NATIONAL MED WEEK 2003

Minority Business Enterprises (MBEs) in the Global Economy: The Business Case

★★ *Preliminary Study* ★★

Minority Enterprise Development Week 2003 MED W™

"Strategies for Growth in the American Economy, Part III: Pursuing the Global Economy"

National MED Week 2003 Conference
September 28-October 1, 2003

Omni Shoreham Hotel
Washington, D.C.

U.S. Department of Commerce
MBDA™
Minority Business Development Agency

GLOBALIZATION AND MINORITY-OWNED BUSINESSES IN THE UNITED STATES: ASSESSMENT AND PROSPECTS

Preliminary Study

John Owens and Robert Pazornik

Center for International Business
Tuck School of Business
Dartmouth College
Hanover, New Hampshire 03755
(603) 646-4047
Email: john.b.owens@Dartmouth.edu

Paper prepared for the conference "National Minority Enterprise Development (MED) Week 2003"
September 28-October 1, 2003

Sponsored by the Minority Business Development Agency
Washington, D.C

Ronald N. Langston
National Director

U.S. DEPARTMENT OF COMMERCE
MBDA™
MINORITY BUSINESS DEVELOPMENT AGENCY

GLOBALIZATION AND MINORITY-OWNED BUSINESSES IN THE UNITED STATES: ASSESSMENT AND PROSPECTS

***** Preliminary Study*****

John Owens and Robert Pazornik
Center for International Business
Tuck School of Business
Dartmouth College

EXECUTIVE SUMMARY – KEY FINDINGS, OUTLINE, AND RECOMMENDATIONS

INTRODUCTION

Rapid decreases in the costs of international communication and transport, coupled with the growth of many national markets and the ongoing spread of free trade, are allowing more and more American companies to begin realizing a myriad of business opportunities that lie outside their nation's borders. Indeed, the increasingly global competitive nature of modern business is forcing U.S. companies to understand and respond to this changing business environment (Porter 1990; Reich 1991). However, despite significant increases in minority populations and minority entrepreneurship in America, few minority-owned businesses are taking adequate advantage of existing opportunities in the global marketplace.

By learning to take advantage of global business opportunities, minority-owned small businesses should be able to make significant strides in closing the gap arising from financial resources between minority-owned and mainstream U.S. businesses. Furthermore, minority-owned business may actually have an advantage in certain global markets, especially developing or transition economies if they can utilize and capitalize upon their unique competitive strengths, including often overlooked cultural and family ties. Often "globalization" is interpreted purely as exports of manufactured goods, but as we show in this paper, there also exist significant opportunities in out-sourcing, export of intellectual capital, and other areas that encompass much more than exports.

KEY FINDINGS

This paper reports the results of a preliminary study into the current situation of minority-owned businesses and their prospects for entering the global economy.

- The main conclusion of this preliminary study is that minority businesses may not be able to compete directly with massive U.S. companies that have already established a multinational presence in developed economies.
- However, by capitalizing on their unique competitive strengths, especially in developing countries, minority-business enterprises (MBEs) can compete with larger multinational companies.
- A secondary conclusion is that the quality of information about MBE interaction with the international economy is badly outdated, and further research must be conducted. Given the need to design successful policies and programs to support MBE international expansion, this lack of data is a critical hurdle that must be overcome.

OUTLINE OF THIS STUDY

This report will provide an overview of the changing nature of the international economy, and will specifically focus on assessing the extent to which U.S. minority businesses are engaged in global business.

1. The first section explores the reality of globalization and its effect on U.S. business.
2. The second section provides an overview of minority-owned businesses in the U.S., and the extent to which these firms are participating in the global economy.
3. The third section assesses the goals, opportunities, strengths, and weaknesses that exist for minorities in global business, by examining two short case studies.
4. The fourth section concludes with recommendations for minority business owners on the ways to take advantage of the opportunities that exist in the international economy.

KEY RECOMMENDATIONS

1. *The U.S. Department of Commerce's Minority Business Development Agency (MBDA) should commission and support a comprehensive study of the issues raised in this paper*

The most glaring takeaway from this study is the almost complete lack of solid data about the actual state of minority-owned businesses in the U.S. and their interaction with the world economy. The MBDA must devote the appropriate resources to support at least a 12-month comprehensive, in-depth study to be conducted by a major research institution with the capacity to provide serious scholarship. Such a study will be essential to providing a starting point for the MBDA to offer policy recommendations and support to minority-owned businesses as they engage in the international economy.

Much of the research here has been taken from numerous sources, none of which focused specifically on the issues under examination. Indeed, much of the information is irrelevant. Furthermore, there is no available evidence demonstrating differences in exporting between minority groups in the U.S. Without these data, it will be difficult to explore the working assumption that minorities with generally more recent ties to their homelands (e.g. Hispanic, Asian/Pacific Islander), export more, while those several generations removed (e.g. African-American) export less. In addition, data that differentiates between minority groups will also provide the basis for the creation of more accurate policies that will ultimately be more effective in helping and supporting minority business efforts to enter the global economy.

What is needed is a thorough study of minority business, their integration into the world economy, drivers of success and failure, and basic issues that these businesses face. Only then will the MBDA be positioned to promote best practices and provide support in a comprehensive and meaningful manner.

2. *International business is much more than exports*

Many of the opportunities that exist in international business do not involve exports. Small and minority-owned businesses can take advantage of being in specific areas such as outsourcing, intellectual capital and the global supply chain. Indeed, precisely because some minority businesses are smaller in size, they may be more flexible,or willing to work on a smaller scale, than larger companies. What is a significant expansion of a minority-owned business may not be worthwhile to a larger company. Minority owned business should take advantage of these opportunities.

3. *Collaboration or partnerships with larger businesses offers unexpected opportunities*

The final takeaway is that small, minority-owned businesses need not be constrained by their size. A myriad of ways exist in which a small business can take advantage of opportunities in the international economy, a few of which have been discussed here. While some businesses may be in positioned to work independently, partnership or other relationships with larger or more established multi-national companies may pose significant benefits for minority firms. A smaller firm may be willing to enter a market not large enough to justify an investment by a larger firm. Moreover, a minority-owned business may have global ties or expertise that could be useful to a larger firm. Such significant opportunities should not be overlooked as minority firms contemplate global business endeavors.

4. *Issues beyond the scope of this paper*

In a study such as this, designed to promote thought and discussion, there are inevitably important areas that the authors have been unable to address. Of these, two hold significant importance for future consideration by the MBDA and minority-owned businesses in the U.S..

First, this study has not explored the potential advantages and strengths that minority owned businesses may have with the country or region with which they have ethnic linkages. That is, some minority businesses (usually those of recent immigrants) in the U.S. may have a competitive advantage relative to larger, more mainstream U.S. companies when it comes to doing business in a particular region. Alternatively, some minorities in the U.S. have been here for generations, and may have no real advantage in this area. Further study is necessary to understand the dynamics and the issues involved when minority businesses engage in business with their country of origin.

Second, this study has focused on the "typical" minority-owned business. These businesses on the whole tend to be smaller, engaged in retail or services, and exist with few links to the world economy. Thus, this study has attempted to explore the "typical" minority business and its opportunities for global expansion. However, we realize that there are also far larger minority-owned businesses, as well as minority-owned business that specialize in manufacturing or agriculture.

"If you want to understand the post-Cold War world you have to start by understanding that a new international system has succeeded it – globalization. That is the "The One Big Thing" people should focus on. Globalization is not the only thing influencing events in the world today, but to the extent that there is a North Star and a worldwide shaping force, it is this system."

–Thomas Friedman, *The Lexus and the Olive Tree*, p. xxii.

Rapid decreases in the costs of international communication and transport, coupled with the expansion of many national markets and the ongoing spread of free trade, set the stage for more and more American companies to begin realizing a myriad of business opportunities that lie outside their nation's borders. Indeed, the increasingly global competitive nature of modern business is forcing U.S. companies to understand and respond to this changing business environment (Porter 1990; Reich 1991). However, despite significant increases in minority populations and minority entrepreneurship in America, few minority-owned businesses are taking adequate advantage of existing opportunities in the global marketplace (Reich 1991, Toffler 1995).

In addition, U.S. minority-owned businesses, 99 percent of which are small businesses, continue to lag behind mainstream non-minority owned businesses in both market share by industry division and proportion of total gross receipts. By learning to take advantage of global business opportunities, minority-owned and small businesses should be able to make significant strides in closing the gap arising from financial resources between minority-owned and mainstream U.S. businesses. Furthermore, minority-owned businesses may actually have an advantage in certain global markets, especially developing or transition economies if they can utilize and capitalize upon their unique competitive strengths, including often overlooked cultural and family ties. Often "globalization" is interpreted purely as exports of manufactured goods, but as we show in this paper, there also exist significant opportunities in out-sourcing, export of intellectual capital, and other areas that encompass much more than exports.

