

# Building A Stronger Regional Economy Through Minority Business Development<sup>®</sup>



THE CHICAGO UNITED **FIVE FORWARD** INITIATIVE  
NOVEMBER, 2007

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# Letter from the Chairman

Dear Members, Stakeholders and Friends:

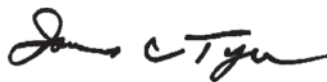
As Chairman of the Chicago United Econometric Task Force, I am pleased to present this report, which serves as our vision for the future of the economic health and competitive sustainability of the Chicago region. For the past two years, it has been the goal of Chicago United and members of the Task Force to develop an insightful and action-oriented growth strategy for the region's economy.

The Five Forward Initiative presents an opportunity for mid- to large-sized corporations in the Chicago Metropolitan Area to partner with minority business enterprises (MBEs) in a unique way. The Initiative will help foster systemic change and organic growth within this business segment. Rather than reinventing the wheel, we will thoughtfully build on the foundation of existing processes and relationships to the benefit of all stakeholders.

A thriving business community is essential to the success of all regional economies. And, in a highly competitive business environment minority businesses play a significant role in fueling the economic vibrancy of communities of color. Moving five forward will spark innovation, competition and help expand the multiracial talent pipeline.

Chicago United has advocated for parity and inclusion for almost four decades and has achieved many milestones. We can reach the next milestone with your support.

Sincerely,

A handwritten signature in black ink, appearing to read "James C. Tyree". The signature is fluid and cursive, with the first name "James" being the most prominent.

James C. Tyree  
Chairman and Chief Executive Officer, Mesirow Financial  
Chairman, Chicago United Econometric Task Force

# Acknowledgment

We gratefully acknowledge the support and leadership of the Econometric Model Task Force Chairman, James C. Tyree, and all of the members of the Task Force: Norm Bobins, retired chairman, LaSalle Bank; Todd Brown, vice chair, ShoreBank; Jeremiah Boyle, community affairs program director; Federal Reserve Bank of Chicago, William Osborn, chairman and CEO; The Northern Trust, Sandra Rand, director, supplier diversity, United Airlines; Hipolito Roldan, president, Hispanic Housing Development Corporation; Timothy Schwertferger, chairman of the board, Nuveen Investments; John D. Sterling, CEO, Synch-Solutions; Arthur Velasquez, chairman, Azteca Foods, Inc.; and Joset B. Wright, senior director – institutional advancement, Orchard Village. We also express our sincere gratitude to the members of Chicago United for their leadership in promoting diversity and inclusion thereby enriching the economic fabric of the Chicago region.

Chicago United also appreciates the partnership with the University of Illinois' Center for Urban Economic Development. Nik Theodore, the Center's director and his research staff, Kimary Lee and Marc Douss, conducted the data synthesis and the impact analysis provided in this report. The Center's leadership and unique perspectives of the minority business community have added tremendous value to this report. Further, we owe a debt of gratitude to Ralph Moore, president, RGMA; Wayne Watson, chancellor, City Colleges of Chicago; Todd Brown, vice chairman, ShoreBank; Doug Whitley, executive director, Illinois Chamber of Commerce; David Weinstein, president, Chicagoland Entrepreneurial Center; and Stephanie Lenway, dean, University of Illinois Chicago Graduate School of Business, who participated at a critical juncture with thoughtful insight.

Finally, we acknowledge the work of our lead diversity consultant, Judy C. Mathews, president, Community Interface, for her expertise and for her commitment to defining the value of business diversity as a strategic imperative of diversity, Maye Foster-Thompson, principal, Thompson & Associates, for her wisdom and depth of experience in minority business development, and Colette Holt, principal, Colette Holt & Associates, one of the most renowned experts on disparity studies, for helping us bring this phase of the project to completion.

We see this initiative as part of the Chicago United continuum of advocacy in support of Chicago's minority business community. We encourage continued utilization of Chicago United's Professional Service Model incorporating focus on locally based minority professional service firms.

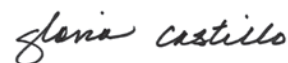
Sincerely,



Michael W. Lewis  
Executive Vice President, Central District Executive  
Harris

Chairman, Chicago United

Sincerely,



Gloria Castillo  
President  
Chicago United

# Executive Summary

This report was commissioned by Chicago United (CU) in 2006 to estimate the economic impact of Chicago Metropolitan Area corporations' spending with local minority business enterprises (MBEs). The end result of the study was the development of the *Five Forward* Initiative, a strategic initiative designed to build a stronger regional economy and build minority businesses of scale. The initiative will enlist the commitment of CEOs of mid- to large-sized corporations in the Chicago Metropolitan Area to establish or expand business relationships with five current and/or new local minority firms.

