of disparity in the distribution of resources among HUB entities. For example, during the 2014-15 fiscal year, Wake County School System (WCPSS) awarded $23.4 million dollars in contracts for goods and services to HUB firms out of $147 million total. Of that $23.4 million, $20.4 million was awarded to women-owned businesses, while Black-owned businesses received $80,072. The next fiscal year (2015-16), out of the $131 million awarded for contracts in goods and services, WCPSS awarded HUBs $11.4 million. Women-owned businesses earned $7.8 million. Black-owned

CASE STUDY: **Parks Convenient Solutions**

George Parks does not think his HUB certification has made him a more attractive candidate for public sector contracting opportunities. Parks is the CEO of Parks Convenient Solutions, an environmental services firm with a focus on janitorial and waste management based in Cumberland and Hoke counties. When Parks retired from the military at nearby Fort Bragg, he immediately launched his business and optimistically filed for certification as a DBE, veteran-owned business and a HUB. Since then, it is his belief that these certifications have done little to advance his opportunity to secure contracts. He recalls a disheartening experience at a seminar NCDOT hosted to recruit underutilized businesses at Fayetteville Technical Community College. Parks recounts the forum where a representative from the agency openly made generalizing and disparaging remarks about underutilized businesses and their capacity to complete contracts. Parks states that it was then that he began to seriously question the value of his HUB and DBE certifications.

George Parks, Owner and CEO of Parks Convenient Services

Parks explained that it was nearly impossible to secure business capital to expand his business and feels that he is trapped in a cycle of receiving small contracts which make it extremely difficult to gain the experience to qualify for larger ones. Parks recounts experiences where he would personally seek out public agencies, only for them to make promises to engage his company but never follow up. Other times, he said they would flippantly rebuff his request for more information about advertised RFPs (request for proposals). In his frustration, Parks decided to evaluate the demographic breakdown in the awarding of public sector contracts and was mortified by the disparity between firms owned by people of color and/or women and other firms. Given the gross underutilization, Parks said that he questioned the purpose of the North Carolina Office of Historically Underutilized Businesses. He believes in their mission and supports efforts to make them more effective, but he has given up hope that they can could help him expand his business in the near term. Parks has now relocated to Texas where he argues that the climate for inclusion of disadvantaged business enterprises is much stronger. “As much as I hate to leave, I’ve got to go where they’ll work with me and respect my craft,” Parks said.

businesses earned $27,234. African-Americans make up 21 percent of Wake County. In this context of gross inequity, the General Assembly's 2017-18 budget contains amendments to NCGS 136-28.4 that seek to obscure information about the program by aggregating goals for women-owned businesses and minority-owned businesses. This is highly problematic for many reasons. First, data reveal that institutions reaching the aspirational goal of 10 percent in HUB participation generally do so by contracting with women-owned businesses more than other historically underutilized businesses. Second and connectedly, while acknowledging that women-owned businesses face discriminatory challenges, one cannot ignore the practice of some white male business owners who create companies in the names of their wives (or any other female partner), own a 49 percent stake and qualify for HUB certification. If this company is awarded a contract, then their business counts towards the public entity's aspirational goal of 10 percent, thus reducing the pool from which other qualified HUBs can compete.

Financial and Capital Strategies

While the HUB office offers a plethora of support, it does not provide direct access to financial resources, a primary need of businesses owned by people of color and women. There is an abundance of literature that speaks to the challenges of enterprises owned by people of color in securing financial tools to execute their business vision.[36] Loans and trade credit are the financial tools used most for historically underutilized businesses, but they are denied to these entities at higher rates than firms owned by white men. This creates a situation that forces underutilized business owners to rely on less advantageous forms of capital such as credit cards, cash loans from family and even liquidation of assets.

To address the challenges of securing resources for historically underutilized businesses, the Carolina Small Business Development Fund (CSBDF) published several concepts to assist in the development of financial vehicles. The CSBDF suggests that North Carolina establish a state fund for small business lending.[37] This fund could be leveraged by private banks, corporations, foundations and other investors, and help them meet Community Reinvestment Act requirements. Second, the piloting of a state small business guaranteed lending program would allow lenders to make loans outside of their typical lending criteria and reach underserved markets. Last, the CSBDF encourages direct investments in community development financial institutions that are uniquely positioned to meet the needs of minority-owned businesses. These organizations help expand access to capital and further economic development goals that directly impact HUBs financially.

Is an Aspirational Goal Enough?

It is painfully clear that, given the breadth of disparity in contracts awarded and the lack of access to capital and, ultimately, opportunity across North Carolina's business landscape, the aspiration goal of 10 percent outlined in Executive Order 24 is not enough. To achieve the aspirational goal of 10 percent, public entities must engage in "good faith efforts" to recruit HUB participation in various projects. Local governments established an eight-step process to prior to bid solicitation defining the good faith effort.[38] However, these processes have not been enough to spur participation in the HUB program or ensure equitable representation in public contracting across North Carolina.