This paper reports the results of a preliminary study into the current situation of minority-owned businesses and their prospects for entering the global economy. The main conclusion of this preliminary study is that minority businesses may not be able to compete directly with massive U.S. companies that have already established a multinational presence. However, by capitalizing on their unique competitive strengths, especially in developing countries, minority-owned business enterprises can compete with the larger multinational companies. A secondary conclusion is that the quality of information about MBE interaction with the international economy is badly outdated, and much further research must be conducted. Given the need to design successful policies and programs to support minority-owned business international expansion, this lack of data is a critical hurdle that must be overcome.

This report will provide an overview of the changing nature of the international economy, and will specifically focus on assessing the extent to which U.S. minority businesses are engaged in global transactions. The first section explores the reality of globalization and its effect on U.S. business. The second section provides an overview of minority-owned businesses in the U.S., and the extent to which these firms are participating in the global economy. The third section assesses the goals, opportunities, strengths, and weaknesses exist for minorities in global business, by examining two short case studies. The final section concludes with recommendations to minority business owners regarding about the ways to take advantage of the opportunities that exist in the international economy.

I. GLOBALIZATION AND THE U.S. ECONOMY

In its broadest definition, the term "globalization" refers to the emerging structure of world affairs in which markets, nation-states, and technologies are becoming increasingly interconnected. The product of this arrangement is that actions of governments, businesses, and individuals have the potential to affect each other more quickly and to a higher degree than ever before. While the statement above by Thomas Friedman may be hyperbolic, it captures a basic notion that underscores the current thinking of vast numbers of analysts, pundits, and politicians: that much of world politics today is shaped by the globalization of the international economy (Friedman 2000; Burtless et al. 1998; Gilpin 2000). While there are no clear answers as to exactly how economic globalization influences world politics and domestic economies, grasping the key issues involved in these debates is essential to understanding today's world.

To understand what globalization is, it helps to think of it less as an economic trend or fad and more as an overarching picture of world affairs – a system that shapes the foreign policy and economic decisions of nearly every nation on earth. The current era of what we now call globalization emerged shortly after the fall of the Soviet Union, whereupon it replaced the Cold War system – the overarching international system up to that point (Kennedy 1987).

The Cold War system revolved around a fragile balance of power between two opposing groups with competing ideologies: the West and capitalism vs. the East and communism. In this era, less developed countries focused on strengthening national industries; developed countries devoted their energies toward building export-led growth; communist countries adhered to a policy of self-sufficiency; and Western economies focused on regulated trade (Friedman pp. 11-37). Every nation in the world fell into the Western camp, the communist camp, or the non-aligned camp, and the specter of nuclear annihilation loomed ever-present. Taken all together, the elements of the Cold War system influenced nearly every major domestic and international policy decision of the world's nations from the 1950's to the early 1990's.

But with the fall of the Berlin Wall and the disintegration of the Soviet Union, the Cold War system abruptly collapsed, and the Western sphere of influence expanded. The dominant ideology of the Western world – free market capitalism – is the driving premise behind globalization. Ignoring short term economic dislocations usually lasting less than a generation, the more a nation allows market forces to rule and open the economy to free trade and competition, the more efficient and flourishing the economy will be. In the 1990's, several groups of nations signed various free trade agreements that would significantly reduce existing barriers to trade, including tariffs, quotas, and subsidies. The North American Free Trade Agreement (NAFTA), Association of South East Asian Nations (ASEAN), Southern Cone Common Market (Mercosur), and European Union (EU) are a few of the most significant among these pacts and alliances formed in the past decade.

The World Trade Organization (WTO), which came into being in 1995 through a collaborative effort of 134 nations, has emerged as the preeminent international body charged with encouraging, overseeing, and resolving disputes regarding to free trade. As of August 2003, the WTO includes 146 nations accounting for over 99 percent of the world's trade (wto.org) with 30 nations currently negotiating membership. Nations join with an agreement to (1) remove their own barriers to free trade and (2) abide by decisions of the organization. In 1997, three landmark agreements were reached: 69 members agreed to wide-ranging liberalization measures on telecommunications services, 40 members agreed to a measure on tariff-free trade in information technology products, and 70 members agreed to a financial services pact encompassing 95 percent of trade in banking, securities, and finance. Currently, WTO members negotiating an agreement on agriculture and services, with a deadline set for January 1, 2005.

At roughly the same time that the Cold War era was ending and national markets worldwide were increasingly dismantling their self-imposed barriers to trade, communications technologies, such as the internet, e-mail, fax machines, and cellular phones began to emerge en masse on the world scene. Though these technologies had existed for years, most could previously be found only in universities, government organizations, and large businesses. As production expanded and prices fell, use spread rapidly into the realm of small business and individuals. The development and propagation of fiber optics and satellite technology during this decade sent the cost of international communication plummeting (Toffler 1995). These developments all contributed to the increasing integration of previously disparate and geographically dispersed business sectors, which could now interact more easily and cheaply. Technology has largely conquered time, distance and "speed," resulting in the collapse of any special inequality in conducting business globally.

In fact, the effects of globalization will generally be most appreciated by American businesses in the area of costs. While recent developments in the global economy do not necessarily mean that businesses will be able to do things that were not possible before, it does mean that they will be able to do things more inexpensively. That is, some activities are now within the capacity of small and middle-sized businesses that were previously available only to governments or upper echelon corporations with ample supplies of free capital

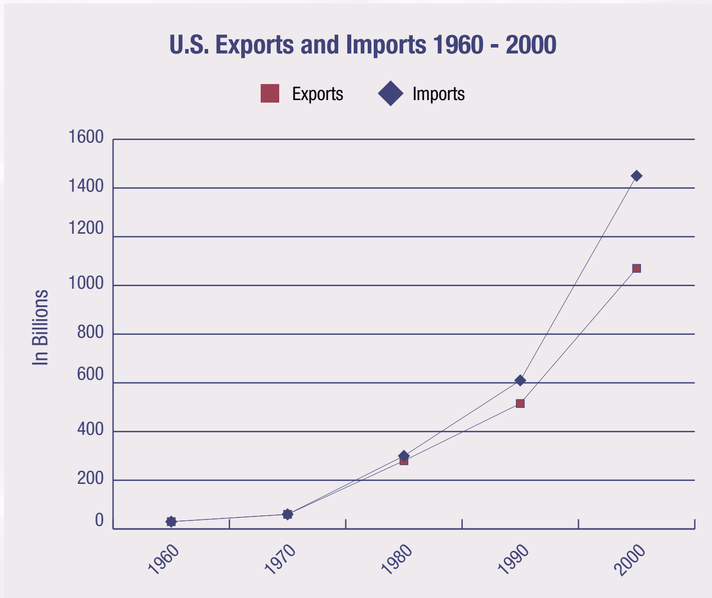
OUTSOURCING

With the cost of international communication at a historical low and the increased trend toward free world trade expansions, small and middle-sized American businesses currently have ample affordable opportunities to outsource various aspects of their business operations. Manufacturing, in particular, has become a popular aspect of business to be sent abroad by American companies. As of April 2003, more than 61 percent of U.S. manufacturers have relocated production to lower-cost geographies (Deloitte and Touche, 2003). While production and labor costs in popular outsourcing locales such as Latin America and Southeast Asia have been traditionally lower than those in the U.S., stringent export tariffs and high costs of communication and transport in previous eras made outsourcing prohibitively expensive. In some cases, the closure of some nations' economies to foreign trade during the Cold War era made outsourcing in these areas practically impossible. But with favorable trade agreements increasingly covering the globe and communications costs at affordable levels, many more companies are profiting from overseas manufacturing.

Moreover, services have become more feasible for small and medium sized businesses to outsource. Numerous U.S. businesses have found that they can strengthen their competitive advantage and cut expenditures by leveraging foreign intellectual capital in the areas of information technology (IT) and software development, research & development (R&D), and business process outsourcing. The relatively high cost of developing and maintaining an in-house IT department makes the concept of technological outsourcing especially attractive to small business owners, who may save significantly in operational and equipment expenses by looking overseas for their IT needs. Small businesses also save the time of recruiting and training qualified personnel, for whom demand is generally high and supply particularly low. The ever-and-rapidly changing face of technology poses a significant challenge to small businesses, which for the most part, do not have adequate resources to keep current in their technological tools and expertise. Outsourcing is helpful in allowing small firms the ability to increase their capacity and remain technologically current without requiring vast expenditures of cash and human capital.