Minority firms are 19.74% of all firms, but receive only 2.6% of all sales and receipts. This alarming statistic prompted the need to develop a focused, growth-oriented strategy to reduce disparities and support growth and inclusion. In addition to advancing key relationships, the *Five Forward* Initiative will seek to gather empirical data to measure the impact on the local economy when spending with MBEs by committed corporations is increased.

To begin identifying the potential economic benefits of our initiative, Chicago United collaborated with the Center for Urban Economic Development of the University of Illinois at Chicago (UIC) to prepare a report estimating the economic impact of direct corporate spending with the minority business sector in the Chicago Metropolitan Area. We focused on the Chicago Metropolitan Statistical Area (MSA) (the Counties of Cook, DuPage, Kane, Lake, McHenry, and Will) for both research and policy reasons.

The CU/UIC project had two primary components: (1) a survey of larger Chicago firms regarding their spending with minority business enterprises; and (2) an economic impact analysis that estimated the regional impacts of corporate spending with minority business enterprises. The survey responses from major corporations in the Chicago area were not sufficient to accurately model the economic impacts of corporate spending with MBEs in the region. We proceeded with a pilot-type study that suggests the likely impact of corporate spending with MBEs, in order to help corporate decision-makers and others understand the economic impact of corporate spending with firms located in the region. To measure the full economic impact, further research on a larger pool of firms is needed.

The survey results were illuminating in that most companies either did not respond or were unable to provide complete responses. This suggested that large corporations, who are concerned about regional economic health, need to focus upon the geographic impact of their purchasing commitments to MBEs. The traditional focus on MBE utilization without regard to the location of those firms, is not enough to support a vibrant economy for the Chicago area.

Exelon/ComEd recognizes the value of local minority firms and has a long history of supporting minority business development in the Chicago region. Its commitment to buy from locally-based MBEs has largely attributed to Exelon's increased diversity-focused spend by \$64 million to \$253 million. Senior Executives John Rowe, Frank Clark and John Hooker have spoken often and clearly on the significant role that the company's Diverse Business Enablement program successes have played in positioning Exelon favorably as a "positive economic return" agent when discussing energy costs at the State Capitol. Additionally, diversity forward initiatives have registered well with Wall Street analysts as indicated by the high scores awarded Exelon in the sustainability and social responsibility indexes included in the Dow Jones rating.

Using the contents of this report as a framework, we developed the following recommendations to support the growth of local MBEs and building a stronger regional economy:

- Gain commitment from CEOs of mid- to large-sized corporations with major footprints in the region to implement the *Five Forward* Initiative
- Each corporation will measure *Five Forward* progress for years one through five
- Each corporation will create and/or maintain a formal business diversity program that emphasizes spending within the Chicagoland area
- Each corporation will collect and report to CU detailed spending data, including the location, race, gender, industry and dollar amounts spent with all vendors, and specifically the selected *Five Forward* vendors

In the remaining pages of this document the full report of our analysis and recommendations can be found. The goal of Chicago United is to assist key decision makers and influencers in implementing inclusive solutions addressing the under-utilization of available minority business enterprises.

Chicago United is an advocacy organization that seeks to enrich the economic fabric of the Chicago region. To register your corporation with the *Five Forward* Initiative, contact Chicago United at 312.977.3060.

# Introduction

This report was commissioned by Chicago United (CU) in 2006 to estimate the economic impact of Chicago Metropolitan Area corporations' spending with local minority business enterprises (MBEs). Based on the preliminary findings of this report, CU seeks to mobilize the corporate community to support the *Five Forward* Initiative.

**According to 2002 Census data, minority firms comprise 19.74% of all firms, but receive only 2.6% of sales and receipts.**

The *Five Forward* Initiative is a strategic business development approach designed to build a stronger regional economy and develop minority businesses of scale. The initiative will enlist the commitment of CEOs of mid- to large-sized corporations in the Chicago Metropolitan Area to establish or expand business relationships with five current and/or new local minority firms.

## Exhibit 1

### THE CHICAGO UNITED FIVE FORWARD INITIATIVE FIVE-STEP PROCESS

- Step 1: Chief Executive Officer meets with Chief Diversity Officer to develop strategy to integrate *Five Forward* Initiative into current business diversity practices.
- Step 2: Senior management conducts an analysis of local minority firms, in all spending categories, that are currently servicing your organization and/or new high-potential firms.
- Step 3: Senior management identifies strategic business opportunities and align opportunities based on organizational objectives and MBE core competencies.
- Step 4: Senior management develops metrics to measure firms' performance year one through year five.
- Step 5: Senior management measures performance annually.

