

# 21<sup>ST</sup> CENTURY CITIES INITIATIVE

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## Private Sector Efforts to Support Economic Inclusion in Cities

By Ben Seigel and Camila Montejo-Poll

### Background

The 21st Century Cities Initiative (21CC) at Johns Hopkins University supports a vision of cities as hubs of innovation, diversity, and opportunity. For cities to achieve this ideal, they must first confront and overcome a long-standing, stubborn obstacle: the racial wealth gap.

According to the National Asset Scorecard for Communities of Color (NASCC), the median household wealth, defined as net worth of savings and assets, of black Americans is well below that of white Americans across U.S. cities. The NASCC, which uses in-depth surveying to analyze wealth, assets, and debt attributes of groups in cities by race and national origin, has produced scorecards for five cities to date: Boston, Los Angeles, Miami, Tulsa, and Washington, D.C. In Los Angeles, median black household wealth is \$4,000 compared to \$355,000 for white households. In Boston, median black household wealth is just \$8 compared to \$251,000 for white households. The gap is somewhat less pronounced in the smallest city studied, Tulsa, where black household wealth is \$8,000 compared to \$145,000 for white households.<sup>1</sup> (Cook Center)

Closing the racial wealth gap in cities is not an easy task. Ultimately, public policy

must lead the way in reversing the effects of decades-long discriminatory policies and practices that have had detrimental impacts on African-American communities. But there is also an important role for private sector leadership in closing the gap. Corporations and employers can drive economic inclusion through policies and practices around hiring, contracting, and procurement that open up opportunities to people of color, strengthen urban communities, and bolster company bottom lines.

These and related issues were explored in May 2017 by a panel of academic, nonprofit, and private sector leaders from Baltimore, Chicago, New York, and Washington, D.C. who were convened by Johns Hopkins University and 21CC. The panel explored inherent challenges, as well as promising practices and specific recommendations for corporations seeking to expand economic inclusion in cities.<sup>2</sup>

### The Private Sector and Economic Inclusion

In recent years, large companies and organizations, including many that serve as economic anchors in urban communities and whose brand is associated with a particular city, have



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*The 21st Century Cities Initiative held a May 2017 forum exploring the private sector's role in proactively expanding economic opportunity and closing the racial wealth gap in cities. This policy brief outlines some of the topics and recommendations explored at the forum.*

sought ways to play a more deliberate role in creating and sustaining inclusive local economies. There has also been increasing pressure on the private sector from external forces to be more active in economic inclusion efforts, especially when companies benefit from local tax, infrastructure, and regulatory policies that facilitate their growth. Internally, companies are becoming more aware of their surrounding communities beyond their corporate social responsibility or community affairs offices and are recognizing that when the community does well, the business does well.

In Baltimore, for example, Johns Hopkins University and Health System launched HopkinsLocal in 2015. This initiative leverages the institutions' economic power as Baltimore's largest employer to: a) increase hiring of city residents, with a focus on high-unemployment neighborhoods; b) expand the participation of local and minority- and women-owned businesses (MWBEs) in construction opportunities; and c) enhance economic growth, employment, and investment in Baltimore through purchasing activities. In 2016, Hopkins teamed up with the utility Baltimore Gas & Electric to expand the initiative to 25 companies under the umbrella known as BLocal.

In Chicago, the University of Chicago's Office of Business Diversity has charted new territory by creating opportunities for MWBEs in professional services, such as accounting, finance, legal, and information technology. The office's professional services symposiums provide an opportunity for senior leaders at the university to network and build sustainable relationships with MWBEs. The forums have resulted in groundbreaking and innovative relationships for the university. For example, 15 MWBEs are currently managing the university's endowment investments.

Even industries that have long paid attention to MWBE participation are rethinking how to expand economic inclusion. In construction, for example, there is a growing movement around joint ventures, especially in the implementation of community benefits agreements with cities, where big construction firms, such as Whiting-Turner, enter into partnerships with smaller, typically MWBEs around mega-projects. When done correctly, these ventures open new business opportunities and mentoring relationships for minority firms and help large companies tap into specific markets or areas of expertise.

### Minority-Owned and Led Businesses Are Vital to Inclusive Economies

Research indicates that private-sector-led economic inclusion is most likely to take hold when people of color are in ownership or leadership positions within firms. Specifically, minority-owned companies, employers with people of color serving as hiring officers, and minority-owned banks all play a key role in driving inclusive economic growth.