In this vein of thought, an increasing number of American businesses are engaging foreign agents for services once only available domestically. The Internet has emerged as an especially powerful tool in bringing together service seekers and providers: everything from translation services to financial consulting and graphic design are reachable with only a few clicks of the mouse. While many of the service outlets available online remain domestic, a significant number are associated with foreign companies, some of which boast remarkable savings. For instance, services such as programming and hardware maintenance are typically less expensive in many foreign countries than in the U.S. The salary of a typical American computer programmer in 2002 was $63,331. Compared with the $5,880 salary of a typical programmer in Calcutta (Celent Communications, 2002), it is easy to see why an increasing number of American companies are sending IT projects abroad.

FIGURE 1. U.S. EXPORTS AND IMPORTS, 1960 - 2000



Source: U.S. Census Bureau, 2002)

The number of American businesses engaging in foreign trade saw an enormous jump in the past 10 to 15 years. Small business exporters, in particular, have begun to aggressively move into foreign markets to sell their goods and services. Between 1987–1997, small businesses that export have seen a remarkable increase, tripling to approximately 202,000 firms, accounting for 31 percent of merchandise export sales (U.S. Dept of Commerce). Among companies that export, the fastest growth is experienced by those with 20 employees or fewer. In 1997, small businesses represented 65 percent of all U.S. exporting businesses (U.S. Dept. of Commerce). The Small Business Administration (www.sba.gov) reports that the value of small-business exports increased by 300 percent between 1992 and 1997.[1]

Notwithstanding these growth trends, the U.S. continues to lag behind its foreign competitors in direct exporting of manufactured products. Among industrialized and developing countries, the U.S. remains less integrated into the world economy than almost every other nation (Table 1). While much of this is due in part to the massive size of the domestic U.S. market, the trend of world integration is increasing, and the U.S. is in a position as a leading economy to take advantage of closer global ties.

1 Some info in this section on small business exporting came from http://www.bizjournals.com/extraedge/consultants/small_business_briefing/2001/06/18/column91.html.

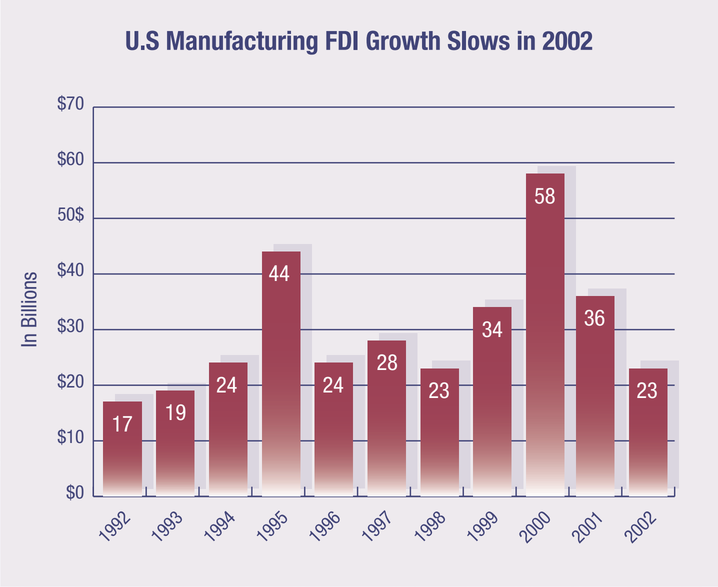
TABLE 1. EXPORTS AS A PERCENT OF GDP, 2001

Country	Exports (% of GDP)
USA	10.2
Brazil	13.4
South Korea	42.9
United Kingdom	27.2
Germany	33.4
Japan	14.5

Source: World Bank, 2003

The United States exports only about 10 percent of its total gross domestic product (GDP), despite boasting the world's single largest market and a GDP roughly four times larger than the rest of the world (Stiglitz 2001; Garrett, 2000; Knowlton, 1988). In order to considerably increase its export volume, the U.S must increase the participation of its small and medium-sized businesses, which in 1997, accounted for only 10 percent of the nation's total exports, while 250 large multinational corporations accounted for nearly 85percent (Ekanem, Mahone, 1998). Small and medium sized businesses are estimated to exhibit faster growth rates and higher job production than large firms, generally possessing a degree of flexibility that allows them to penetrate small markets using strategies difficult for larger firms to implement (Dobrzynski, 1985; Reagan, 1984).

FIGURE 2. GLOBAL GROWTH ON HOLD



Source: Deloitte and Touche, 2003

DOLDRUMS AND THE NEW WORLD DISORDER

The steady ten-year trend in increased global investments is currently in a period of setback. Foreign direct investment, though holding a steady upward course through 2001, plunged dramatically in 2002 by 37 percent from $36 to $23 billion (see Figure 2).

There is no likely reason to blame for the slowdown, but rather several factors that have contributed to the current situation. The most likely suspects are the terrorist attacks of September 11, 2001, the fading of the global merger and acquisition boom of the late 1990's, corporate accounting scandals, synchronous economic recession in many of the world's trading countries, and war uncertainties (Deloitte and Touche, Globalization on Hold, 2003). However, while overall growth is down, growth trends by industry sector vary, with investment in some industries experiencing increases. The food, electronics, chemicals, and pharmaceuticals industries all saw significant increases in international investment growth in 2002, while investment in industrial machinery, metals, and transportation equipment declined.

The current doldrums are symbolic of greater policy issues the world has been grappling with since the turn of the decade. For the greater part of the 1990's, the foreign policy of the U.S. was to encourage the former communist countries of Europe and the developing nations in Latin America, Asia, and Africa to adopt fiscal policies conducive to free market capitalism. The underlying idea behind this policy was that such a shift would encourage private capital to flow into less developed countries, creating jobs and rapid growth. As development bloomed in these regions, many assumed that ever-increasing capital flows could be sustained forever; as nations integrated themselves into the new global economy, their institutions would gradually change as well to accommodate their liberalized economies. U.S. support for market liberalization seemed unwavering, as dramatically evidenced by their leading of the "Tequila Crisis" bailout of Mexico in 1994: the U.S. message seemed to be, "Adopt economic reform, and we will be there to bail you out if your economy gets in trouble." (Harvard Business Review). The optimism stemming from this policy allowed companies to generally disregard political considerations in their overseas investment decisions, making their foremost concern the size of consumer market a particular country had to offer.

However, current turmoil in world affairs has unraveled the Bush and Clinton policies of the previous decade. Now, new considerations must be made in determining which nations are and are not safe for business. "Negotiating this new environment," says Medley Emerging Markets president Nicolas Checa, "will require companies to more rigorously evaluate political events and their contexts than they are used to doing and more carefully assess the links between the political, economic, and financial factors of risk." (New World Disorder, HBR). In determining which nations will likely be recipients of strong financial support from the U.S in times of need, it will be vital for American companies to consider not necessarily the size of a nation's market, but rather, its relative importance to U.S. national security (Table 2).

TABLE 2. RISK IN THE NEW WORLD DISORDER

Risks	1990's	Present-day
Political	More economic reform is better. Is the government pro-reform?	Future reform is less likely. How strong are local institutions?
Economic	Continued world growth and convergence are inevitable. The business cycle is finished. How big is the market?	Growth is less certain and the business cycle more volatile. Convergence is less likely. Where is the market?
Financial	The United States can't afford to let big markets fail. How liquid are the markets?	The United States will bail out only its strategic allies. How important is the country to the Pentagon?

Source: New World Disorder, HBR August, 2003.

In this line of thought, there are some who believe -- somewhat counter-intuitively -- that nations such as Pakistan and India will represent the greatest opportunities in the "New World Disorder." While political stability in these countries may appear tenuous, it is believed that the importance of these nations to U.S. national security will result in their increased economic security. This prediction is evidenced by Turkey, the assets of which rose precipitously in the second half of 2002, despite worries stemming from their unpredictable political elections. Concerns among players in financial markets are believed to have been quashed by the belief that the U.S. would not allow the economy of a Muslim ally to collapse.

SUMMARY

Thus, two trends have become clear over the past decade. First, the nature of global business will only continue to grow increasingly interconnected in the future. While some segments of a country's economy will always remain less subject to international pressures than others, all sectors of the economy are now more dependent upon, and tied into, the global economy than ever before. Second, the U.S. economy remains less globalized than many other countries. This provides both an opportunity and also an imperative that U.S. companies understand and prepare to enter the global marketplace. Global opportunities are not strictly confined to direct U.S. exports of manufactured products. Companies can participate in the global economy in far more ways than manufacturing and direct product exporting (Minority Business Development Agency 1999). Many companies export technical assistance to international partners, the 'export' of intellectual capital and other means, particularly to developing countries. This 'export' is difficult to measure as Foreign Direct Investment, although it is intellectual capital invested for the same type of economic benefit as financial capital.

