



The Economic Impact of NCMSDC Certified Minority Businesses on Northern California

Part II Job Creation & Income Generation

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INTRODUCTION

In an article by Elizabeth Newell, United States President Barack Obama instructed both the Small Business Administration and the Department of Commerce to recommit to doing everything in their power to ensure that contracting goals for small business owners and Minority-owned Business Enterprises (MBEs) are not only met, but exceeded. President Obama went on to tout the importance of the role that small and minority-owned businesses must play in returning the U.S. economy to its former glory, atop the world's economic food chain.

According to President Obama, over half of the nation's private sector jobs come from the small business sector. Additionally, the lion's share of the new jobs created in the U.S. and as of late much of the new technologies in the marketplace also come from the small and/or minority business community (Newell, 2009).

With the unemployment rate in California hovering around double digits, the most compelling reasons to support and encourage minority business inclusion within the corporate supply chain are job creation and income generation. When more MBEs become active parts of major buying organizations' supply chains, benefits accrue to the individual, the state, the region and even the nation. Throughout this white paper series, the focus has been on determining the economic impact that the Northern California Minority Supplier Development Council (NCMSDC) and its database of certified MBEs have on the Northern California economy. A large portion of this economic impact has been demonstrated by determining the number of jobs created at all levels of the supply chain, as well as the dollars generated by these transactions, most of which are ultimately put back into the California economy.

Today, NCMSDC MBEs have an economic impact of over \$11 billion dollars in sales revenue that results in the creation of and/or preservation of more than 76,000 jobs held by persons who find themselves either directly or indirectly employed by these same NCMSDC MBEs (for more on this, please see [the first white paper](#) in this series). These jobs provide a means to earn a living wage, and thereby allow these same employees of NCMSDC MBEs to be a significant part of their families' economic stability.

In order to truly appreciate the NCMSDC MBE community's impact on job creation, it is crucial to have a solid understanding of exactly how minority businesses create jobs. This is important because if the NCMSDC certified minority business community does not create jobs, then a large part of the reasoning for supporting the development of minority business as a way to hasten the economic recovery falls by the wayside. Without the job creation component, minority business development can be viewed as a "feel good" social program rather than the economic imperative that it truly is.

Job creation is one of the primary components of almost every viable economic impact study. In essence, without an understanding of the mechanics of job creation, economic impact is difficult to determine. Any discussions about the economic impact that minority businesses have on the community would therefore become empty and meaningless at best, and unnecessary at worst (Stynes, 1997).

CIRCULAR FLOW OF GOODS, SERVICES AND DOLLARS

One of the most overused phrases in the English language is “a picture is worth a thousand words.” There are so many factors that can and do influence when, why and how a consumer or a business makes a purchase of goods and/or services that it would not be possible to create an all-encompassing model of how Northern California’s economy works. In today’s society, information is so readily available and easily accessible that when talking about the economy it is very easy to get lost in the extraneous details and lose sight of the bigger picture. At the same time it is imperative that readers understand exactly where they fit within the bigger picture of the Northern California economy.

