

Informing the Debate

Proposal 2



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**THE IMPACT OF PROPOSAL 2 ON THE SURVIVAL OF MINORITY
AND WOMEN OWNED NEW FIRMS IN MICHIGAN**
MICHIGAN APPLIED PUBLIC POLICY RESEARCH REPORT
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Abstract

This study concerns the impact of Michigan's Proposal 2 (which banned race and gender-based affirmative-action programs) on business start-ups and survival rates among women and minority-owned businesses in contrast to those of White male-owned businesses in Michigan. The report includes a literature review of the effects of anti-affirmative action propositions adopted in California and Washington, as well as a survey conducted with women and minority business owners in Michigan about the possible impacts of Proposal 2. The literature suggests that women and minority owned businesses were less likely to expand in the years immediately after passage of the anti-affirmative propositions in California and Washington than in comparable states without anti-affirmative action propositions. Moreover, half of all white women business owner respondents and 80% of black business owner respondents surveyed in Michigan agreed that the passage of proposal 2 is more likely to increase the disparities between white male -owned firms and women and minority owned firms in volume and successful bidding on large public contract opportunities.

H1: Introduction

On November 7, 2006, the people of Michigan voted to prohibit “...preferential treatment to any individual or group, on the basis of race, sex, color, ethnicity or national origin in the operation of public employment, public education or public contracting.” (Michigan Constitution, 2007).

As a consequence of the Civil Rights Movement and in the wake of the urban uprisings of the 1960s, federal, state, and city governments undertook a wide range of affirmative action programs to provide resources to groups subject to historical discrimination on the basis of ethnicity, race and gender. These programs sought to provide these disadvantaged groups with resources and opportunities long denied them so that they might experience rates of upward mobility associated with populations not subject to such discrimination.

The most visible of these involved providing access to education and government employment. In addition, however, affirmative action programs also sought to provide groups characterized by low rates of self-employment with various resources that would increase their involvement in entrepreneurship.

Shortly after taking office, President Richard M. Nixon emphasized the importance of minority business ownership as part of his urban and race relations policy (Perlstein, 2008):
[T]o foster the economic status and the pride of members of our minority groups we must seek to involve them more fully in our private enterprise system...both in the areas where they now live and in the larger commercial community--and not only as workers, but also as managers and owners. ... [N]ot only to share the economic benefits of the free enterprise system more broadly, but also to encourage pride, dignity, and a sense of independence. In order to do this, we need to remove commercial obstacles which have too often stood in the way of minority group members--obstacles such as the unavailability of credit, insurance, and technical assistance (Nixon, qtd. in Wooley & Peters, 2008)

Even prior to Nixon's election, in 1967, an amendment was made to the Economic Opportunity Act (EOA) that directed the Small Business Administration (SBA) to emphasize the growth of small businesses owned by low income persons or those located in areas of high unemployment (Bates, 1997). Gender was added shortly thereafter.

H1: Types of Business Assistance

Inclusive business programs intended to foster the growth of women- and minority-owned businesses exist at several levels of government as well as in non-profit and private sectors. Assistance is provided in three major forms: loans, technical assistance, and through the allocation of fractions of government spending to disadvantaged contractors (*set-asides*).

H2: Loan Funds

A large body of research has determined that capital is especially difficult for women and minority entrepreneurs to obtain (Bates, 1997; Woodward, 1997; Fairlie and Robb, 2007).

As a result, the United States Government has developed several ways of extending low interest loans to encourage business start-ups and expansions. In general, loan programs, especially those directed towards small and inexperienced businesses, have not achieved desired goals. As a case in point, Woodard described three government loan programs as under-funded and poorly managed, and therefore largely unsuccessful, at least with regard to Black clients (Woodard, 1997).¹

Despite this negative evaluation, other appraisals of their impact are mixed. For example, Light and Bonacich (1998) found that Korean entrepreneurs in Los Angeles preferred SBA loans even to those available from Korean banks because they offered preferable interest rates. According to economist Timothy Bates, Chicago's South Shore Bank experienced mixed results in efforts to revitalize a red-lined area of Chicago with some SBA support. A redlined area or neighborhood is one where banks have made the decision to deny loans to the area because they perceive it as an area of high risk. It is usually an area characterized by poverty, older housing and is declining in population. Retail firms met with little success in such neighborhoods. However, remodeling and real estate development companies were quite profitable (Bates, 1997). Over time, policies directing sizeable loan funds to established businesses have been favored over microloan programs for novice entrepreneurs because they have a greater likelihood of success.

H2: Technical Assistance

These programs provide women and minority entrepreneurs with practical and academic knowledge in all aspects of business management to help them plan and manage businesses.

H2: Set Asides

Within these programs, government agencies require that a fraction of their expenditures be directed to contractors certified as belonging to disadvantaged categories, such as women and minority groups. Set aside programs' impacts are extended as major government contractors are themselves required to target a certain amount of their spending towards women and minority subcontractors.