II. U.S. MINORITY BUSINESSES AND THE WORLD ECONOMY

The majority of scholarship on globalization has focused on broad assessments of the U.S. economy, or focused on various large – and important – industrial sectors, such as autos, energy or semiconductors. However, given the increasingly globalized nature of the world economy, it is a logical step to ask whether and to what extent minority-owned businesses in the U.S. are participating in globalization. Research on this subject is scarce, despite the importance of the issue. However, even with this paucity of data, it is possible to conduct a general assessment of minority-owned businesses in the U.S. and their interaction with the world economy. Although minority-owned businesses in the U.S. are less involved in international business, they have some genuine competitive advantages. However, many are not making use of these opportunities. These advantages include flexibility, comfort and experience with diversity, decision-making speed, guile, and simple hard work.

This preliminary study should note two significant issues at the outset of this overview of minority-owned businesses. First, a working assumption in the area of minority business ownership is that there exist significant differences between various segments when it comes to global business involvement. This assumption is due to the fact that minority business owners of Asian and Hispanic descent are believed to generally have stronger ties to their native countries than African-Americans, as they are generally fewer generations removed from their homelands. However, while this popular belief may hold some element of truth, it seems that there is no existing evidence to support it.

Second, of considerable note in this paper is the age of the data used. The most current 1997 Survey of Minority Owned Business Enterprises (SMOBE) data relating to minority-owned business participation in the global economy dates back to 1987. The collection of this data slightly pre-dates the post-Cold War emergence of modern globalization, and therefore may not be relevant to these discussions, as globalization brought with it increased opportunities for export and other international business. According to the import/export figures illustrated in Section I, there was a sizable jump in foreign trade between 1990 – 2000. Another statistic cited in Section I suggests that small businesses also experienced significant increases in foreign trade during this period. Though there is little available data to differentiate export performance between minority and non-minority owned small businesses, it is worth noting that almost all minority owned businesses are small businesses. And while minority-owned businesses are still only a small percentage of all small businesses, it nevertheless seems likely that minority exporting has increased at least somewhat over the past decade.

POPULATION AND ENTREPRENEURIAL GROWTH

According to the U.S. Census Bureau, populations of all minority groups in the United States are increasing rapidly (Table 3). Between 2000 and 2001 alone, the population of minority groups in the U.S. grew 232 percent faster than that of white Americans. Over the next 50 years, it is projected that 90 percent of U.S. population growth will belong to minority groups, with those of Hispanic origin leading the way in both raw numbers and relative growth.

TABLE 3. U.S. POPULATION DISTRIBUTION BY RACE

	Race (by%)				
Date	White	Black	American Indian, Eskimo, Aleut	Asian, Pacific Islander	Hispanic origin
1980	85.9	11.8	0.6	1.6	6.4
1990	83.9	12.3	0.8	3.0	9.0
2025*	78.5	13.9	1.0	6.5	18.2
2050*	74.9	14.7	1.0	9.3	24.3

* denotes projections
Source: U.S. Census Bureau, 2002

Along with increases in minority populations, the U.S. has seen a significant increase in its number of minority entrepreneurs. The SMOBE survey indicates that the number of minority-owned businesses in the U.S. increased significantly since 1992, as compared to the number of non-minority owned businesses (Table 4). In this five-year span, the number of minority-owned firms grew by 29.6 percent -- well ahead of the 6.8 percent growth rate of all United States firms. There was a substantial increase in gross receipts of minority-owned businesses, as well – up by 60 percent compared to a 40 percent increase in non-minority receipts.

TABLE 4. COMPARISON OF MINORITY-OWNED FIRMS TO ALL U.S. FIRMS: 1997 AND 1992*

	Number of Firms	Sales and receipts (in millions of dollars)
All U.S. Firms		
1997	18,431,456	4,661,018
1992	17,253,143	3,324,200
Percent Change	+6.8	+40.2
All minority-owned firms		
1997	2,786,098	335,316
1992	2,149,184	209,740
Percent Change	+29.6	+60.0

*excluding C corporations
Source: U.S. Census Bureau, 2002

However, it is important to note that while the number of minority-owned firms is on the rise, entrepreneurial activity among minorities continues to remain far below that of non-minorities, despite the dramatic increase in minority population. That is to say, the increase in minority-owned firms relative to population increase is not commensurate with that of non-minorities. Furthermore, the proportion of capital generated by minority businesses as compared to the proportion of the overall minority population is far lower than that of non-minorities. In 1997, for example, minorities accounted for 28 percent of the U.S. population, but for only 3 percent of the nation's gross business receipts (Minority Business Development Agency, 1997). The data in the 1997 study is already six years old, and an updated survey of minority business will be critical to crafting useful policies and helping minority business move into the global economy. We will return to this issue in Section IV.

TYPES OF BUSINESSES AND PERFORMANCE

In the 1997 SMOBE survey, the greatest concentration of minority firms is in the service industry, with over 1.3 million businesses. This industry division accounts for 44 percent of all minority-owned firms and 23 percent of their total gross receipts (Table 5). Almost half of these minority service firms provide business and personal services, comprising 15 percent of total U.S. service firms. The second highest concentration of minority-owned firms – with only 1/3 as many as the service industry – is in the retail trade, accounting for 14.5 percent of minority firms and 15.2 percent of all U.S. firms. The lowest number of minority firms, both by number and percentage of all U.S. firms, is in the mining industry, with only about 3,600 total businesses – 2.5% of the nation's total.

After retail trade, the third highest classified business concentration, construction, again drops sharply by nearly half. The principle difference in firm concentrations among non-minority businesses seems to be more even distribution across industries, with disparities of 20 percent or less between three of the top four divisions.

TABLE 5. COMPARISON OF MINORITY-OWNED FIRMS WITH ALL U.S. FIRMS BY INDUSTRY: 1997

Industry Division	All U.S. firms		Minority-owned firms		Minority-owned as a percent of all U.S. firms	
	Number of firms	Sales and receipts (million dollars)	Number of firms	Sales and receipts (million dollars)	Firms	Sales and Receipts
All Industries	**20,821,934**	**18,553,243**	**3,039,033**	**591,259**	**14.6**	**3.2**
Agricultural services, forestry, fishing	496,164	64,033	71,921	4,116	14.5	6.4
Mining	126,809	176,609	3,578	916	2.8	0.5
Construction	2,333,424	944,155	255,251	41,884	10.9	4.4
Manufacturing	688,782	4,021,515	63,640	63,048	9.2	1.6
Transportation, communications, utilities	919,570	1,183,669	190,564	21,274	20.7	1.8
Wholesale trade	797,856	4,270,041	92,727	153,874	11.6	3.6
Retail trade	2,889,041	2,649,085	439,450	116,261	15.2	4.4
Finance, insurance, real estate	2,237,675	2,567,560	164,043	22,105	7.3	0.9
Services	8,891,023	2,614,965	1,339,486	135,876	15.1	5.2
Industries not classified	1,480,003	61,611	419,522	31,906	28.3	51.8

Source: U.S. Census Bureau, 2002

Also of significant note are consistent disparities between the proportion of minority firms and their proportion of gross receipts in each classified industry. The greatest disparity comes in the division of transportation, communications, and utilities (TCU), where minority-owned businesses account for 20.7 percent of all U.S. TCU firms, but only 1.8 percent of U.S. TCU receipts. These disparities are likely explained by the fact that 99 percent of all minority-owned businesses are small businesses, which are less likely to control large quantities of market share (SBA Office of Advocacy, 2002).

LACK OF MINORITY PARTICIPATION IN THE GLOBAL MARKET

Generally speaking, minority-owned businesses are not active in global trade. Although recent data is scarce, a majority of anecdotal evidence seems to support figures similar to a 1987 survey that reported 87.7 percent of minority-owned businesses do not export (SMOBE, 1987).

Keeping in mind that virtually all minority-owned businesses are small businesses, published studies maintain that, although many small and medium-sized firms have the capability to export, not many of these firms have been able to do so (Dicht et al., 1984; Johnson et al., 1985). The literature suggests that these firms are reluctant to engage in the practice of exporting because of perceived barriers and obstacles (Bilkey, 1978; Edmunds and Khoury, 1986; Hook et al., 1991; Ali et al., 1991; Mahone, 1991).