According to 2002 Census data, minority firms comprise 19.74% of all firms, but receive only 2.6% of sales and receipts. This alarming statistic prompted the need to develop a focused, growth-oriented strategy to reduce disparities and support growth and inclusion. Initially the *Five Forward* Initiative will focus on advancing key relationships among corporations and minority businesses, and subsequently seek to gather empirical data to answer the following questions:

- What is the relationship between the growth of MBEs and the health of the regional economy?
- What are the economic benefits to large companies of doing business with local minority business enterprises (MBEs)?
- Are corporations utilizing the right resources and tools to quantify such effects and benefits?

By committing to the *Five Forward* Initiative, the leadership among local corporations will set a precedent in partnering with local minority firms whom are equally invested in the region. Further, they will receive the value of innovation from local MBEs while supporting a community whose strength will help fuel the local economy.

Urban areas around the country are attempting to identify creative approaches to ensure sound regional economies. The Chicago area is one of the most culturally and ethnically diverse communities in America, and presents a tremendous opportunity to cultivate and grow a diverse community of talented business leaders. Corporate spending with Chicago area MBEs generates economic output and jobs within the region. In addition to the direct impacts, this spending leads to successive rounds of spending by businesses, proprietors, and employees.

To begin identifying the potential economic benefits of our hypothesis, Chicago United collaborated with the Center for Urban Economic Development of the University of Illinois at Chicago (UIC) to prepare a report estimating the economic impacts of direct corporate spending with the minority business sector in the Chicago Metropolitan Area. We focused on the Chicago Metropolitan Statistical Area (MSA) (the Counties of Cook, DuPage, Kane, Lake, McHenry, and Will) for both research and policy reasons.

First, the Census Bureau organizes its business data by MSA, so we used that unit as our demographic basis. Further, the economic well-being of Chicago-Cook County is based on its interdependence with the surrounding collar Counties. According to a University of Illinois at Champaign-Urbana (UIUC) study, entitled *Creating and Expanding Trade Partnerships*

**Policymakers are increasingly recognizing that maldistribution of resources and opportunities and an ill-prepared workforce are barriers to a thriving, competitive regional economy.**

*in the Chicago Region Phase II: Economic Interaction within the Chicago Metropolitan Region*, interdependence is the defining characteristic of regional economic development.<sup>i</sup> This is especially true when considering the effects on local communities of color. According to the article *The Business of Color: Strengthening the Regional Economy*, written by Roger A. Clay, Jr., president of the National Economic Development &

Law Center, there is a growing consensus that a region's economic development is tied to the economic well-being of the region's cities and neighborhoods. Policymakers are increasingly recognizing that maldistribution of resources and opportunities and an ill-prepared workforce are barriers to a thriving, competitive regional economy.<sup>ii</sup>

Minority businesses are an important element in strengthening regional economies. To support this hypothesis, the following section contains a discussion on the survey methodology and an illustration of our findings.

## Survey Methodology And Results

### METHODOLOGY

The CU/UIC project had two primary components: (1) a survey of larger Chicago firms regarding their spending with minority business enterprises; and (2) an economic impact analysis that estimates the regional impacts of corporate spending with minority business enterprises. Through the survey it was not possible to generate a sufficient number of responses from major corporations in the Chicago area that would allow us to accurately model the economic impacts of corporate spending with MBEs in the region. We proceeded with a pilot-type study that suggests the likely impact of corporate spending with MBEs, in order to help corporate decision-makers and others understand the economic impact of corporate spending with firms located in the region.

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The survey requested purchasing data in four categories: total amount spent with outside vendors; national amount spent with MBEs; local amount spent with MBEs; and amount spent by industry category with MBEs. UIC then analyzed the responses using the IMPLAN Software System.

IMPLAN is a widely used economic impact assessment software system that allows for the development of local level input-output models, which can estimate the economic impact of various initiatives (e.g., the impact of new firms moving into an area). Moreover, it allows the estimation of the multiplier effects of changes in final demand for one industry on all

other industries within a local economic area. Multipliers may be estimated for a single county, for groups of contiguous counties, or for an entire state; they measure total changes in output, income, employment, or value added. Definitions are provided below.

For a particular producing industry, multipliers estimate three components of total change within the local area:

- *Direct effects* represent the initial change in the industry in question
- *Indirect effects* are changes in inter-industry transactions as supplying industries respond to increased demands from the directly affected industries.
- *Induced effects* reflect changes in local spending that result from income changes in the directly and indirectly affected industry sectors.

