Tough times often even tougher on minority biz

By John Rosenthal
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In good economic times, it is said that a rising tide lifts all boats. But the opposite isn't necessarily true. In a down economy, some companies struggle more than others to stay afloat. For a variety of reasons, small and minority-owned businesses in particular often feel the pinch hardest. There isn't much hard economic data available to reflect the current recession, but this is what things look like to people in the trenches.

WEALTH MAKES HEALTH

One of the primary reasons businesses succeed or fail is access to capital. When lenders went practically overnight from handing out loans to anyone who could fog a mirror to hoarding their cash, many businesses had to come up with alternative sources of financing.

Traditionally, that has proven especially devastating to black-owned businesses, says Robert Fairlie, professor of economics at the University of California at Santa Cruz and author of "Race and Entrepreneurial Success: Black-, Asian-, and White-Owned Businesses in the United States."

His research found that median wealth for black families is $6,000, compared with $70,000 for white families. In other words, half of all black families in the U.S. have less than $6,000 in total assets, or less than one-tenth the wealth held by a typical white family.

"That makes it incredibly difficult for black business owners to weather a recession," Mr. Fairlie says. "A white business owner can tap into the equity of a home, draw down savings accounts, sell off a car, or borrow from friends and family." African-American business owners often don't have that luxury, he says.

Mr. Fairlie notes that Latino-owned businesses are struggling because of similar disparities in wealth, but businesses owned by Asians, whose median wealth is closer to that of white families, are not. He also says Asian-owned businesses tend to have higher levels of start-up capital than even white-owned ones, so they're less leveraged.

A LESS DIVERSE SUPPLY CHAIN?

Another reason minority-owned businesses are slowing is that the big corporations that hire them as suppliers have reduced their procurement budgets. Cutbacks across the board should nominally affect all links on the supply chain equally, but a few factors tend to disfavor minority suppliers even more than other firms.

In the past 40 years, many corporations have instituted supplier diversity programs to increase the amount of business they contract out to women- and minority-owned firms. In the current recession, however, anecdotal evidence suggests that some companies may be using hard times as an excuse to trim what they perceive as a drag on the bottom line.

Only a company completely oblivious to its reputation for corporate citizenship would explicitly admit to doing so, and observers aren't naming names. But "at those corporations for which diversity is just a program, rather than a part of their DNA, you are indeed seeing cutbacks," says Gloria Castillo, president of Chicago United, an organization that advocates for multiracial leadership in business.

"Whenever there are difficult times, the first thing you cut are expenses, and most diversity programs are seen as an expense," adds Eric Dobyne, Midwestern regional director of the Washington, D.C.-based Minority Business Development Agency. He declines to name specific companies.

Roberto Cornelio, center, with Olga Camargo and Kevin Greer at an Illinois Hispanic Chamber of Commerce meeting.

STEPHEN J. SERIO

Other observers point to subtle strategies such as leaving staff positions unfilled or quietly lowering the goals for the percentage of the budget spent with diverse suppliers. Another stealth tactic, says Ralph Moore, president of Ralph G. Moore Associates, a Chicago-based diversity consulting firm, is to "fire six-figure supplier diversity professionals and replace them with people making one-third their salary."

SMALLER PIE, BIGGER SLICE OF HURT

Some seemingly neutral business decisions by large corporations have also had a disproportionate effect on diversity because of the spheres in which so many minority businesses operate. For example, some corporations have realized cost savings by streamlining their supply chains. Because minority-owned businesses tend to be small, they're the ones that get squeezed out by supplier consolidation. "Shrinking the supply chain represents a stark challenge to those of us that are trying to promote inclusion," says Emmett Vaughn, supplier diversity manager for Chicago-based Exelon Corp.

Another impact on diversity has to do with the industries the downturn has hit hardest. "Some of the largest minority suppliers were automotive," says Harriet Michel, president and CEO of the National Minority Supplier Development Council. Even though the Big Three automakers have excellent diversity supplier programs, the overall pie of contracts has shrunk, she notes.

Minority businesses also tend to be overrepresented in industries such as advertising, marketing and other "soft" costs that are among the first to be excised during hard times, notes Roberto Cornelio, chief operating officer of the Illinois Hispanic Chamber of Commerce. "Hard costs — the vital functions of a corporation — can't be cut. Unfortunately, there's minimal participation by minority-owned firms in hard costs like manufacturing and high-level technical or technological services."

OPPORTUNITIES REMAIN

In at least one case, however, corporate cutbacks have created a silver lining for minority-owned businesses.

Stephen Pugh, president of Chicago law firm Pugh Jones Johnson & Quandt P.C., says, "There are at least three major corporations that were not interested in us two years ago but are now giving us a more serious look. They realize you can get excellent legal services from firms other than the largest firms out there."