H1: Impacts of Minority Business Development Program

A wide variety of minority business development programs have been put into effect. In general, set asides have been the most effective means of assisting disadvantaged businesses because rather than simply encouraging the formation of businesses by women and minority group members, set asides directly provide employment and income to such businesses. Further, once such businesses receive contracts to provide goods and/or services to governmental entities, they become good credit risks and are thus able to obtain credit from banks and establish preferential agreements with suppliers, subcontractors and the like.

Starting in 1969, the SBA 8(a) "set aside" program awarded \$8.9 million in contracts to disadvantaged businesses, a figure which grew to \$4.3 billion by 1985, with considerable support from the Carter administration. As a result, "many small and Black-owned businesses stabilized and grew" (Woodard, 1997). The 1977 Public Works Employment Act had a similar im-

fact, requiring all large general contractors bidding for public works projects to allocate at least 10% of their contracts to ethnic minority subcontractors without regard to the size or disadvantaged status of the enterprise.

Following this governmental initiative, large corporations also established set-aside programs of their own. In 1982, through the National Minority Supplier Development Council, companies purchased \$5.3 billion in goods and services from minority-owned businesses. A decade later, this figure had doubled to \$10 billion (Woodard, 1997). According to Minority Business Development Agency (MBDA) figures, in 1992, 5% of Black-owned businesses derived more than one half of their revenue from state and local government, while 17% derived more than one half of their revenue from the federal government (Woodard, 1997).

H1: Anti Affirmative Action Programs

From their inception, affirmative actions programs have been controversial because they challenged the individualistic ethos of American economic life and also because they allocated resources to groups long deprived thereof. Accordingly, powerful anti-affirmative action movements sprang up in opposition. They used the courts, legislation and ballot initiatives to restrict or eliminate programs that sought to assist groups that were identified as suffering historical disadvantage on the basis of race, ethnicity, gender and other factors (Fullbright, 2006; Harper & Reskin, 2005).

Starting with the Supreme Court's *Board of Regents of the University of California v. Bakke* Decision (1978) which ruled that fixed quotas for admissions of minorities into universities (in this case, University of California, Davis Medical School) were unconstitutional, the movement developed a multi-level campaign of opposition in law making bodies (at the city, state and federal level) and in the courts.

The most widely discussed impact of affirmative action has been with regard to women and minority groups' access to education and jobs. For example, in order to desegregate public schools in accordance with *Brown v. Board of Education*, (1954) and reinforced by *Green v. County School Board of New Kent County* (1968), the Supreme Court ruled that school districts that operated segregated schools had an "affirmative duty to take what[ever] steps were needed to end racial discrimination" (Harper & Reskin, 2005). This led to bussing programs that transported White children to largely Black schools and visa versa. Bussing was effective at reducing Black students' concentration in predominantly minority schools. However, this measure was widely controversial and encountered a series of legal challenges. In 1974's *Milliken v. Bradley* decision, the Supreme Court ruled that students in Metropolitan Detroit could not be bussed across school district lines (city to suburbs) to achieve integration of the Detroit public schools. Thus, among the 50 largest metropolitan areas, school children in metropolitan Detroit attend the most racially segregated public schools (Darden, 2007; Logan, Stowell & Oakley, 2002). In spite of the high levels of racially segregated public schools, by the 1990's the courts ended court-ordered bussing as a remedy for racial school segregation. Since then, "[D]

esegregation efforts have now all but disappeared and school segregation has returned to its pre-affirmative action levels” (Harper & Reskin, 2005).

Among colleges and universities, affirmative action efforts were undertaken without legal compulsion. Since such policies were implemented, the number of students of color at highly selective universities has increased substantially. However, because affirmative action programs in public universities can be banned by legal actions or policy decisions taken by state governments, they are at considerable risk of curtailment. Indeed, following the passage of California’s anti-affirmative action Proposition 209 in 1996, the number of African American students entering the University of California, Berkeley Law School dropped by 81% (Cose, 2006).

Anti-affirmative action movements have also had significant negative impacts on programs assisting women and minority-owned businesses, both through the removal of set-asides and the elimination of business assistance programs and loan funds. In the 1989 decision *City of Richmond v. J. A. Croson Company*, the U.S. Supreme Court ruled against programs that reserve a certain amount of public purchasing for designated groups, and asserted that that affirmative action could only be used in public contracting when actual discrimination or underrepresentation of specific groups was documented. The Court further asserted that narrowly tailored race-conscious measures could only be used to address discrimination when race-neutral means were not sufficient (Discrimination Research Center, 2006). Following this decision, at least 33 states abandoned their set-aside programs. “The *Croson* decision, to a large extent, legitimated the idea of reverse discrimination in government procurement” (Lowry, 2005; Woodard, 1997).

During the 1990s, “a variety of challenges to the set-aside requirements of government programs began to emerge” (Lowry, 2005). In reaction, some government entities developed strategies that sought equal opportunity and diversity without focusing on gender, race or ethnic origins (Insight Center for Community Economic Development, 2007). While private sector programs took important measures to support minority enterprise, the economic downturns which occurred after 2000, together with “escalating pressure on government to dismantle set-asides” created a climate which “would confound even the largest and most prolific businesses” let alone struggling minority start-ups. Accordingly, both governmental and private sector support for minority businesses became scarce (Lowry, 2005).