While there is agreement that small firms generally do not take advantage of foreign trade opportunities, there is disagreement in the literature on the topic of whether small firms are better equipped to trade in the global market than large firms. On one end of the debate, it is argued that small firms have less export experience, different exporting practices, attitudes and problems, and rely more heavily on the initiative of the foreign buyer for their export sales than large firms (O'Rourke, 1985). Also, the vast amount of monetary and technological resources at the command of large and medium-sized firms enables them to research and implement costly foreign marketing strategies. Small firms, which encompass the overwhelming majority of minority-owned firms, have none of these at their disposal (Ekanem and Mahone, 1998). At the other end of the debate, some maintain that smaller firms are typically more innovative, fast moving and accustomed to producing in limited volumes uniquely suited to marketing in both developed and developing countries (Becker et al., 1983). Recent data to confirm either of these views are not immediately available, but it may be helpful to point out that the hypotheses are not necessarily mutually exclusive. Whether or not small firms are better equipped to handle foreign trade, the facts demonstrate that they do not participate, on the whole, as often as large firms.

SOME FACTORS CONSIDERED IN MINORITY TRADE INVOLVEMENT

Industry Type. The SMOBE data also show that the greatest number of minority-owned businesses that export operate in the wholesale and retail sectors. However, the number of minority-owned firms in these divisions that exported in 1987 was not statistically significant (Ekanem and Mahone, 1998).

Years in Operation. Minority-owned firms, which have been operating for relatively few years, are most likely to be engaged in exporting, as compared to minority-owned firms, which have been in business several years. In particular, MBEs that have been in business 14 years or less tend to export the most (SMOBE, 1987). This evidence seems to contradict earlier studies, which suggest that the longer a firm has been in business, the more able it will be to engage in foreign trade.

The logical conclusion is that minority-owned businesses may not need a great deal of "learning time" to engage in exporting. While there is not enough information in the SMOBE data to produce a definitive answer as to why younger firms tend to export more than older firms, two possible explanations are: 1) Since owners of the firms studied in the SMOBE have had many years of working experience, they might have gained experience in international business, and 2) Firms involved in wholesale and retail trades – the areas in which most exporting is done by minority-owned firms – are those firms which require the least amount of time to determine the needs of their foreign customers (Ekanem and Mahone, 1998).

Age. Possibly the most significant indicator of minority involvement in exporting is the age of the business owner. Minority-owned firms, which have been operating for 14 years or less, with owners in the range of 35-54 years old, seem to export the most (Ekanem and Mahone, 1998). If these data are indicative of minority firms as a whole, then 35 can be described as the minimum requisite age for acquiring the necessary experience to engage in exporting.

Management Experience. Though there is strong evidence in a variety of studies demonstrating that management quality has an effect on exporting, there is no evidence speaking to the effect of prior work and management experience. The SMOBE data do not show that minority-owned businesses managed by people with 10 or more years of management experience export more at any level than non-minority owned businesses employing managers with less experience.

Education. While one might expect the degree of education to correlate positively with exporting, SMOBE data suggest this may not be the case. Only 2.7 percent of minority-owned businesses that exported between 25-100 percent of their gross sales in 1987 had owners with high school or better education, demonstrating that few minority-owned businesses managed by people with high school or college-level educations are engaged in exporting. Furthermore, among minority-owned businesses that export 1-24 percent of their gross sales, only 47.7 percent of exports are accounted for by firms with college-educated owners. This tells us that minorities with college education tend not to export significantly more than minorities without college education.

What these data likely indicate is that firms owned by college-educated minorities experience the same problems and obstacles to international trade, as do any minority-owned firms. In this light, we can surmise that the low level of global involvement among minority-owned firms is likely not due to poor knowledge of international business, but is probably a result of inadequate resources to plan or research for international markets, and if the activity is to be in direct export, to finance the volumes of goods required to generate profit in these markets (Ekanem and Mahone, 1998).

III. GOALS AND OPPORTUNITIES FOR MINORITY BUSINESSES: TWO CASE STUDIES

In Section One, we examined globalization and noted several factors affecting U.S. business opportunities. In Section Two we reviewed the limited and somewhat dated minority business data, noting the need for new studies of this important and growing business segment. Building upon the previous two sections, here we reinforce prior research by suggesting that global opportunities for U. S. minority-businesses are not strictly confined to direct exports of manufactured products. Drawing on the research completed, plus the authors' own experiences it can be concluded that significant global opportunities exist for minority businesses in:

1. Import of outsourced goods and services, previously U.S.-based;
2. Export of intellectual capital, especially to developing countries; and
3. Export of goods and services in a supply chain partnership with major U.S. multinationals.

As has been shown, participation in global business opportunities is often measured solely by direct exports, especially of goods. This "direct-export-of-goods" measurement understates the potential for U.S. companies, especially minority firms, by either missing or not reporting key opportunities. This section of the paper will explore several opportunities for minority firms in global business other than direct export.

Before continuing, it should be noted that this paper does not deliberately exclude the importance or the size of export opportunities for minority businesses. This growing and important market potential is, however, carefully researched and documented in existing literature, and there is significant public and private assistance available for minority exporters in every step of the direct export process. For example, the MBDA has one of the best and most comprehensive guides for minority exporters the authors have ever reviewed, entitled, "Minority Exporters: A Resource Guide 1999."

Among the global trends that have significant opportunity for minority businesses the authors noted the three above that need further illustration and discussion via short case studies.[2]

1. IMPORT OR USE OF PREVIOUSLY OUTSOURCED GOODS & SERVICES

> ***"You have to assume that manufacturing (in the U.S.) will continue to disappear."***
>
> – David Heuther, Chief Economist National Association of Manufacturers

The popular lament is that U.S. manufacturers and service providers cannot compete with foreign firms. On the surface, the data support the claim, with more than half the goods Americans buy being made abroad, up from 31 percent in 1987. Jobs in manufacturing are going away, often being outsourced to overseas sources. The proportion of U.S. workers employed in manufacturing has fallen to 11 percent from 30 percent in the 1960's. Some policy-makers have termed this trend a "dismantling of U.S. manufacturing." So much of American manufacturing has either decamped to China and India, or given up manufacturing altogether in favor of foreign suppliers, that China has now been called the "workshop of the world."

This remarkable shift in productive resources too often incorrectly concludes that intellectual capital has also followed manufacturing capital. For many U.S. firms, particularly smaller minority companies, the shift in production of goods and services to inexpensive overseas suppliers has actually created a remarkable opportunity. Like most small businesses, the majority of minority firms rely more on such resources as speed, service, networking, flexibility and intellectual capital rather than financial capital to capture market share, even local market share, from traditional large companies who have huge pools of sunk costs invested in inflexible business models.

The U.S. companies suffering the most from globalization trends are those whose large and inflexible capital structure prohibits a rapid shift to another business model. While it is true that inefficient capital resources ultimately cease operation, we have witnessed the years, if not decades it takes for this event to occur.

While small businesses often do not enjoy the economies of scale permitting significant regional or even national market share, these same businesses can change direction swiftly when conditions provide opportunity. The authors contend that intellectual capital; that is, the ability to perceive a market opportunity and redirect company resources to capitalize on this opportunity is the single most important success determinant in the global economy for small businesses. Not to be burdened with an antiquated and capital-intensive business model is a great companion benefit to intellectual capital. Small businesses that begin to think outside their local market may realize the important advantages they may have in entering global markets, which come closer to leveling the economic playing field than ever before.

Many small businesses, including minority-owned, have used global outsourcing to their particular advantage. Some have nimbly used overseas manufacturing sources to lower costs enabling them to compete more favorably against high cost competitors who are only able to manufacture domestically. Others have used outsourced services to their particular advantage. Because the typical minority business is far more likely to be service-oriented, and even local or regional in nature, rather than a national manufacturer, we are providing one case of how a local minority service company used globalization to its considerable advantage.

2 In the second case study, Rogers Brothers, the names and some particulars of the case have been changed to comply with the requirements of the confidentiality agreement with the principals which permitted the research.

Case Study 1: DemiDec Resources

(A case of importing outsourced services)

"And we can specify multiple usernames for the backend? … Great. And we can go live on this by Friday? … Outstanding. Email the specs to me in the morning … right … Talk to you then …"

It might seem like an ordinary phone conversation – just a typical back-and-forth between small business owner and private contractor. Latino entrepreneur David Gutierez has interacted with countless service providers over the course of his career as an academic resources supplier. In fact, this outsourcing exchange is just one of dozens David has conducted in recent months from his business' Los Angeles-area headquarters.

But there is an unusual aspect to this particular conversation: the voice at the other end of the line is not coming from across the city, across the state, or even from the other end of the country. The voice belongs to a man sitting in chair no fewer than 17,000 miles away.

While global outsourcing may be old hat for transnational corporations, Gutierez's DemiDec Resources has operated exclusively in the U.S. for nearly 15 years and is somewhat new to this emerging small business trend.

"Ten years ago, if I needed a contractor, I would ask a friend in the industry if he knew somebody," says Gutierez. "Or maybe I'd try the phonebook."