For purposes of this study, the IMPLAN system served three functions: 1) data retrieval; 2) data reduction and model development; and 3) impact analysis. The results are presented below.<sup>iii</sup>

## SURVEY RESULTS

Aggregated survey totals were used as a measure of “final demand” for modeling purposes. Spending categories from the survey were then matched to three-digit, aggregated NAICS codes provided by IMPLAN and inflation adjusted from 2006\$ to 2003\$ (the year in which the IMPLAN matrix was derived). Using IMPLAN, “Type I” (added spending) and “Induced” multipliers were calculated for each industry. Then, the following calculations were made:

- Direct impact was estimated as the change in final demand represented by the various types of supplier spending
- Indirect impacts were estimated as: (Direct Impact \* Type I Multiplier) - Direct Impact
- Induced impacts were estimated as: (Direct Impact \* Induced Multiplier)
- Total impact was estimated as: Direct Impact + Indirect Impact + Induced Impact

Total impact was then inflation adjusted back to 2006 dollars. Employment impact was calculated by multiplying economic output by (employment/output) for each industry, then summing across industries.

**Approximately \$228 million in spending is responsible for a total estimated impact of roughly \$425 million in 2006. The indirect and induced impacts associated with this direct spending reflect economic activity generated as direct spending circulates within the regional economy.**

During fiscal year 2005, respondents made direct purchases with MBEs in the Chicago Metropolitan Area totaling \$227,552,561. Of this spending, approximately \$51 million was for professional services, \$43 million was for functional services (e.g., facilities management services, printing and copying, temporary staffing), \$33 million was for construction trades work, and \$22 million was for manufactured goods (e.g., electronic components, fabricated metals). Lower spending levels were recorded in other industries.<sup>iv</sup>

Applying the UIC model, approximately \$228 million in spending is responsible for a total estimated impact of roughly \$425 million in 2006 (Table 1). The indirect and induced impacts associated with this direct spending reflect economic activity generated as direct spending circulates within the regional economy. Because MBEs are more likely to hire African Americans and Latinos, as well as contract with other MBEs, it is generally understood that spending with MBEs and its associated “multiplier effects” disproportionately benefit minority communities, as compared to spending with majority-owned firms.

Research conducted by Wayne State University Professor Timothy Bates shows that the average white-owned firm located in a predominantly minority community employs a work force that is 35 percent minority. In contrast, a minority-owned firm in a minority community will employ a work force that is more than 85 percent minority.<sup>v</sup>

**Table 1: Direct, Indirect, Induced, and Total Impacts**

<b>ECONOMIC OUTPUT</b>			
Direct Impact	Indirect Impact	Induced Impact	Total Impact
\$227,552,561	\$86,940,938	\$110,403,018	\$424,896,517

Spending with MBEs also generates jobs within these firms as well as the employment created as this spending circulates within the regional economy. It is estimated that direct spending by the 14 surveyed corporations generated 2,143 jobs in local MBEs, as well as an additional 1,860 jobs through successive rounds of economic activity (Table 2). Therefore, total regional employment associated with this spending is approximately 4,000 jobs.

**It is estimated that direct spending by the 14 surveyed corporations generated 2,143 jobs in local MBEs, as well as an additional 1,860 jobs through successive rounds of economic activity.**

**MBE INNOVATION AND GROWTH ATTRACT TOP TALENT**

**Robert Blackwell**  
**President, Blackwell Consulting**

Robert Blackwell established Blackwell Consulting in 1992 as an information technology firm that does technology consulting in application, network and infrastructure development. Blackwell is the largest African American information technology firm in Chicago and one of the largest in the nation – ranking number 83 on Black Enterprise’s Top 100 list with more than \$40 million in sales. Blackwell said, “We have more than two-hundred employees that represent diverse ethnicities and backgrounds. Using the Black Data Processors Association’s criteria, Blackwell ranks, proportionately, with the nation’s largest corporations as one of the ‘best places to work’ for diverse people.”

“The answer to diverse firms winning corporate business is and always will be *relationships*,” said the former IBM executive. Blackwell continued, “We are a strategic supplier in digital marketing for Kraft. We work with Kraft, State Farm and other multi-national corporations because they gave us a *chance to compete*. We did well for them and built up the business over the years. Getting the job done is key to building quality business relationships.”

**Table 2: Employment Change**

<b>EMPLOYMENT CHANGE</b>			
Direct Impact	Indirect Impact	Induced Impact	Total Impact
2,143	747	1,113	4,003

We now consider the economic impact of potential increases in corporate spending with the local minority business sector. In this section, we model two scenarios: (1) an annual 10 percent increase in corporate spending with MBEs over five years, and (2) a doubling of corporate spending with MBEs.

The purpose of modeling these scenarios is to develop a better grasp of the potential economic development impacts of increased spending with the local minority business sector. Again, we restrict our analysis to the 14 firms that completed our spending survey.