H2: Anti Affirmative Action Propositions

During the 1990s, activists established a legislative program to ban affirmative action through state elections. The first of these was Proposition 209, passed in California in 1996. Similar proposals were approved in Washington (Initiative 2000) in 1998 and Michigan in 2006 (Proposal 2). Having successfully promoted anti-affirmative action propositions in these states, the American Civil Rights Institute, led by California businessman and former University of California Board of Regents member Ward Connerly, made plans to expand the program to several more states (Fullbright, 2006).

The anti-affirmative action movement enjoys limited support from major political actors, large corporations, and other influential organizations, which regard such attacks on minorities as destructive in an increasingly diverse and globalized society. For example, in Washington, Eddie Bauer, Microsoft and Starbucks funded opposition to the campaign for Initiative 2000 (Stein, 2008). The coalition opposing Michigan's Proposal 2 received significant funding from Ford Motor Company, the Dow Chemical Company, and Detroit's Greektown Casino and was endorsed by the League of Women Voters, the United Auto Workers, and the Arab-American Institute (Schmidt, 2006; Stein, 2008). Moreover, Proposal 2 was opposed by both Democratic and Republican gubernatorial candidates who were seeking office in the same election.

However, the anti-affirmative action movement has significant appeal to White (and especially male) voters, which is why Connerly's organization promotes the anti-affirmative action cause through state initiatives rather than legislatures which might alter outcomes. "Indeed, as evidenced in the public opinion polls, Whites overwhelmingly object to government assistance targeted at Blacks. [W]hereas eight of every ten African Americans believe that the government is not spending enough to assist Black people, only slightly more than three of every ten White Americans feel this way" (Wilson, 1999).

H1: Outcomes of Anti-Affirmative Action Propositions

Michigan's anti-affirmative action proposition is relatively recent. Accordingly, there is little data on the impact of the law on women and minority-owned businesses. However, the California law has been on the books over ten years, so some data on its effects are now becoming available. A study evaluating the impact of a California Department of Transportation (Caltrans) program that directed purchasing to women and minority owned businesses, determined that after Proposition 209, only a third of the state's certified Minority Business Enterprises (MBEs) were still in existence 10 years after the law went into effect. In addition, MBEs received only half of the awards and contracts from Caltrans that they had accessed prior to the law; that African American and women-owned contractors suffered the most adverse impacts after Proposition 209; and that many of the MBE contractors still in existence "could not have initially succeeded or maintained their success" without incentives that helped them gain equal access to bids (Discrimination Research Center, 2006).

Analysis by the Insight Center for Community Economic Development found that women and minority owned businesses were less likely to expand in the years immediately after passage of the anti-AA propositions in California and Washington than were WBEs and MBEs in Oregon and Maryland, somewhat comparable states that did not change their affirmative procurement policies between 1996 and 2001 (Insight Center for Community Economic Development, 2007).

Harper & Reskin (2005) concluded after a review of the impact of affirmative action that governmental programs are increasingly challenged by activists and the courts. However, major institutions including universities and corporations remain committed to the goal of in-

creasing access to under-represented groups in schools and the workplace, even if the broad, government-based mandate for it has been weakened (Harper & Reskin, 2005). Further, despite the mobilization against affirmative action purchasing programs, since 2003, while 7 states have curtailed inclusive business programs, 14 states have either initiated or enhanced inclusive business programs between 2003 and 2006 (Insight Center for Community Economic Development, 2007).

We now evaluate one of Michigan's important state loan programs and the extent to which assistance has been provided to women and minority owned businesses.

H1: Michigan's State Loan Programs for Businesses

Through its Michigan Economic Development Corporation, the State of Michigan provides financing programs to assist Michigan businesses with growth and expansion. These programs are generally used to provide the private sector with financing assistance through partnerships that address unmet financing needs. The State uses the private institutions approach in order to make it possible to use limited public resources to leverage large amounts of private capital (Michigan Economic Development Corporation, 2008). There are two state loan programs—the Capital Access Program (CAP) and the Private Activity Bond Program, formerly the Industrial Development Revenue Bond Program (IDRB). We analyzed this loan program to determine the extent to which minority and women were recipients of these bonds. First, we describe the purpose of this program.

The IDRBs or The Private Activity Bond Program consist of tax-exempt bonds issued on behalf of the borrower by the Michigan Strategic Fund (MSF) and purchased by private investors. These loans can be made for manufacturing, not-for-profit corporation projects, and solid waste facilities. Bond proceeds can only be used to acquire land, building and equipment. Working capital and inventory are not eligible for this type of financing. These bonds are generally used when financing of *\$1 million and more* is required. The company for which the bond is issued must be creditworthy enough to attract a buyer for the bonds, because the state does not guarantee the bonds (Michigan Economic Development Corporation, 2008).