But when he needed a programming team to develop his company's new online distribution system, David found himself turning to a new friend in the industry - the Internet.

Two weeks prior, David posted a job description for his web project on Elance.com – "cyber" help wanted agency that pairs independent contractors with companies seeking various services. Freelancers and private companies from all corners of the professional world – legal consulting, graphic design, and computer programming, to name a few – pay the host site a modest fee to browse the postings and bid on projects.

Gutierez's winning bidder, a Romanian computer-programming outfit, contacted him by e-mail a week later. After a few electronic communiqués to flush out details, Gutierez contacted the project manager by phone.

"I was honestly shocked when I heard his voice. He spoke perfect English," says Gutierez."

David would be even more surprised by something else: the bottom line.

"I saved 20 percent on the project," he says enthusiastically. "The lowest bidding American firm bid more than $15,000 higher."

DemiDec is just one of many American small businesses that are beginning to capitalize on the emergence of globalization. Moreover, DemiDec Resources is distinctive because it is one of the few minority-owned businesses that are doing so.

2. EXPORT OF INTELLECTUAL CAPITAL

Minority firms can export intellectual capital to their considerable advantage in global markets. One of this study's authors spent over 20 years -- or more than half of his private sector life -- in emerging or transition economies, where market-place considerations for small to medium-sized firms are the primary economic drivers, rather than capital or technology drivers. Personal experience in these economies demonstrated that minority U.S. firms are frequently on an equal or better footing in certain economic sectors than the multinational firms that are thought to dominate world trade. In the developing world, especially for small and medium-sized businesses, it is more often intellectual capital (or even entrepreneurial instinct) that is the driving force for success. For example, minority businesses will never have the capital or expertise to match an international oil company in upstream oil and gas exploration and production, but a U.S minority contractor with experience in building and managing affordable housing would have an advantage in bidding for a project to build and operate the oil company's housing facilities in the developing world.

Almost without exception, developing countries are eager to encourage their local companies to acquire the skills and technical capacity to provide goods and services that can compete as import substitutes. In many cases, governments offer generous financial support for local companies that can provide import substitution.

In certain emerging economies with large natural resources in need of development, the quid pro quo for, say, foreign oil, or a timber or a mining contract is the requirement that the foreign company purchase a certain percentage of its needs from local sources. Such "local content" requirements have led many multinationals, particularly the oil giants, to hire separate organizations to facilitate their compliance with local content requirements. For example, the important mission of these third party organizations is to find which of, say, the oil company's needs can be supplied from local sources, and then to assess the capabilities of the local sources. If those capabilities need strengthening, the third party organization must find a foreign strategic partner for the local company, and negotiate a joint venture. All of these issues must be addressed to fulfill the local content requirement.

Just as governments in emerging markets have a keen interest in developing the capacity of local industries, the local organizations themselves often have an even keener interest in finding a foreign strategic partner with whom to partner. The local business brings important contacts, management and market access, and often financing at very favorable rates. What is sought is a foreign partner with demonstrated skills in the particular industry, coupled with flexibility and the ability to take advantage of opportunities without a long decision process. It is the experience of the authors that foreign businesses in developing countries are small by world standards, and are looking for strategic partners with technical skills, plus the cultural characteristics that match their own. In scores of cases spanning twenty years, the authors have witnessed successful partnerships between smaller local companies and similarly small U. S. firms, many of them minority-owned or managed. The research recently completed for this paper reinforces that the three key non-financial elements required for success in developing markets, that small foreign firms can bring to a relationship with a U.S. firm including:

1. Influence
2. Information and
3. Access

When combined with technical and management expertise of a U.S. minority-owned business, these elements are far more important to the ultimate success of a venture than the sole ability to bring financial assets.

Case Study 2: Rogers Brothers

(A case of exporting intellectual capital)

"I was shocked when this guy called and asked us for help - he said he was a Vice President from Bechtel Corp. When I said we had a bad telephone connection, he explained he was calling from Almaty, Kazakhstan. Frankly, I thought someone was playing a practical joke on me until I remembered my conversation with our friend Steve Moses months ago."

– James Rogers, partner in Rogers Brothers, A Design-Build Construction Firm

James Rogers was a 1989 architectural graduate of a mid-western university who joined his younger brother Anthony, a high school dropout contractor in Fresno, California in 1995 to form Rogers Brothers, an African-American firm working in specialized construction market niches. The new minority-owned firm employed the latest cost-savings approach to construction projects called "design-build." After a round of competitive bidding in 1997, the firm successfully completed several low-income housing projects for Mr. Stephen Moses, a wealthy owner-operator of many similar developments nation-wide.

Both Rogers brothers became close to Steve Moses, whose many other business interests included board-level representation in a multi-national pharmaceutical firm and an overseas investment fund based in Central Asia.

On one of his many trips to the Caspian Sea region in Central Asia, Steve Moses met with representatives of the Bechtel Corporation, a large California-based company with operations worldwide. Moses learned that Bechtel had been hired by a major oil company to source local companies who could satisfy the "local content" requirement in the oil giant's exploration and drilling contract with various Central Asian republics. He also learned that Bechtel had found no local contracting firms who could satisfy the energy company's acute need to build and operate oil field worker housing.

Moses suggested that Bechtel contact the Rogers Brothers to assess their design-build skills, noting that the Rogers firm had completed several housing projects in record time and at remarkable cost savings for his own company. Moses proposed that if Bechtel passed on the Rogers Brothers' capability, than he would form a joint venture with Rogers to bid on building and operating the energy company's oil field housing in Western Kazakhstan.

The contacts and assessments were made, the joint venture was formed, the bids were made, several successfully, and today the Rogers Brothers/Stephen Moses joint venture operates a highly successful oil field housing operation in Western Kazakhstan. Other natural resource company contracts are contemplated as a result of this first relationship. In addition, the Rogers Bros/Moses joint venture is looking at reconstruction housing projects in Afghanistan and Iraq.

Other examples of intellectual capital and globalization

Other minority businesses have used their intellectual capital to take advantage of globalization opportunities. For example, James Reynolds, Jr. is the founder, Chairman and CEO of Loop Capital Markets, a Chicago-based firm specializing in corporate and public finance, financial advisory services, equity research and securities sales and trading. Since 1997, Jim Reynolds' firm has handled approximately $350 billion in financings. Mr. Reynolds has been named one of the 50 top black executives on Wall Street, and Black Enterprise magazine ranked his firm fifth among the nation's African-American investment banks. One of the authors is familiar with Mr. Reynolds in his serving as a director of an investment fund in the Former Soviet Union, at which time the author was CEO of this firm. Jim Reynolds is a prime example of a highly successful U.S. minority businessman who used his and his firm's intellectual capital to enter global markets successfully. One of Loop Capital Markets' partners is Ms. Donna Sims Wilson, who is also President and CEO of Loop Capital Markets International, a financial advisory firm that facilitates trade by advising American companies, African companies and African governments. Ms. Wilson also heads Loop Capital's emerging markets commodity trading efforts, which sources commodities such as Thai rice, Botswanan beef and Bangladeshi computer components for export to other emerging markets.

Both in the course of researching this paper, and from personal experience in the private sector, the authors are familiar with many other examples of minority firms using intellectual capital to participate in the global economy. While most of these examples would make good case studies of "best practices," they have not been included here to conserve space. Two more examples below illustrate the use of intellectual, rather than financial capital in developing countries, to participate in global opportunities:

1. Martigua International – Mr. Philmore Davis created a multi-country service business in four West Indian island states, and Central America. Mr. Davis is a first generation African-American, the son of Barbadian immigrants, who leveraged his accounting business skills and immigrant family ties to build a service business, first in Barbados, and later in St Lucia, Martinique, Trinidad, Antigua and Panama.
2. La La Brands - Joyce Chen used her knowledge of dairy products production to establish the leading brand for yogurt and similar dairy cultures in a region of the former Soviet Union. Ms. Chen is a first generation Asian-American, whose father is a Chinese immigrant and mother is an immigrant from southern Siberia. As a result she is tri-lingual, in English, Mandarin Chinese and Russian. She attended a leading agricultural college in Wisconsin, and was originally brought into the global trade arena by working as a technical advisor to a Central Asian government on a USAID grant. Ms. Chen and her local partners invested their considerable intellectual capital to create their successful venture, backed by financial capital from U.S. institutions.
3. Export of goods and services in a supply chain partnership with major U.S. multinationals.

In the previously cited "Minority Exporters: A Resource Guide 1999" reference is made to "indirect exporting," with specific sections relating to buying agents, Export Management Companies (EMC), export trading companies, export agents and piggyback marketing.