MWBEs, and especially black-owned firms, are more likely to hire and promote people of color. A survey of small businesses from 28 metropolitan areas, showed that the black share of employment at black-owned firms is high both in predominantly minority areas and in non-minority areas, and is higher than that in white-owned firms. In a separate study, black-owned firms in Detroit's auto supply industry were shown to hire a greater percentage of black applicants than similar white-owned firms. (Stoll)

In addition to company ownership, human resources leadership also matters. A study of 3,000 firms in Atlanta,

Private sector economic inclusion efforts should specifically consider three approaches: 1) contracting with black-owned professional services firms, 2) making a concerted effort to employ African-American hiring officers, and 3) supporting or partnering with black-owned banks.

Boston, Detroit, and Los Angeles showed that employers with black hiring directors were more likely than those with white hiring directors to hire African-Americans, regardless of the race of business ownership. Across the four cities, firms with black hiring directors employed African-Americans at a rate of 37 percentage points greater than white hiring directors. (Stoll)

This research indicates that firms with black hiring directors tap into social and hiring networks in the African-American community and send a message that African-Americans can achieve success in visible positions at the firm. As a result, these companies attract more black applicants, hire a larger percentage of black applicants, and are less likely to discriminate against African-Americans in hiring and promotion.

Banks and other financial institutions also play a key role in supporting economic inclusion and closing the racial wealth gap by providing access to safe and affordable accounts, business loans, and mortgages to low-income communities of color. Historically, black-owned banks were the only option for African-Americans when redlining was rampant in the lending industry. To this day, black-owned banks are more likely to have a presence in and serve communities of color and less likely to discriminate based on race and borrowers' zip code.

For example, a recent study from the Federal Deposit Insurance Corporation showed that in 2011, median share of black owned-bank mortgages going to African-American borrowers was 67 percent, compared to less than 1 percent for community banks that were not black-owned. (FDIC Quarterly) Black-owned banks are also a critical source of capital for black-owned small businesses, which are more reliant on personal savings and personal credit cards than any other group of businesses.

## Good Intentions but Unintended Consequences and Limitations

As the private sector seeks to expand economic inclusion efforts that support minority-owned and led institutions, there are several unintended consequences and limitations to consider. First, MWBE contracting programs are typically limited to small businesses. While this is a worthy goal that supports entrepreneurship, it may also create disincentives for MWBEs to expand too much to the point that they become ineligible for these programs. By remaining under a certain size in order to maintain eligibility for MWBE programs, these firms are less capable of building greater wealth, hiring more people of color, and investing in their communities.

A second unintended consequence of MWBE programs is that they tend to focus solely on "blue-collar" or lower-value services, such as construction, custodial, or office support functions. This focus may encourage uneven growth of black-owned firms in these industries. For example, among the 150 businesses on Black Enterprise Magazine's top black-owned businesses from the last 10 years, more than 60 percent fall into the transportation and logistics, construction, food and beverage, or auto industries. (Black Enterprise)

The downside of this model is that it does not encourage the growth of black-owned firms in sectors of the economy where the most wealth is generated, namely finance, healthcare, and technology. Black-owned firms that disproportionately hire large numbers of African-Americans are especially important in these sectors that offer higher wages and the opportunity for black employees to

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accumulate wealth. For this reason, the University of Chicago's Office of Business Diversity's efforts to contract with black-owned professional services firms is especially groundbreaking and a model for other large corporations pursuing economic inclusion.

A key limitation in the private sector's investment in communities of color is that despite the important role of black-owned banks in expanding economic opportunity, the number of these banks has sharply decreased in recent years in the age of bank consolidations. Prior to the Great Recession, in 2007, there were only 41 banks in the U.S. with majority African-American ownership. Today, the number is just 23. With the disappearance of black-owned banks serving cities, there are even fewer sources providing needed capital to black entrepreneurs and business-owners. (Lee)

Finally, while the research on black-owned firms, black hiring officers, and black-owned banks is conclusive, it is also dated. The research referenced above on black-owned firms and black hiring directors is from the 1980s and 1990s. Updated research on employment practices based on the race of firm ownership and human resources leadership, especially in high-growth and high-wealth sectors and in the age of LinkedIn and modern job search and social networking techniques, would be a useful resource for informing private sector economic inclusion programs.