We examined the list of businesses that had received these bonds. We found that 2117 businesses have received support under the IDRB program. However, the bond recipients have been overwhelmingly White male own firms. Of the 923 total minority-owned businesses in Michigan, only 6, or less than 1%, received support under this program. Among the 6 minority-owned businesses, 1 was Black owned, 2 were owned by Hispanics, and 3 by Native Americans. One of the Hispanic-owned businesses was owned by a woman. Of the 1192 White women-owned businesses in Michigan, only 1, or .05%, received support under this program. Table 1 shows the number and percentage of minority and women-owned businesses that received these revenue bonds. It is clear that minority and women-owned business owners have not benefited from this State loan program. The reasons for the virtually complete absence of minority and women businesses from the program are beyond the scope of this study. It has im-

plications, however, for this study of the impact of Proposal 2 on minority and women-owned businesses.

H1: Michigan Economic Development Corporation and Implications of Proposal 2

The Michigan Economic Development Corporation (MEDC) was formed in 1999 through an inter-local agreement between the state of Michigan and a number of Michigan communities (Michigan Economic Development Corporation, 2008). The primary focus of MEDC is to help companies grow in Michigan in a very competitive and challenging 21st Century global economy.

The overriding purpose of this study is to assess what assistance has been provided by the State to minority and women-owned businesses, what impact Proposal 2 may have had on reducing that assistance, and what perceived impact proposal 2 might have on minority and women owned businesses in the future.

H1: Small Businesses in Michigan

Since most minority and women-owned businesses are small businesses (with fewer than 500 employees), we present a profile of small businesses in Michigan. Small businesses are key players in the economy of Michigan. They make up most of the employer firms in the state. The state had an estimated total of 822,000 small businesses in 2002, based on the most recent data available (U.S. Small Business Administration, 2006).

Women-owned firms increased 18% between 1997 and 2002, from 184,590 to 217,674. They represented 29.5% of the state's total businesses in 2002 (the most recent year data are available). These firms (with or without paid employees) generated \$29.3 billion in revenues in 2002 (U.S. Small Business Administration, 2006).

Black-owned firms totaled 44,366, or 6.0% of all small firms. These firms generated \$4.3 billion in receipts. Black women owned 53.6% of these firms.

American Indian-Alaska Natives owned 5,361 firms and they generated \$700 million in receipts. Women owned 48.7% of these firms. Asian-owned firms totaled 15,337 or 2.0% of all small firms in 2002, generating \$5.1 billion in receipts. Women owned 29.8% of these firms. Native Hawaiian and other Pacific Islanders owned 196, or .02% of all small firms, generating \$37 million in receipts in 2002. Women owned 38% of these firms. Hispanic or Latino-owned firms numbered 9,841, or 1.3% of all small firms, generating \$3.2 billion in receipts. Hispanic or Latino women owned 38% of these firms (U.S. Small Business Administration, 2006). The importance of these small firms should not be underestimated. They provided over 2 million jobs and represented 98.4% of the employer businesses in the state, employing 51.5% of the state's non-farm private sector workforce (U.S. Small Business Administration, 2006).

Tables 2-5 indicate the top 10 locations for Black, Hispanic, Asian, and Women-owned firms based on their business participation rate (or BPR, which is the number of businesses per 1000 persons of the specified population). For Blacks, the BPR for all places was 31.4 and the top ten places were all located outside of central cities (Table 2). Most were located in suburban Detroit. Hispanics had a slightly lower BPR (30.4) when compared to the Black BPR. Com-

pared to Black businesses, Hispanic-owned businesses were also more likely to be located in central cities such as Ann Arbor, Flint and Lansing (Table 3). Asians had a higher BPR (86.8) than either Blacks or Hispanics. Similar to the location of Black-owned businesses, all of the top ten places for businesses owned by Asians were located in the suburbs—most outside of the city of Detroit (Table 4). Businesses owned by women are more dispersed throughout the State. Women had a BPR of 42.9. This is higher than the rate for Blacks and Hispanics but only half the rate for Asians. Like businesses owned by Blacks and Asians, the top ten women-owned businesses were all located outside of central cities (Table 5).

Given their importance to the State’s economy, another key question we examined is whether Proposal 2 had a negative or positive impact on the start-up of firms owned by women and minorities. We examine first how small businesses get their capital to start a business.

H1: Sources of Start-up Capital for Small Businesses

Based on data representing the United States (a large sample) made available by the U.S. Bureau of the Census, (2006), we determined the sources of start-up capital for all firms and for firms owned by Whites, Blacks, Hispanics, American Indian and Alaska Natives, Asians, and Native Hawaiians and Pacific Islanders. We also analyzed the data to capture the different groups by gender. We assumed that the pattern in Michigan does not deviate significantly from the national pattern.

Table 6 shows that most respondents (63.6) indicated that their capital for start-up businesses came from personal family assets. Most Black respondents (57.3%) also indicated that their start-up capital came from personal savings and other family assets. Among Hispanics, 57.9% got their start-up capital from personal savings and other family assets. Asians had the highest percentage of respondents (70.3%) who reported personal family savings as the source of start-up capital. Also regardless of race/ethnicity, the percentage of respondents reporting personal family savings and assets as their source of capital was higher among men than among women. Although most minorities and women rely upon personal savings and family assets for start-up capital, at least 30% to 43% of their capital comes from government, bank loans or outside investors. The access to such capital may be impacted by Proposal 2. To assist us in assessing the possible legal impact of Proposal 2, we reviewed a recent report on Proposal 2 by Michigan’s Civil Rights Commission.