The very limited research the authors have done in this area suggests that piggyback marketing, or where a minority firm provides products or services to a major international company as part of that exporter's global contracts may have one of the most potentials for minority firms looking to take advantage of global opportunities. This strategy is close to the "export intellectual capital" strategy, because it relies on the business model of non-financial factors like flexibility, customer service, technical competence, strategic vision, hard work, etc., rather than the business model of high capital commitment.

IV. RECOMMENDATIONS AND NEXT STEPS

The U.S. economy is already integrated into the international economy, and that trend will continue into the foreseeable future. While most of the attention regarding this trend has focused on large U.S. firms, globalization has also created opportunities and threats for smaller enterprises, as well as minority-owned enterprises in the United States. Understanding the dynamics of the world economy and its impact on even local domestic businesses within the U.S. will be an important element of any business strategy in the future, regardless of size or ownership. Those that adjust and take advantage of new opportunities will prosper, while those that avoid the international economy will be at a competitive disadvantage.

MBDA's efforts to develop an international business outreach program that builds business linkages between US minority-owned firms and business owners from key developing markets are an important step towards better integrating US minority businesses into the global economy. Although MBDA has traditionally focused largely on US domestic market opportunities, the Agency recognizes the great market potential of the developing world and seeks to increase minority business participation in international transactions.

To increase its effectiveness, MBDA has developed a series of key strategic partnerships with the Commerce Department's sister agencies, the Trade Information Center and the US & Foreign Commercial Service, as well as agencies outside of Commerce such as the Overseas Private Investment Corporation and the US Agency for International Development, to increase the Agency's reach into global trade and to assist minority business participation in overseas transactions. With the support of these partners, MBDA has embarked on a nationwide series of trade education seminars to help educate companies about the resources available to US exporters and to facilitate international business opportunities for US minority-owned companies. The Agency also plans to undertake a series of trade missions beginning in 2004.

This preliminary study will serve as the basis for both future research and practical recommendations regarding minority-owned business in the United States. In a study such as this, designed to stimulate discussion and lay the groundwork for next steps, it is not possible to provide comprehensive recommendations or sharply defined answers. However, this study has revealed a number of critical issues that minority owned business, and the Minority Business Development Agency, will inevitably be forced to confront in the coming years.

1. *MBDA should commission and support a comprehensive study of the issues raised in this paper*

The most glaring takeaway from this study is the almost complete lack of solid data about the actual state of minority owned business in the United States and their interaction with the world economy. Much of the research here has been culled from numerous sources, none of which focused specifically on the issues under examination. Indeed, much of the information is so outdated as to be almost worthless. For example, a study conducted in 1987, while the Cold War was still in existence, and before the wave of globalization that occurred in the United States in the 1990s, gives us almost no purchase on the current state of minority business' overseas relations. Furthermore, much of the information in this study was culled from sources that had neither minority business nor internationalization as their focus. This almost complete absence of focused data presents a serious obstacle to understanding the situation of minority owned business and the issues they face in the 21st century.

In addition, there is no available evidence demonstrating differences in exporting between minority groups in the United States. Without these data, it will be difficult to explore the working assumption that minorities with generally more recent ties to their homelands (e.g. Hispanic, Asian/Pacific Islander), export more, while those several generations removed export less. In addition, data that differentiates between minority groups will also provide the basis for the creation of more accurate policies that will ultimately be more effective in helping and supporting minority business efforts to enter the global economy.

What is needed is a thorough study of minority business, its integration into the world economy, drivers of success and failure, and basic issues that these businesses face. Only then will the MBDA be in a position to promote best practices and provide support in a comprehensive and meaningful manner. The MBDA must devote the appropriate resources to support at least a yearlong, comprehensive, in-depth study to be conducted by a major research institute with the capacity to provide serious scholarship. Such a study will be essential to provide a starting point for the MBDA to provide policy recommendations and support to minority-owned business as they deal with the international economy.

As a necessary extension of MBDA's support for a comprehensive study of the issues raised in this paper, there are several specific activities that the Department of Commerce can undertake to facilitate minority business participation in the global economy. Three recommended actions are listed below. There will be many more recommendations that arise from the comprehensive study recommended here. To MBDA's credit, two of these recommended activities are currently being implemented to some degree, and should be intensified. Other activities need to be initiated.

A.) Build bridges to developing economies – this is apparently a current MBDA robust initiative and it is to be encouraged;

B.) Centralize all global business opportunities for which minorities have advantages in an easily accessible place, searchable by Internet access. This activity is primarily a library/archive function, and is designed to bring together the very good, but often disparate opportunities that are identified by various Federal Agencies, a short list of which includes Commerce's BISNIS bulletins, the Foreign Commercial Service's surveys of opportunities, USAID's world-wide development contracts and many more; and,

C.) Identify the leading minority business enterprises (MBE's) involved in all aspects of international trade and commerce. Organize conferences to include "best practices" among those companies. As a suggestion, a review of the alumni association of the Minority Business Executive Program (MBEP) at the Tuck School of Business would be instructive. When MBEP debuted in 1980, its mission was to help minority-owned companies grow by offering their senior managers the same high-caliber executive education available to Fortune

500 corporations. Successfully fulfilling this mission over the years has earned Tuck a national reputation for unparalleled excellence in minority management development. MBEP Graduates remain connected to Tuck and their classmates by becoming part of the Tuck MBEP Alumni Association, a national network of nearly 2,000 minority business alumni that actively promotes ongoing business opportunities, best practices and thought leadership.

2. *International business is much more than exports*

As Section III showed in great detail, many of the opportunities that exist in international business do not involve exports. Small and minority-owned businesses can take advantage of being in specific areas such as outsourcing, intellectual capital and the global supply chain Indeed, precisely because some minority businesses are smaller in size, they may be more nimble, or willing to work on a smaller scale, than larger companies. What is a significant expansion of a minority-owned business may not be worth the while to a larger company. Minority owned business should exploit these opportunities.

3. *Collaboration or partnerships with larger business offers unexpected opportunities*

The final general point to takeaway is that small, minority-owned business need not be constrained by their size. There exist a myriad of ways in which small business can take advantage of opportunities in the international economy, a few of which have been discussed here. While some businesses may be in a position to work independently, partnership or other relationships with larger or more established multi-national companies may pose significant benefits for minority firms. A smaller firm may be willing to enter a market not large enough to justify an investment by a larger firm. In addition, a minority-owned business may have global ties or expertise that could be useful to a larger firm. Such significant opportunities should not be overlooked as minority firms contemplate global business.

4. *Issues beyond the scope of this paper*

In a study such as this, designed to promote thought and discussion, there are inevitably important areas that the authors have been unable to address. Of these, two in particular stand out as important for future consideration by the MBDA and minority-owned business in the United States.

First, this study has not explored the potential advantages and strengths that minority owned businesses may have with the country or region with which they have ethnic linkages. That is, minority businesses in the United States may have a competitive advantage relative to larger, more mainstream U.S. companies when it comes to doing business in a particular region. A large segment of the minority population in the United States is recent immigrants – perhaps first or second generation. These businessmen retain strong ties to their country of origin, and those links may provide opportunities that do not exist for more established companies. Alternatively, some minorities in the United States have been here for generations, and may have no real advantage in this area. Further study is necessary to understand the dynamics and the issues involved when minority businesses engage in business with their country of origin.

Second, this study has focused on the "typical" minority-owned business. As was shown in Section II, these businesses on the whole tend to be smaller, engaged in retail or services, and exist with few links to the world economy. Thus, this study has attempted to explore this "typical" minority business and its opportunities for global expansion. However, we realize that there are also far larger minority businesses, and also minority-owned business that focuses on manufacturing or agriculture. The MBDA should be aware that these companies, as well, may not have turned their attention to the global environment.

BIBLIOGRAPHY

Anderson, Sarah, John Cavanagh, and Thea Lee. 1999. "Effective Protest Effort Range from Comic Books to Boycotts," *The Nation*, December 6.

Burtless, Gary, Robert Lawrence, Robert Litan, and Robert Shapiro. 1998. *Globaphobia: Confronting Fears About Open Trade.* Brookings.

Celent Communications. 2002. "Raising the Bar on Offshore IT for Insurance," *Celent Communications Reports*, May 16.

Checa, Nicolas. John Maguire, and Jonathan Barney. 2003. "New World Disorder," *Harvard Business Review* (August).

Ekanem, N. Frank and Charlie E. Mahone, Jr. 1998. "Minority-owned Business Enterprises' Participation in International Trade," *Multinational Business Review*, 6:52-62 (Fall).

Friedman, Thomas. 1999. "A Manifesto for the Fast World", *New York Times Magazine*, March 28.

Friedman, Thomas. 2000. *The Lexus and the Olive Tree*: Understanding Globalization. Anchor.