Emerging Opportunities

Several points of opportunity exist with the state and Historically Underutilized Businesses. Proper research, communication, advocacy, and execution is key in converting opportunity to the fulfillment of the program's mission "to promote economic opportunities for historically underutilized businesses in state government contracting and procurement that will foster their growth and profitability."

First, while we continue to encourage people of color and/or women to found, grow and develop businesses throughout the state, there does exist already a healthy base from which the Office of Historically Underutilized Businesses can cultivate. As mentioned earlier in the example of Alamance County, there are at least 2,240 minority-owned businesses that are eligible for participation in the program. A proper survey of trends and needs could produce data to stimulate more robust participation from those businesses owned by people of color and/or women in Alamance County, as well as the other 181,424 enterprises of color and and the 287,058 women business enterprises in the state.

Downtown Fayetteville, NC - Photo Credit: Donald Lee Pardue, Flickr

Second, approved state and local bond referenda present natural opportunities for HUBs to identify, lobby, bid and secure contracts. In March 2016, voters in the city of Fayetteville approved a $35 million-dollar Parks & Recreation bond. The order authorized the city to provide funds to construct and improve park and recreational facilities. Estimates reveal that $3 million is planned for the construction of seven splash pads, $5.2 million for the development of the Cape Fear River Park, $1 million for a Stakeboard Park, $9 million for a Sports Field Complex, $6 million for a Tennis Center and $10 million for two Senior Centers.[39] Later that year in December, the city council in Fayetteville signed a 30-year agreement with the Houston Astros to bring a minor league baseball team to downtown. The city has budgeted $33 million dollars to construct a ballpark capable of having concerts and other public events when games are not being held.[40] These two projects alone represent $68 million dollars in construction opportunities in a city with 6,377 firms owned by people of color.[41] In November 2016, voters statewide chose in favor of the Connect NC bond which allows the state to issue $2 billion dollars for the economic development and infrastructure projects in 76 counties. The funding for the bond issue was earmarked as $980 million in funding for various building renovations and construction at several University of North Carolina campuses, $350 million in funding for construction, repairs and renovations at various North Carolina community colleges, $312 million for local parks and infrastructure,

$70 million for readiness centers for the National Guard, $179 million for two agriculture projects at NC State University and the Department of Agriculture and Consumer Services, $100 million for state parks and attractions, and $8 million dollars for the Samarcand Training Academy in Moore County.[42]

"Lakeview business" - Photo credit: Donald Lee Pardue

These projects will make a substantial target for well-positioned HUBs. While not a welcomed opportunity, recovery funding from Hurricane Matthew could also represent a chance for HUBs to rebuild the communities in Eastern North Carolina sustainably.

Technology and the ease and speed of communication are game changers. Rejection from social networks in the industry has been a common refrain among disadvantaged business enterprises. As a result, procurement opportunities were simply unknown to underutilized firm contractors. However, as the internet and the push for government transparency has taken hold, public entities now regularly publish requests for proposals (RFPs) and bids on their websites. This makes it much easier for the dissemination of information—and opportunity—to flow equitably. To maximize this step, public entities should advertise public contracts from all public institutions prominently in newspapers and other venues.

Finally, advocacy groups should develop an engagement strategy to work with the North Carolina HUB office in support of DBEs. Contact from prospective HUBs could encourage the HUB Office to simplify the certification process, as owners are discouraged by the arduous process for which there is no guarantee for return on investment. Supporting entrepreneurship training in the public schools, providing small business support, and connecting entrepreneurs to affordable capital are ways to mobilize and grow the HUB community. Providing spaces for networking between business owners and local government institutions to actively recruit Historically Underutilized Businesses for opportunities with local government will create and sustain more levers of opportunity.