H1: Impact of Proposal 2: The Position of Michigan’s Civil Rights Commission

On March 7, 2007, the Michigan Civil Rights Commission issued a report based on an assessment of the impact of Proposal 2 (Michigan Civil Rights Commission, 2007) According to the report, the provision of Michigan’s statute governing minority-owned businesses, which grants preferences to those firms in the area of procurements through the State’s Executive Branch, violates Proposal 2 because it grants preferential treatment based on race, sex, color,

ethnicity, and national origin. Proposal 2 only applies to state government institutions. It has no application to the private sector or federal programs (Michigan Civil Rights Commission, 2007). In the final section of this report, we present the perceptions of women and minority business owners and business support organizations.

H1: The Impact of Proposal 2: The Perception of Business Owners and Business Support Organizations

Proposal 2, which was passed in November of 2006, prohibits the State of Michigan from granting preferential treatment by providing assistance to minority and women-owned businesses. Thus, Michigan's Statute M-CL 450.771, which provided such assistance, became illegal after the proposal passed.

In March of 2008, as part of our research interest in the impact of Proposal 2, we conducted a web-based survey and requested participation by minority and women-owned businesses and business support organizations in Michigan. The purpose of the survey was to assess their opinions on the impact of Proposal 2 on business growth or decline in Michigan. Michigan is the third state in the United States (after Washington and California) to pass such proposals. However, Michigan is the only state in the economically declining North Central region to pass such an anti-Affirmative Action proposal.

The survey was conducted from March 17-May 7, 2008. The results are presented here. Table 7 shows the number and percentage of groups surveyed. A total of 1,715 business owners or directors of business organizations were asked to participate in the survey. Among business owners, 75% opened their establishment between 1991 and 2006 (U.S. Bureau of the Census, 2006).

Table 8 shows the number and percentage of respondents. A total of 213 business owners or directors of business organizations responded for a response rate of 12.4%. The respondent distribution however reflected the distribution of business owners. (See Tables 7 and 8). Given the low response rate of non-Black minority business owners, we decided to report on the two groups with the highest response rates in addition to all respondents. White women and Black business owners were highly represented among the respondents. In fact, 43.2% of all respondents were White women business owners and 27.7% were Black business owners.

We present the results in three categories: (1) *all respondents*, which include White women business owners and all minority business owners as well as directors of business organizations. The minority business owners and directors include Blacks, Native Americans, Latino/Hispanics, and Asians; (2) *White women business owners*; and (3) *Black business owners*. We asked 17 questions using a Likert scale, which offered the respondent the option to "strongly agree," "agree," "neither agree nor disagree," "disagree," or "strongly disagree." To simplify the results, we collapsed the two options of "strongly agree" or "agree" into one category—"agree." We changed "neither agree nor disagree" to "no opinion" and collapsed "disagree" and "strongly disagree" into the single category of "disagree."

H2: A. Results—All Respondents

The results were as follows. Almost half (49.3%) of respondents agreed that since the passage of Proposal 2, the ability to obtain financing to start a minority or woman-owned business has been more difficult. Also, almost half (48.4%) agreed that since the passage of Proposal 2, potential minority or woman business owners have to rely more on non-state funded support (private or federal government) for loans and other assistance. A majority of respondents (58%) agreed that since the passage of Proposal 2 potential minority and women business owners must rely more on borrowing against the value of their homes. If loans are to be obtained at all after passage of the Proposal, 45% agreed that potential minority or women business owners have to rely more on federal support for loans and other assistance. In recent years, Michigan has been boasting about its business assistance and opportunities for new businesses to get started and expand, yet 45% of respondents had no opinion on whether it is less difficult to get assistance from the State of Michigan or other public organizations in preparing a business plan or other services for starting a business. Moreover, since the passage of the Proposal, 44% of respondents had no opinion as to whether fewer minority and women-owned businesses have opened.

Almost half (49%) of respondents disagreed that after the passage of Proposal 2 it is easier for women to compete for and to secure public contracting opportunities at the state and/or local levels. As to how Proposal 2 impacted each minority group, 57% of respondents had no opinion as to whether it is more difficult for Native American business owners to compete and secure public contracting opportunities at the state and/or local levels. Almost half of respondents (47%) had no opinion as to whether it is now easier for African American business owners to compete and secure public contracting opportunities at the state and/or local levels. A high percentage of respondents (60%) had no opinion as to whether it is more difficult for Asian business owners to compete and secure public contracting opportunities at the state and/or local levels. The response about Latinos was similar: 60% of respondents had no opinion as to whether it is now more difficult after Proposal 2 for Hispanic/Latino business owners to compete and secure public contracting opportunities at the state and/or local levels.