## How to Do Economic Inclusion: A Roadmap for the Private Sector

As corporations consider their own economic inclusion projects, such as increased contracting with MWBEs, enhanced efforts to recruit, hire, and promote people of color, or investments in minority entrepreneurs, here are three key principles to consider.

### 1. Be Intentional

Economic inclusion requires intentionality, starting at the top of the company, followed by widespread adoption across the organization. Companies need to make a concerted effort to overcome structural barriers to inclusion for minority job seekers, employees, and business partners. In many cases, this may require culture change within the organization, as well as a reorientation to how the company performs human resources functions, such as hiring, employee training, promotions, and benefits policies for different categories of workers; as well as how the company approaches its procurement, contracting, and other business-to-business functions. Companies may look to incorporate inclusion criteria into formal and written human resources, employee training, and procurement and contracting procedures. Finally, companies should consider training employees, especially key decision makers responsible for recruiting, hiring, promotions, and procurement, on why inclusion matters and on the specific inclusion policies and efforts that the company has put into place.

### 2. Set Targets and Measure Performance

In many cases, companies approach economic inclusion as an aspiration or corporate value, but fail to create a culture of accountability around inclusion by setting specific goals, establishing performance metrics, and tracking and reporting on progress. Companies may fear a public backlash to setting goals that are not met, or they may be hesitant to set goals that may not appear ambitious enough. Such concerns are rational, but without specific accountability measures in place, economic inclusion will remain

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## City Economic Inclusion Index

Are some cities better positioned than others to close the racial wealth gap through private-sector-led economic inclusion efforts? Based on the policy discussion at the May 2017 21st Century Cities Initiative forum on private-sector-led economic inclusion, cities that are well-positioned for economic inclusion would have the following characteristics:

1. Concentration of black-owned firms with paid employees that could hire African-Americans;
2. Large black-owned companies that could hire many individuals and invest in local black entrepreneurs and communities;
3. Black-owned community banks to invest in African-American neighborhoods; and
4. Relatively small differential in the unemployment rates between blacks and whites, indicating an atmosphere with less discrimination in hiring.

The table below presents information for these four indicators, ordered by the number of black-owned employer firms (as opposed to all firms, since only employer firms provide jobs to people other than the business owner). None of the cities on the list of 15 place in the top 5 for all four indicators. The cities that come closest are New York, Los Angeles, and Atlanta with top-5 rankings in three of the four indicators, followed by Washington, DC, with top-5 rankings in two of the four indicators. As a proxy for large companies, the table uses number of firms per metro area listed on the Black Enterprise Magazine Top 100 black-owned companies by revenue size.

CITY	# BLACK-OWNED FIRMS WITH PAID EMPLOYEES BY METRO AREA (1)	# TOP BLACK-OWNED COMPANIES BY METRO AREA (2)	BLACK-OWNED BANK BY CITY (3)	% POINT DIFFERENCE IN UNEMPLOYMENT RATE BETWEEN BLACK AND WHITE WORKERS BY CITY (4)
New York City	10,148	1	Carver Federal Savings **	7
Washington, DC	6,665	10	Industrial Bank*	14.4
Atlanta, GA	5,862	6	Citizens Trust Bank**	14.8
Miami, FL	5,041	0	Urban Partnership Bank*	11.8
Los Angeles, CA	4,832	4	Broadway Federal Bank*	7.3
Chicago, IL	4,134	6	Illinois Service Federal*	15.6
Houston, TX	3,411	3	Unity National Bank of Houston	8.5
Dallas, TX	2,896	4	None	7.9
Philadelphia, PA	2,512	2	United Bank of Philadelphia*	9.3
Baltimore, MD	2,388	2	Harbor Bank of Maryland	11.7
Detroit, MI	1,992	14	First Independence Bank*	10.9
Charlotte, NC	1,719	3	None*	8.6
San Francisco, CA	1,500	0	None	12.7
Tampa, FL	1,092	0	None	12.2
Boston, MA	996	0	OneUnited Bank	7.7
<b>United States</b>	<b>109,137</b>			<b>7.7</b>

\*City with branches of one black-owned bank not headquartered there

\*\*City with branches of two black-owned banks not headquartered there

Sources: (1) 2012 Survey of Small Business Owners, U.S. Census; (2) Black Enterprise Top 100 Lists 2007-16; (3) NerdWallet; (4) 2015 American Community Survey Employment Status, 2011-15 estimates

elusive. A necessary first step is creating a baseline of the company's current metrics relating to hiring, promotion, pay, procurement/contracting, and related measures. With a baseline established, the company can then set incremental percentage targets for improvement over time above the baseline.