Table 3 and Table 4 present the results of Scenario 1. A spending increase of 10 percent would result in annual spending of approximately \$333 million with local MBEs in year five. This, in turn, would result in an estimated \$622 million in economic output once indirect and induced impacts are accounted for. In terms of employment, approximately 3,183 jobs would be

generated by the direct spending with MBEs in year five, and an additional 2,723 jobs would be generated as direct spending circulates within the regional economy. Total employment associated with spending in year five is estimated to be 5,861 jobs.

**Table 3: Economic Impact of an Annual 10% Increase in Corporate Spending With MBEs**

10% Annual Increase	ECONOMIC OUTPUT			
	Direct Impact	Indirect Impact	Induced Impact	Total Impact
2007	\$227,552,561	\$86,940,938	\$110,403,018	\$424,896,517
2008	\$22,755,256	\$8,694,094	\$11,040,302	\$42,489,652
2009	\$25,030,782	\$9,563,503	\$12,144,332	\$46,738,617
2010	\$27,533,860	\$10,519,854	\$13,358,765	\$51,412,479
2011	\$30,287,246	\$11,571,839	\$14,694,642	\$56,553,726

Figures in 2006 dollars

**Table 4: Employment Impact of an Annual 10% Increase in Corporate Spending With MBEs**

10% Annual Increase	EMPLOYMENT CHANGE			
	Direct Impact	Indirect Impact	Induced Impact	Total Impact
2007	2143	747	1113	4003
2008	214	75	111	400
2009	236	82	122	440
2010	259	90	135	484
2011	285	99	148	533

### **MBE SUPPORTS DIVERSE NEIGHBORHOODS THROUGH JOB GROWTH AND PHILANTHROPY**

**James Cabrera**  
**President, UBM, Inc.**

UBM, Inc. epitomizes the contribution of diverse businesses to the economic development of Chicago communities through employment, business diversity and social responsibility. UBM began operations in 1979 as a small janitorial service firm with one employee and the firm’s owner, James Cabrera, a former corporate executive who founded his company on the premise that its service, cost and philanthropic support would parallel that of Fortune 500 corporations.

Today, UBM is a full-service building maintenance company with major customers that include many of Chicago’s leading utilities, manufacturers, banks, health care and transportation companies. “Our 1000 executive, managerial and service employees represent a cross-section of Chicago’s diverse neighborhoods where our customers are located,” said Cabrera. He continued, “The trickle down economic impact of UBM employees’ spending more than \$20 million a year in the Chicago Area is tremendous. When our employees get paid, they purchase goods and services from most of the major corporations that are our customers. Our philanthropic support of local non-profit organizations and the community as a whole is a vital part of UBM’s corporate culture.”

Table 5 and Table 6 present the results of Scenario 2. The doubling of spending by the respondents with MBEs would be approximately \$442 million. As this spending circulates within the regional economy, it would yield total economic output of approximately \$825 million in the Chicago metropolitan area. In terms of employment, approximately 4,029 jobs would be generated by the direct spending with MBEs, and an additional 3,497 jobs would be generated through indirect and induced spending. Total employment associated with the doubling of spending with local MBEs is estimated to be 7,526 jobs.

**Table 5: Economic Impact Associated with a Doubling of Corporate Spending With MBEs**

	ECONOMIC OUTPUT			
	Direct Impact	Indirect Impact	Induced Impact	Total Impact
Baseline	\$220,850,154	\$84,960,205	\$106,652,466	\$412,462,826
Double Spend	\$441,700,309	\$169,920,411	\$213,304,932	\$824,925,651

Figures in 2006 dollars

\*Totals may not add due to rounding.

**Table 6: Employment Impact Associated with a Doubling of Corporate Spending With MBEs**

	ECONOMIC OUTPUT			
	Direct Impact	Indirect Impact	Induced Impact	Total Impact
Baseline	2,015	706	1,043	3,763
Double Spend	4,029	1,412	2,085	7,526

\*Totals may not add due to rounding.

**Large corporations that are concerned about regional economic health need to focus upon the geographic impact of their purchasing commitments to MBEs. The traditional focus on MBE utilization, without regard to the location of those firms, is not enough to support a vibrant economy for the Chicago area.**

While these results are illuminating, it is also noteworthy that so many companies either did not respond to the survey or were unable to provide complete responses to its basic questions about procurement activities. This suggests that large corporations that are concerned about regional

economic health need to focus upon the geographic impact of their purchasing commitments to MBEs. The traditional focus on MBE utilization, without regard to the location of those firms, is not enough to support a vibrant economy for the Chicago area.