Garrett, Geoffrey. 2000. "The Causes of Globalization," *Comparative Political Studies*, Vol. 33, No. 7 (August/September).

Gilpin, Robert. 2000. The Challenge of Global Capitalism: *The World Economy in the 21st Century*. Princeton University Press.

Kennedy, Paul. 1987. *The rise and fall of the great powers : economic change and military conflict from 1500 to 2000*. New York, NY: Random House.

Koudal, Peter. 2003. "Globalization on Hold? Global Investment Trends of US Manufacturers," *Deloitte Research*.

Larsson, Thomas. 2001. *The Race to The Top: The Real Story of Globalization*. The Cato Institute.

Organization for Economic and Co-operative Development. 2003. *Trends and Recent Developments in Foreign Direct Investment*. OECD Development Centre, June 18.

Porter, Michael. 1990. *The competitive advantage of nations*. New York: Free Press.

Reich, Robert. 1991. *The work of nations: preparing ourselves for 21st-century capitalism*. New York: A.A. Knopf.

Sjursen, Katrin. 2000. *Globalization*. H.W. Wilson.

Stiglitz, Joseph. 2001. "Thanks for Nothing," *Atlantic Monthly* (October).

Toffler, Alvin. 1995. *Creating a new civilization: the politics of the Third Wave*. Atlanta: Turner.

United Nations Division on Investment, Technology, and Enterprise Development. 2002. *The World Investment Report*: 2002. www.unctad.org.

World Trade Organization. 2001. "The Multilateral Trading System — Past, Present and Future," www.wto.org.

THE TUCK SCHOOL OF BUSINESS AT DARTMOUTH COLLEGE

The Tuck School of Business at Dartmouth College is the first graduate school of business in the United States, founded in 1900. Through the years, Tuck has consistently been regarded as one of the leading management schools in U. S., and in both 2001 and 2002, The Wall Street Journal ranked Tuck as the number one business school in the world. Tuck offers only one degree program--the full-time MBA. Such focus allows Tuck to offer outstanding support to its students and faculty. In addition to its MBA program, Tuck offers a select array of executive education and other nondegree programs, like the Tuck Minority Business Executive Program (MBEP).

Tuck's faculty members are outstanding scholars with a passion for teaching and research. At the cutting edge of their disciplines, they are highly regarded for their expertise in key areas of business practice.

Tuck combines the intellectual and competitive strength of a large university with the soul of a tightly knit community.

TUCK'S ROLE IN MINORITY BUSINESS DEVELOPMENT AND MANAGEMENT EDUCATION

Tuck has been and continues to be a leader in minority business education. In a typical year minorities constitute about 30 percent of Tuck's full-time MBA class.

Tuck's Minority Business Executive Program (MBEP), founded in 1980, teaches business owners how to develop and implement a strategic plan for survival and prosperity and how to use financial tools to perform cost analysis and implement control systems. Participants also learn how to develop effective marketing and operations strategies, manage human resources more intelligently, and refine leadership skills as they strive to attain management excellence.

The Advanced Minority Business Executive Program (AMBEP) teaches owners and senior executives how to transform their own business into an enterprise that will be more profitable, able to serve larger customers or a broader market, and ready to make adaptive changes. Depending on the industry, market conditions, and competitive landscape, this may involve becoming leaner, more agile, more innovative, or more efficient. It will certainly involve being more responsive to customers and on a path toward greater profitability.

Participants in MBEP and AMBEP learn how to critically assess the way they currently run their own businesses, be an effective supplier, partner with other organizations successfully, and drive costs out of their operations.

When MBEP debuted in 1980, its mission was to help minority-owned companies grow by offering their senior managers the same high-caliber executive education available to Fortune 500 corporations. Successfully fulfilling this mission over the years has earned Tuck a national reputation for unparalleled excellence in minority management development.

THE CENTER FOR INTERNATIONAL BUSINESS

The Center for International Business (CIB) is the oldest of Tuck School's five research centers. The Center is dedicated to education and research into the economic, social, and political factors affecting international business, particularly in the emerging markets of Asia, Latin America, and other rapidly developing world regions.

The Center has four main activities; three are academic and one is private sector oriented, as follows:

1. In the research arena, the Center:
    - Supports work by Tuck faculty and other scholars researching international trade and other vital business issues in emerging economies. Projects the center has supported include the study of regional differences and new organizational forms in China, and cross-national comparisons of the impact of marketing on firm performance in Vietnam, India, China, and other developing countries.
    - Maintains extensive databases relating to international business matters. For example, the Center maintains a database on emerging economies, including indices of market openness. This Emerging Market Access Index (EMAI) ranks the level of access that foreign goods, services, and investment enjoy in more than 40 emerging economies. In addition, the Center recently established a searchable database of international trade agreements. This database—the first of its kind—is indexed to allow scholars to search for trends across countries, regions, commodities, timeframes, provisions, and even phrases.
    - Organizes annual conferences in Tokyo and Washington, D.C. including the World Business Forum (Tokyo) and the Dartmouth-Tuck Forum on International Trade and Business (alternating Washington and Europe).
2. In the teaching arena, Center professors and fellows teach in both the Tuck MBA program and in Tuck's executive education programs. In the executive education classroom, the Center provides access to international business experts, while also teaching the most recent methodologies and practice in international business.
3. In the area of cooperation with other institutions, the center coordinates Tuck's partnerships with leading academic institutions in Asia and Latin America, including the International University of Japan, the Beijing International MBA at Peking University, Keio University Business School in Tokyo, the School of Management of Fudan University in Shanghai, the Hanoi School of Business at the Vietnam National University, and the Asian Institute of Management in Manila. These relationships afford scholars, students, and executives the chance to participate in center-sponsored activities. Through the International Executive Development Program for Vietnamese Managers, for example, numerous Vietnamese managers and young faculty members have been trained in the business skills of a market economy in classes led by Tuck faculty at both the Hanoi School of Business and at Tuck.
4. Apart from its academic activities, the Center's fourth primary endeavor combines its scholarly research with practical business management in a program known as The Tuck Global Consultancy (TGC). This program offers the business community access to outstanding international consulting services. Teams of experienced and superbly trained Tuck MBA candidates—selected and advised by Tuck faculty with international business consulting credentials —provide on-site corporate consulting projects in overseas locations. In the past six years, the Center's TGC teams have completed 65 projects for over 40 organizations in 29 countries. Clients have included such well-known names as Unilever, Cargill, Citibank, Eli Lilly, Hewlett-Packard, World Bank/IFC, Johnson & Johnson, McGraw-Hill, Nike, and Walt Disney.

THE AUTHORS

John B. Owens

John Owens is Executive Director of the Center for International Business. He is also Adjunct Professor of Business Administration at the Dartmouth's Tuck School and is part of Tuck's international business faculty. He is primarily responsible for the Tuck Global Consultancy program, described earlier. Professor Owens' research and practical interests are in investment strategies for developing markets, corporate recovery and reorganization, and business and market development.

Mr. Owens has held senior positions in the public, private and academic sectors; particularly in international venues with emerging or transitioning economies. He has over twenty years experience in private equity investing; more than half of it in international locations.

He has worked, lived and invested in private sector projects in Australia, Central Asia, Russia, Europe and Central America. His private sector activities have also included collaboration with international multilateral organizations like International Finance Corporation/World Bank, The European Bank for Reconstruction and Development and Asian Development Bank.

Immediately prior to joining the Tuck School of Business at Dartmouth, Mr. Owens was President and CEO of The Central Asian-American Enterprise Fund, a venture investment fund with operations in the former Soviet republics of Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan and the Kyrgyz Republic.

In the private equity field, Mr. Owens' capital commitments have included investments in such diverse industries as: food processing, textiles, chemicals, air transport, food service, hotels, financial services and capital equipment. Mr. Owens has degrees in economics and mathematics from the University of North Carolina at Chapel Hill and in business administration from the Tuck School of Business at Dartmouth College. He has also done postgraduate studies at New York University in international economics.

Robert Pazornik

Robert Pazornik is a graduate student in the department of Political Science at Yale University. He studied government and international development in the University of Notre Dame Honor's Program and was named a winner of the Mastercard Priceless Edge Scholarship in 2002. Before graduate study, Robert worked with VentureNova -- a Casio venture capital incubator in the Silicon Valley -- and collaborated in research efforts at the Stanford University Persuasive Technology Lab. Most recently, Robert was co-founder and Executive Director of 3BStudios Software, which was bought by 4-A Media in 2003.

MINORITY ENTERPRISE
2003
DEVELOPMENT WEEK
™

Coming Next Fall!

Join MBDA and SBA
in Celebrating
National MED Week 2004

Back to the Future

Watch for the Date!

WWW.MEDWEEK.GOV