As companies embark on intentional economic inclusion efforts, one strategy to consider is to initially focus on a specific area within human resources or procurement operations. For example, identify a specific position or positions within the firm for inclusion and set a two- or three-year target for the percentage of hires from specific zip codes or underrepresented minority groups in the firm. For companies that are federal contractors, they may already have pieces of this approach in place through affirmative action plans required by U.S. Department of Labor regulations overseen by the Office of Federal Contract Compliance Programs. With regards to procurement and contracting, consider a specific function where the company contracts with other firms for goods or services, especially professional services, and then set increasing targets over time around percentage of contracting dollars, or number of contracts, going to MWBEs.

While companies may want to keep goals and performance reports internal at the outset, they should commit to being open and transparent about their efforts by sharing their progress, including successes and challenges, with the public.

### 3. Establish Community Partnerships

In large part, private-sector-led economic inclusion relies on companies developing relationships with new groups of workers and businesses. To build such relationships, companies should seek to partner with "intermediary" organizations,

such as nonprofit service organizations, neighborhood associations, faith-based groups, and community groups that are familiar and respected entities in disadvantaged or excluded communities. These organizations can serve as a bridge between companies and the communities, people, and businesses the firms seek to reach. In addition, these groups can play an important role in partnering with companies and other organizations, such as job training providers, community development corporations, and foundations to implement workforce development or small business assistance initiatives.

Similar to the role played by black-owned businesses in supporting economic inclusion, there is an equally important role for organizations that are led by people of color and serve people of color. These organizations tend to be staffed by people from the community and are best positioned to support economic opportunity for groups that have been left behind. They can help companies to: a) build trust in communities, b) better understand the specific barriers and challenges that individuals and businesses in those communities face, and c) identify the direct and indirect private and public sector practices that can exacerbate the racial wealth gap.

In many cases, such partnerships will be new for companies and nonprofits and may require outside assistance to develop. Efforts like the new partnership between Prosperity Now (formerly CFED) and JPMorgan Chase to build the capacity of high impact nonprofits of color are important for developing relationships between nonprofits and companies interested in economic inclusion. The project, which is operating in Baltimore, Chicago, Miami, and New Orleans, helps nonprofits understand the key drivers of the racial wealth divide in

Private-sector-led economic inclusion relies on companies developing relationships with new groups of workers and businesses.

these cities and provides opportunities for organizations of color to build strong relationships within and across private- and public-sector networks. (Prosperity Now)

## Conclusion

Economic inclusion is increasingly viewed as a priority for 21st century cities that seek to be defined by diversity, innovation, and opportunity for all their residents. City halls and urban-focused organizations are making intentional efforts to consider racial equity and the racial wealth gap in their policies and programs. And, while public policy ultimately needs to drive large-scale movement for closing the racial wealth gap, the private sector must also play a leading role. Companies that build economic inclusion into their business models will have the greatest impact on expanding opportunities to groups that have historically been left behind, and will also see a benefit to their bottom lines as communities in the cities where they operate build more wealth and strengthen local purchasing power, expand the tax base, and pass on economic opportunities to the next generations.

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## Notes

<sup>1</sup>Data for black households is for multi-generational African-American households whose members were born in the U.S.

<sup>2</sup>The Forum was co-hosted by Johns Hopkins University and Baltimore Gas & Electric. The 21st Century Cities Initiative organized the forum panel. Panel participants included Diane Bell-McKoy, President and CEO, Associated Black Charities; Ronald J. Daniels, president, Johns Hopkins University; Darrick Hamilton, Associate Professor of Economics and Urban Policy & Director of Milano Doctoral Program, The New School; Anthony Moag, Chief Operating Officer, The Whiting-Turner Contracting Company; John W. Rogers, Jr., Chairman, CEO & Chief Investment Officer, Ariel Investments; Lillian Singh, Director, Racial Wealth Divide, Prosperity Now.

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The 21<sup>st</sup> Century Cities Initiative advances cross-disciplinary, applied research that examines urban policy and informs the future possibilities of cities as dynamic hubs of opportunity, inclusion and innovation.

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