The responses of respondents about opportunities for foreign-born business owners after the passage of Proposal 2 were similar to the responses about minority business owners. Fifty-nine percent of respondents had no opinion as to whether it has been easier for foreign-born business owners to compete and secure public contracting opportunities at the state and/or local levels.

Interestingly, 52% of respondents agreed that it has been easier for White male business owners to compete and secure public contracting opportunities at the state and/or local levels after the passage of Proposal 2.

So what is the impact of Proposal 2 on minority and women *potential* business owners? Almost two-thirds (65%) of respondents agreed that since Proposal 2 hinders state and local governments from providing assistance to minority and women entrepreneurs, the proposal is

more likely to *discourage* minority and women entrepreneurs from establishing a business in Michigan.

Almost two-thirds (64%) of respondents also agreed that the passage of Proposal 2 is more likely to *increase* the disparities between White male-owned firms and women and minority-owned firms in business volume and successful bidding on large public contract opportunities. Finally, 53% of respondents agreed that in the long run, Proposal 2 will result in a higher percentage of minority and women entrepreneurs compared to White male entrepreneurs going out of business.

H2. B. Results: White Women Business Owners

Unlike all respondents, a lower percentage of White women (37%) agreed that since the passage of Proposal 2, the ability to obtain financing to start a minority or women-owned business has been more difficult. Compared to all respondents, a slightly lower percentage of White women business owners agreed that since the passage of Proposal 2, potential minority and women business owners have to rely more on non-state funded support (private or federal government) for loans and other assistance.

Compared to all respondents, a lower percentage (39%) of White women business owners agreed that since the passage of Proposal 2, potential minority and women business owners must rely more on borrowing against the value of their home. Compared to all respondents, a lower percentage of White women business owners (32%) agreed that potential minority or women business owners have to rely more on federal support for loans and other assistance.

White women business owner respondents reflected the position of all respondents in their response to the statement that since the passage of Proposal 2 it is less difficult to get assistance from the State of Michigan or other public organizations in preparing a business plan or other services for starting a business. Fifty-seven percent of White women business owners had no opinion, a percentage higher than that for all respondents (45%). The majority of White women business owners (54%) also had no opinion as to whether fewer minority and women-owned businesses have opened since the passage of Proposal 2.

About half (49.5%) of White women business owners disagreed with the statement that since the passage of Proposal 2, it is easier for women to compete for and secure public contracting opportunities at the state and/or local levels. This is the same percentage for all respondents. Most White women business owner respondents (72%) had no opinion on the statement that since the passage of Proposal 2, it is more difficult for Asian business owners to compete and secure public contracting opportunities at the state and/or local levels. This percentage was higher than that of all respondents.

Most White women business owner respondents (70% or more) also had no opinion as to whether it is now more difficult for Native American and Latino/Hispanic business owners to compete and secure public contracting opportunities at the state and/or local levels or easier for African American and foreign-born business owners to compete and secure public contracting opportunities at the state and/or local levels.

However, 38.2% of White women business owners agreed that it has been easier for White male business owners to secure public contracting opportunities at the state and local levels after the passage of Proposal 2.

The majority of White women business owners (56%) agreed that since Proposal 2 hinders state and local governments from providing assistance to minority and women entrepreneurs, the proposal is more likely to *discourage* minority and women entrepreneurs from establishing a business in Michigan.

Half (50%) of all White women business owner respondents agreed that the passage of Proposal 2 is more likely to *increase* the disparities between white male-owned firms and women and minority owned firms in business volume and successful bidding on large public contract opportunities.

Finally, 44% of White women business owners agreed that in the long run, Proposal 2 will result in a higher percentage of minority and women entrepreneurs compared to White small business entrepreneurs going out of business. We turn now to examine the responses of Black business owners.

H2: C. Results: Black Business Owner Respondents

Specifically, 64% of Black business owners agreed that since the passage of Proposal 2, the ability to obtain financing to start a minority or woman-owned business has been more difficult. The same percentage of Black business owner respondents agreed that since the passage of Proposal 2, potential minority or woman business owners have to rely more on relatives for loans and other assistance.

More than 70% of Black business owner respondents agreed that since the passage of Proposal 2, potential minority or women business owners have to rely more on non-state funded support (private or federal government) for loans and other assistance and they also must rely more on borrowing against the value of their homes. Sixty-two percent of Black business owner respondents agreed that potential minority or woman business owners have to rely more on federal support for loans and other assistance since the passage of Proposal 2.

Slightly more than a third (36%) of Black business owner respondents disagreed that since the passage of Proposal 2 it is less difficult to get assistance from the State of Michigan or other public organizations in preparing a business plan or other services for starting a business.

Fifty-four percent of Black business owner respondents agreed that since the passage of Proposal 2, fewer minority and women-owned businesses have opened. Fifty-seven percent of the Black business owner respondents disagreed that it is now easier for women to compete for and secure public contracting opportunities at the state or local levels after the passage of Proposal 2.

In response to whether it is more difficult for Asian business owners to compete and secure public contracting opportunities at the state and/or local levels, 50% of Black business owner respondents had no opinion. A slightly lower percentage (46%) of Black business owners had no opinion when asked the same question about Native American business owners.