ENDNOTES

1. Rasheed, Howard S. "Capital access barriers to government procurement performance: Moderating effects of ethnicity, gender and education." *Journal of Developmental Entrepreneurship* 9.2 (2004): 109.
2. Coleman, Susan. "Is there a liquidity crisis for small, black-owned firms?" J*ournal of Developmental Entrepreneurship* 10.01 (2005): 29-47.
3. Shelton, Lois M. "Fighting an Uphill Battle: Expansion Barriers, Intra-Industry Social Stratification, and Minority Firm Growth." *Entrepreneurship Theory and Practice* 34.2 (2010): 379-398.
4. Office of Historically Underutilized Businesses. "HUB Reports." *North Carolina Department of Administration*. N.p., Apr. 2017. Web. 15 June 2017.
5. The term "minority" is being used in this context to describe firms owned by people of color and women to remain consistent with the literature cited.
6. Fairlie, Robert W., Alicia M. Robb, and David Hinson. "Disparities in Capital Access between Minority and Non-Minority-Owned Businesses." (2010).
7. Ibid.
8. Ibid.
9. U.S. Census Bureau, 2012 Survey of Business Owners
10. Ibid.
11. Feagin, Joe R., and Nikitah Imani. "Racial barriers to African American entrepreneurship: An exploratory study." Social Problems 41.4 (1994): 562-584.
12. Shelton, Lois M. "Fighting an Uphill Battle: Expansion Barriers, Intra-Industry Social Stratification, and Minority Firm Growth." *Entrepreneurship Theory and Practice* 34.2 (2010): 379-398.
13. Ibid.
14. Ibid.
15. U.S. Census Bureau, 2012 Economic Census: Survey of Business Owners
16. Charlotte Chamber of Commerce. *Ethnic Minority and Women Owned Businesses in the Greater Charlotte Region*. Charlotte Chamber of Commerce, Charlotte , NC, 2012, Ethnic Minority and Women Owned Businesses in the Greater Charlotte Region, charlottechamber.com/clientuploads/Diversity/Minority_project_2012.pdf.
17. Ibid.
18. Ibid.
19. US Census Bureau, 2012 Economic Census; Survey of Business Owners
20. U.S. Department of Commerce, 1997 The State of Minority Business in the State of North Carolina
21. U.S. Census Bureau, 2012 Economic Census: Survey of Business Owners
22. Ibid.
23. U.S. Census Bureau, 2015 American Community Survey
24. Austin, Algernon. "The Color of Entrepreneurship: Why the Racial Gap Among Firms Costs the US Billions." Center for Global Policy Solutions. 20 April 2016. Web Jun 2017. http://globalpolicysolutions.org/report/color-entrepreneurship-racial-gap-among-firms-costs-u-s-billions/
25. Fairlie, Robert W., Alicia M. Robb, and David Hinson. "Disparities in Capital Access between Minority and Non-

Minority-Owned Businesses." (2010).

26. Ibid.

27. Office of Civil Rights. "Disadvantaged Business Enterprise (DBE) Program." |. United States Department of Transportation, 05 Feb. 2015. Web. 13 June 2017.

28. Ibid.

29. This definition includes businesses that are 51 percent owned by women, people of color, socially and economically disadvantaged persons and disabled citizens.

30. "About HUB." North Carolina Department of Administration. N.p., n.d. Web. 30 Jun. 2017 https://ncadmin.nc.gov/businesses/hub/about-hub.

31. Ibid.

32. The term "minority" is being used in this context to describe firms owned by people of color and women to remain consistent with the literature cited.

33. Office for Historically Underutilized Businesses. "Search for Vendor Information." *Search for Vendor Information*. State of North Carolina, Jan. 2017. Web. 15 June 2017.

34. North Carolina Department of Transportation. Office of Civil Rights. *Disparity Study, 2014*. By Colette Holt and Associates. Raleigh: n.p., 2014. Print.

35. Office of Historically Underutilized Businesses. "HUB Reports." *North Carolina Department of Administration*. N.p., Apr. 2017. Web. 15 June 2017.

36. Coleman, Susan. "Is there a liquidity crisis for small, black-owned firms?." *Journal of Developmental Entrepreneurship* 10.01 (2005): 29-47.

37. Carolina Small Business Development Fund. "Small Business and Access to Capital in North Carolina." Jan. 2017.

38. G.S. 143-128.2(e); N.C. Admin. Code (hereinafter N.C.A.C.) tit. 1, ch. 301, § .0306(a).

39. Corporate Communications. "Parks and Recreation Capital Projects." *Fayetteville, NC : Parks and Recreation Capital Projects*, City of Fayetteville, 13 Mar. 2017, fayettevillenc.gov/government/city-departments/parks-and-recreation/2016-parks-recreation-bond-referendum/bond-package-projects-copy. Accessed 6 July 2017.

40. Corporate Communications. "Minor League Baseball Stadium Project." *Fayetteville, NC : Minor League Baseball Stadium Project*, City of Fayetteville , 16 Jan. 2017, fayettevillenc.gov/government/city-departments/corporate-communications/minor-league-baseball-stadium-study#ad-image-8. Accessed 6 July 2017.

41. U.S. Census Bureau. "Quick Facts.", 2016

42. Charlotte Chamber, "October 5, 2015 Legislative Update," October 5, 2015

north carolina
JUSTICE CENTER

www.ncjustice.org

contact@ncjustice.org

Phone: (919) 856-2570
Fax: (919) 856-2175

Physical Address: 224 S. Dawson Street
Raleigh, NC 27601

Mailing Address: PO Box 28068
Raleigh, NC 27611

MEDIA CONTACT:

William Munn, Ph.D.
919/856-2234
will@ncjustice.org