## The Impact of Leadership on Commerce

Over the years, Chicago policymakers, private and public, have played a vital role in shaping support and opportunities for MBEs. Chicago's distinguished history of promoting sustainable business diversity initiatives has spanned four decades, as Chicagoans led by example and created groundbreaking MBE initiatives and key legislative milestones. In the late 1960s, Chicago corporations launched the nation's minority business development effort with the establishment of Chicago United and the Chicago Business Opportunity Fair, the forerunner of the Chicago Minority Business Development Council, Inc. and the National Minority Supplier Development Council, Inc. (NMSDC). NMSDC's corporate membership is expected to report more than \$ 100 billion in procurement from minority-owned businesses nationwide.

## EXELON/COMED SENIOR EXECUTIVES CITE “POSITIVE ECONOMIC RETURN” OF DIVERSE BUSINESS ENABLEMENT

Exelon/ComEd Senior Executives John Rowe, Frank Clark and John Hooker have spoken often and clearly on the significant role that the company’s Diverse Business Enablement successes have played in positioning Exelon favorably as a “positive economic return” agent when discussing energy costs at the State Capitol. Additionally, diversity forward initiatives have registered well with Wall Street analysts as indicated by the high scores awarded Exelon in the sustainability and social responsibility indexes included in the Dow Jones rating. Diverse Business Enablement factors significantly for the index.

Designated the number one utility company in the United States by Forbes Magazine, Exelon’s commitment to running an efficient operation and commanding respect from within its industry extends to the supplier diversity community. Exelon/ComEd has been at the forefront of supplier diversity leadership for four decades. Workforce and supplier diversity are integral parts of its corporate culture.

In 2005, Exelon increased its diversity-focused spend by \$64 million to \$253 million. In 2006, the company reported another significant increase to \$341 million. This growth is largely attributable to Exelon’s efforts to build on its highly successful Procurement Diversity activities with two significant growth strategies: the “High Margin Strategy,” which has successfully provided opportunities for diverse professional services firms in such as areas as Investment Banking, Legal, Management Consulting, Engineering and Benefits Consulting and the “T2 Institute,” which improves the quality and quantity of Exelon’s Tier 2 (Subcontracting) Plan. These strategies are highly recommended for corporations with mature business diversity initiatives and are seeking innovative means to increase their numbers.

In 1985, the late Chicago Mayor Harold Washington issued an Executive Order requiring that 25% of all City spending be with MBEs and 5% with women-owned businesses (WBEs). Mayor Richard M. Daley’s reaffirmed this commitment in 1990 by sponsoring an ordinance to codify the MBE/WBE Program, and to meet the legal requirements imposed by the U.S. Supreme Court on affirmative action contracting programs in *City of Richmond v. J.A. Croson Co.*<sup>vi</sup> The ordinance continued the goals of 25% MBE and 5% WBE utilization, and established new remedies such as the Target Market Program, which set aside contracts for bidding solely by MBEs and WBEs. The construction portion of the 1990 ordinance was held to be insufficiently narrowly tailored by a federal court in 2003, and the City adopted a revised construction program to meet the court’s concerns in 2004.

Other Chicago organizations and leaders within the private- and public-sector were key influencers and advocates for public policy measures and procurement initiatives. In 1978, James H. Lowry, president of James H. Lowry & Associates, conducted the first primary research study entitled *Minority Business in the 80s*, for the U. S. Department of Commerce Minority Business Development Agency, which forecasted the impact of minority business on the U.S. economy. Subsequently, he conducted the consulting study that led to the issuance of Mayor Harold Washington’s Executive Order. Ralph G. Moore of RGMA was an early member of the Advisory Board of the State of Illinois’ Minority/Women Business Enterprise Program. The Cosmopolitan Chamber of Commerce’s historic Free School of Business provided business education courses for Chicago’s budding entrepreneurs for more than four decades.

**There are more than 156,000 Illinois minority-owned businesses in a variety of industry sectors and disciplines. The top five industry sectors include professional services, health care, scientific and technical services, retail trade and administrative.**

## **MBE PROMOTES REGIONAL ECONOMY THROUGH NATIONAL AND INTERNATIONAL REVENUE**

**Arthur Velasquez**

**Chairman, President and Chief Executive Officer, Azteca Foods**

Arthur Velasquez was one of ten Pilsen businessmen who launched Azteca Foods as Azteca Corn Products, a small manufacturer of tortillas and other Mexican American oriented food products, in 1970. Azteca began production in 1971 and, like many start up minority-owned businesses of that era, was undercapitalized and sold almost exclusively to Mexican restaurants in the Pilsen area.

Velasquez, who holds an MBA from the University of Chicago Graduate School of Business, said, "We were a group of young business guys with a goal of optimizing Latino purchasing power and creating jobs and economic development within our communities. In the early days, major retailers such as A&P, Certified, Jewel and National Tea helped us expand into the general market in the Midwest. Today, as a national brand, Azteca brings dollars into the Chicago MSA from every region of the country. We also bring foreign dollars to the Chicago region through an international joint venture in Spain."