However, in response to the statement that it is easier for African American business owners to secure public contracting opportunities at the state and local levels since the passage of Proposal 2, a high percentage (61%) of Black business owner respondents disagreed.

The majority of Black business owners (54%) had no opinion as to whether it is more difficult for Latino/Hispanic business owners to compete and secure public contracting opportunities at the state and/or local levels since the passage of Proposal 2. Forty-two percent of Black business owners agreed that it has been easier for foreign-born business owners to compete and secure public contracting opportunities at the state and local levels and 79% agreed that it has been easier for White male business owners to do so.

The highest percentage of Black business owner respondents was found in response to the statements (1) since Proposal 2 hinders state and local governments from providing assistance to minority and women entrepreneurs, the proposal is more likely to *discourage* minority and women entrepreneurs from establishing a business in Michigan; and (2) the passage of Proposal 2 is more likely to *increase* the disparities between White male-owned firms and women and minority-owned firms in business volume and successful bidding on large public contract opportunities. To the former statement, 80% of the Black business owner respondents agreed, and 86% agreed with the latter.

Finally, 67% of Black business owners agreed that in the long run, Proposal 2 will result in a higher percentage of minority and women-owned entrepreneurs compared to White male entrepreneurs going out of business.

H1: Conclusions

In conclusion, Black business owner respondents were more likely than White women business owner respondents to believe that Proposal 2 will have a very severe impact on their ability to establish a business in Michigan. Black business owners are also more likely than White women business owners to believe that Proposal 2 will increase the disparities between White male-owned firms and women and minority-owned firms in business volume and successful bidding on large public contract opportunities. Finally, Black business owners are more likely than White women business owners to believe that since the passage of Proposal 2, it has been easier for White male business owners to compete and secure public contracting opportunities and not easier for African American business owners to do so. Thus, in the long run, most Black business owners (unlike most White women business owners) believe that Proposal 2 will result in a higher percentage of minority and women entrepreneurs compared to White male entrepreneurs going out of business.

H2: Discussion

The conclusions above present results that may pose serious challenges to women and minority owned businesses in Michigan in the future. Gender and racial disparities in business ownership may increase and more women and minority entrepreneurs compared to white male entrepreneurs may go out of business. However, these conclusions are based on *perceptions* of minority and women business owners as to the impact of proposal 2. A long term study is

needed to monitor the impact of proposal 2 *in fact* based on actual data of new minority and women owned businesses opening and closing in order to assess the real impact of proposal 2 in Michigan.

Table 1. The Industrial Development Revenue Bond Program and Number and Percentage of Minority and Women Businesses Receiving Bonds

Total number of businesses on the IDRB Alpha list	2117
Total number of minority-owned businesses (male and female)	923
Total number of White women owned businesses	1192
Total number of minority-owned businesses in the IDRP	6
Black American	1
Hispanic American	2
Native American	3
Total number of White women-owned businesses in the IDRP	1
Percent of IDRP businesses that are minority-owned	0.28%
Black American	0.05%
Hispanic American	0.09%
Native American	0.14%
Percent of IDRP businesses that are White women-owned	0.05%

Source: Computed by the authors from data obtained from the Michigan Economic Development Corporation, Industrial Development Revenue Bond Program IDRB Company Alpha List, October 3, 2007.

Table 2. Top Ten Places for Black-Owned Firms Based on BPR

	Places	BPR	Black % of All Firms	Black % of All Receipts	Black % of Population
Rank	All	31.4	6.03	0.54	14.2
1	Ferndale	256.8	9.18	5.22	3.29
2	Dearborn	118.0	1.82	0.17	1.20
3	Ypsilanti	108.4	25.5	1.32	30.7
4	Eastpointe	108.37	7.7	0.49	4.6
5	Farmington	87.24	4.98	0.12	6.9
6	Troy	79.2	1.37	0.27	2.3
7	Warren	78.8	2.95	0.63	2.5
8	Grand Blanc	77.6	6.2	1.81	6.7
9	Redford	73.2	9.7	3.08	8.5
10	Flint Town-	69.4	12.8	0.24	16.1

Source: Computed by the authors from data obtained from the U.S. Bureau of the Census (2006). Survey of Business Owners. Washington, D.C.

BPR = Business Participation Rate, which is calculated based on the number of businesses per 1000 persons of the specified population.

Table 3. Top Ten Places for Hispanic/Latino-Owned Firms Based on BPR

	Places	BPR	Hispanic % of All Firms	Hispanic % of All Re-	Hispanic % of Population
Rank	All	30.4	1.34	0.40	3.26
1	Birmingham	364.9	2.77	0.88	1.47
2	Bloomfield	256.3	2.54	0.50	1.29
3	Sterling	103.1	1.81	0.17	1.27
4	Livonia	103.1	1.81	0.17	1.27
5	Ann Arbor	55.8	1.89	0.30	3.25
6	Warren	52.2	1.11	0.93	1.41
7	Flint	44.7	2.49	0.05	2.99
8	Dearborn	34.0	1.31	1.05	3.00
9	Lansing	29.4	4.42	0.06	9.87
10	Holland	24.7	4.62	0.18	15.8

Source: Computed by the authors from data obtained from the U.S. Bureau of the Census (2006). Survey of Business Owners. Washington, D.C. BPR = Business Participation Rate, which is calculated based on the number of businesses per 1000 persons of the specified population

Table 4. Top Ten Places for Asian-Owned Firms Based on BPR

	Places	BPR	Asian % of All Firms	Asian % of All Receipts	Asian % of Population
Rank	All	86.8	2.09	0.64	1.78
1	Dearborn	292.9	5.39	0.46	1.43
2	Waterford	251.4	3.67	0.55	1.21
3	St. Clair	211.3	2.16	1.80	0.81
4	Taylor	164.9	3.81	0.84	1.36
5	Saginaw	150.5	4.73	2.26	2.68
6	Southfield	132.3	2.96	0.99	3.08
7	Livonia	126.8	2.89	1.07	2.10
8	Shelby	123.3	2.62	0.39	1.94
9	Dearborn	103.8	3.39	0.44	2.02
10	West Bloomfield Town-	100.5	6.3	5.08	7.81

Source: Computed by the authors from data obtained from the U.S. Bureau of the Census (2006). Survey of Business Owners. Washington, D.C.

BPR = Business Participation Rate, which is calculated based on the number of businesses per 1000 persons of the specified population.

Table 5. Top Ten Places for Women-Owned Firms Based on BPR

	Places	BPR	Women % of All Firms	Women % of All Receipts	Women % of Population
Rank	All	42.9	29.5	3.68	50.9
1	Linden City	179.0	80.6	28.1	51.9
2	Rockford	174.7	52.3	3.54	52.5
3	Lathrup Vil-	166.1	57.8	28.2	49.8
4	Iron Moun-	150.6	60.4	3.75	50.6
5	Huntington	131.6	48.5	10.5	51.1
6	Mattawan	130.9	53.1	1.97	52.5
7	Charlevoix	127.1	28.3	1.26	53.2
8	Grosse Pointe	123.8	58.5	9.64	51.2
9	Cedar	119.6	50.3	6.25	53.6
10	South Haven	117.4	41.9	7.28	53.2

Source: Computed by the authors from data obtained from the U.S. Bureau of the Census (2006). Survey of Business Owners. Washington, D.C.

BPR = Business Participation Rate, which is calculated based on the number of businesses per 1000 persons of the specified population.

Table 6. Source of Start-up Capital for Businesses in the United States

	Start-up Capital Total % Respondents		
	All	Female	Male
Personal/family savings and other personal family assets	63.6	55.2	69.0
Personal business credit card	8.8	9.2	8.3
Business loan from government	0.9	0.7	0.8
Government guaranteed bank loan	0.7	0.5	0.7
Business loan from bank	11.4	5.8	12.7
Outside investor	2.7	1.6	2.7
None needed	27.7	37.2	26.3

Source: U.S. Bureau of the Census. 2002 Survey of Business Owners. Washington, D.C. Note: All estimates are based on firms that responded to the 2002 Survey of Business Owners, both-firms with paid employees and firms with no paid employees.

Table 7. Groups Surveyed About their Perceived Impact of Proposal 2

Defined Groups	Frequency	Percent
Asian Pacific American Fe-	29	1.7
Asian Pacific American	56	3.3
Black American Female	166	9.7
Black American Male	346	20.2
Hispanic American female	27	1.6
Hispanic American male	71	4.1
Native American Female	21	1.2
Native American Male	52	3.0
Subcontinent Asian Ameri-	34	2.0
Subcontinent Asian Ameri-	67	3.9
White female	846	49.3
Total	1715	100.0

Source: Survey conducted by authors March 17- May 7, 2008

Table 8: Number and Percentage of Survey Respondents

	Number of Participants	Percent of Participants
Black business owner	59	27.7
Latino/Hispanic business	12	5.63
Asian business owner	8	3.76
Native American business	14	6.57
White woman business	92	43.19
Director of a business or-	2	0.94
Other+	26	12.2
Total respondents answer-	213	100.0

Source: Computed by authors from survey conducted March 17 – May 7, 2008

+Other includes respondents not identified as a woman or minority business owner or director of a business organization.

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Notes

¹ The EOL or Equal Opportunity Loan program provided loans directly to entrepreneurs that were "socially and economically" disadvantaged. The SBA 7(a) program guaranteed bank loans made to small minority and non-minority businesses, and is credited with giving black business owners access to commercial bank loans for the first time. In contrast to the EOL program, which was directed towards very small scale businesses, the 7(a) program "Targeted larger and more promising businesses, such as manufacturing, wholesale and large retail enterprises." Unfortunately, both programs were marked by high failure rates: 26.4 percent for 7(a) and over 50 percent for EOL. A third SBA program, The Minority Enterprise Small Business Investment Companies (MESBIC), involved a series of government-funded but privately owned and managed venture capital corporations that offered ethnic entrepreneurs investment capital, loan guarantees and management assistance. It too suffered from limited resources and had little impact. (Woodard 1997: 26).

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