Velasquez joined Chicago United in 1974. Through this affiliation with chief executives of leading Chicago corporations, he promotes educational and economic development opportunities for Chicagoans within the Metropolitan Chicago Area and nationally.

Said Velasquez, "Economic Development is when we retain and attract dollars to the community. My years of involvement in Chicago United gave me access to 'captains of industry' who made a critical impact on the growth and development of Azteca." Today, Azteca is family owned and employs 150 people primarily in the Chicago Area. What that means is that 150 families rely on Azteca to support their households, provide quality healthcare, and educate their children. Azteca's employees contribute to the tax base, the future employee base, and are consumers of the products and services Chicago United companies produce and sell.

While the regional economy has grown, MBEs grew even faster. From 1997 to 2002, MBEs increased at a rate of 35%, growing from 3 million in 1997 to over 4.1 million in 2002. MBEs' annual gross receipts also increased more than those of non-minority firms. Minority firms increased their overall annual gross receipts by 13%, from \$591 billion in 1997 to \$668 billion in 2002, compared to non-minority firms, whose annual gross receipts increased by 4%, from \$7.8 trillion in 1997 to \$8.1 trillion in 2002.<sup>vii</sup>

Further, over the last twenty years, minority businesses have vastly diversified. There are more than 156,000 Illinois minority-owned businesses in a variety of industry sectors and disciplines. The top five industry sectors include professional services, health care, scientific and technical services, retail trade and administrative.<sup>viii</sup>

## **MBE CAPITAL AND JOBS FOLLOW CUSTOMERS**

**Keith Hasty**

**President, Best Foam Fabricating**

Best Foam Fabricating is an example which best supports the need for Chicago United and other corporations to renew their commitments to local minority business enterprises. Established in Chicago in 1980 by Keith Hasty, the firm is a foam-fabricating, metal welding and metal can refurbishing company with plants in Chicago, Huntsville (Alabama), and Jefferson (Texas).

Despite the company's 28-year history in the inner-city of Chicago, it is relocating its Chicago operation to Huntsville and Jefferson. According to Hasty, "Chicago has been our home for 28 years, but, unfortunately, we have not been able to penetrate the Chicago market. We have no option but to go where our customers are.

The cities of Huntsville and Jefferson are giving us incentives such as facilities and tax incentives to bring jobs to those areas. Our relocation means a net loss of 180 jobs to Chicago and we regret that."

Despite the growth of minority firms, the actual share of receipts of minority firms went down over the same period. This suggests that although more people of color sought entrepreneurial opportunities, significant barriers remain to their full and fair inclusion in the region's business activities. This is further evidenced in the following illustration from the 2002 Census Bureau's Survey of Business Owners.

**These data confirm that regional minority firms continue to face major obstacles to economic parity. While MBEs made up 19.74% of the firms, they received only 2.6% of the sales and receipts.**

CHICAGO-NAPERVILLE-MICHIGAN CITY, IL-IN-WI COMBINED STATISTICAL AREA – ALL INDUSTRIES					
	All Firms	Sales & Receipts	Employer Firms	Sales & Receipts	General Population
All Firms	733,859	950,970,265	189,077	926,766,358	
Black	64,839	4,788,420	4,083	3,737,452	
Hispanic	38,766	6,660,968	6,184	5,676,368	
Asian	41,093	13,241,087	11,922	12,138,281	
American Indian and Alaskan Native	2,821	310,707	383	227,679	
Female	218,674	37,884,835	31,509	33,244,510	
<i>Percentage Availability and Market Share</i>					
All Firms					
Black	8.8%	0.5%	2.2%	0.4%	19.4%
Hispanic	5.3%	0.7%	3.3%	0.6%	17.1%
Asian	5.6%	1.4%	6.3%	1.3%	5.1%
American Indian and Alaskan Native	0.4%	0.0%	0.2%	0.0%	0.6%
Female	29.8%	4.0%	16.7%	3.6%	51.1%
<i>Disparity Ratio (1.00 = no disparity)</i>					
All Firms					
Black		0.06		0.19	
Hispanic		0.13		0.19	
Asian		0.25		0.21	
American Indian and Alaskan Native		0.08		0.12	
Female		0.13		0.22	

NOTES: All data are from the Census Bureau's 2002 Survey of Business Owners, except for the general population percentages, which are from the 2000 decennial census. The Combined Statistical Area includes the following counties: Cook, DeKalb, DuPage, Grundy, Kane, Kankakee, Kendall, McHenry, Will, and Lake (in Illinois); Lake, LaPorte, Newton, and Porter (in Indiana); and Kenosha (in Wisconsin). The general population figures refer to the Illinois counties of Cook, DeKalb, DuPage, Grundy, Kane, Kendall, Lake, McHenry and Will only.

These data confirm that regional minority firms continue to face major obstacles to economic parity. While MBEs made up 19.74% of the firms, they received only 2.6% of the sales and receipts. For firms with at least one employee, MBEs comprise 12% of the businesses but received only 2.3% of the sales and receipts. These disparities between MBE availability and their utilization in the economy continue despite the presence of aggressive government contracting affirmative action efforts for over two decades. This suggests that the proportion of MBEs' overall sales obtained from the private sector is negligible. More needs to be done.

Supporting full and fair inclusion and the growth of minority entrepreneurs are critical to the health of the regional economy. According to the National Commission on Entrepreneurship's *Creating Good Jobs in Your Community*, 98 percent of all businesses in the United States are small and medium-sized, and employ a majority of Americans. Entrepreneurial growth companies account for at least two-thirds of net new jobs in the American economy. Yet, in our desire to hit economic development "home runs," we have largely ignored the needs of these vital entrepreneurial ventures. These firms will drive the future of innovation and prosperity in nearly every American community, and, thus, should become the focus of our economic development efforts. Increasing the formation and earnings of local small firms owned by minorities will therefore have a significant effect on the regional economy.<sup>ix</sup>

In an effort to support a stronger regional economy, we have developed the following recommendations.

# Recommendations

There is an ongoing need to continue to advocate for and illustrate the importance of minority business to Chicago and other regional economies. The Report suggests the following key recommendations for our corporate partners:

- Task Force Chairman issue Call to Action to corporate community
- Gain commitment from CEOs of mid- to large-sized corporations with major footprints in the region to implement *Five Forward* Initiative
- Each corporation will measure *Five Forward* progress for years one through five
- Each corporation will create and/or maintain a formal business diversity program that emphasizes spending with Chicagoland area
- Each corporation will collect and report to CU detailed spending data, including the location, race, gender, industry and dollar amounts spent with all vendors

**These disparities between MBE availability and their utilization in the economy continue despite the presence of aggressive government contracting affirmative action efforts for over two decades. This suggests that the proportion of MBEs' overall sales obtained from the private sector is negligible.**

Chicago United will support the Initiative as follows:

- Issue an annual report of local mid- to large-sized corporations', and major stakeholders in the region, spending activities with local MBEs to illustrate local impact.
  - Update Chicago United's A Practical Guide to Starting and Improving a Minority Purchasing Program to assist corporations in moving beyond basic and intermediate business diversity initiatives to "world class" status.
- Conduct a broader survey of regional corporate spending with local MBEs.
  - Develop MBE availability and spending benchmarks to assess the progress of large corporations towards supporting regional economic development.

Chicago United is an advocacy organization that seeks to enrich the economic fabric of the Chicago region. To register for the *Five Forward* Initiative contact Chicago United at 312-977-3060.

## END NOTES

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- i *University of Illinois, Urbana, Prepared by R E A L, Creating and Expanding Trade Partnerships in the Chicago Region Phase II: Economic Interaction within the Chicago Metropolitan Region*
  - ii *Clay, Roger, "The Business of Color: Strengthening the Regional Economy." Focus, Joint Center for Political and Economic Studies, March/April 2007*
  - iii *Minnesota IMPLAN Group, Inc., IMPLAN Users Guide, 2006 MIG, Inc.*
  - iv *Spending data for the 14 responding companies included Total Direct Spend: \$64.5 billion (N=14); Total Direct Regional Spend: \$9.2 billion (N=9); Total Direct MBE Spend: \$ 1.1 billion (N=13); and Total Direct MBE Local Spend: \$ 221 million (N=14)*
  - v *Rogers, Steven, "Theory: Ownership, funding key to prosperity for minorities and women entrepreneurs." Kellogg World Alumni Magazine, Winter 2004*
  - vi *488 U. S. 469 (1989). Croson applied "strict constitutional scrutiny" to remedial race-based public contracting programs.*
  - vii *U. S. Department of Commerce Minority Business Development Agency, August 2006  
The State of Minority Business Enterprises – An Overview of the 2002 Survey of Business Owners, Number of Firms, Gross Receipts, and Paid Employees*
  - viii *U. S. Department of Commerce Minority Business Development Agency, August 2006  
The State of Minority Business Enterprises – An Overview of the 2002 Survey of Business Owners, Number of Firms, Gross Receipts, and Paid Employees*
  - ix *National Commission on Entrepreneurship, Entrepreneurship – A Candidate's Guide, Creating Good Jobs in Your Community, An Initiative of the Kauffman Center for Entrepreneurial Leadership at the Ewing Marion Kauffman Foundation, August 2002*



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