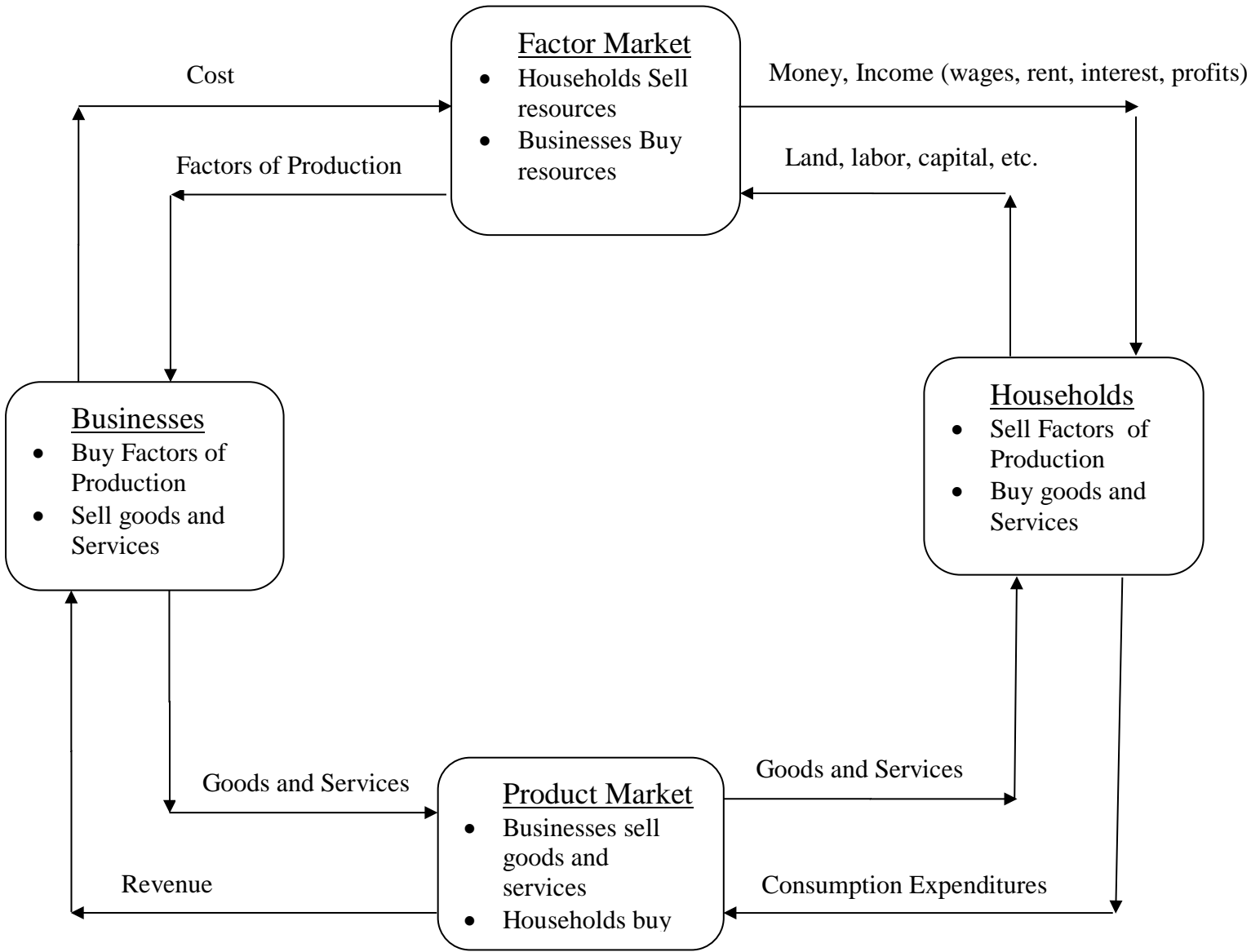
To gain a better understanding of the different elements within the Northern California economy, it is indeed most convenient to start with a modified version of the circular flow diagram. The diagram is invaluable for several reasons, the primary one being that it allows the reader to visualize (and thus better understand) the role that NCMSDC MBEs play on job creation within Northern California’s economy.

No matter where one begins within the Circular Flow Diagram, it is easy to follow the flow of dollars through the system and see exactly how it impacts the creation of jobs. It goes without saying that the employees filling these jobs are being compensated for their efforts in the form of wages and salaries. Wages and salaries are the earnings of the people and constitute the core element in income for the majority of those making up today’s workforce. In many instances a portion of the income the workers receive may be in the form of fringe benefits, but the primary portion is usually in the form of money.

With that in mind the purpose of this paper is to focus on the real “needle movers” within the Northern California economy and how they relate to jobs being created and maintained, as well as the resulting income; you will see that in this case a picture truly is worth a thousand words.

Figure (7) on the following page is a diagram of the circular flow of goods and services in the free-market economy. It presents pictorially how NCMSDC certified MBEs positively impact the Northern California economy through job creation and income generation. In the discussion that follows, the viewpoint (unless otherwise indicated) will always be that of the NCMSDC MBE.

Figure (7). Circular Flow of Goods and Services in a Free-Market Economy



HOUSEHOLDS

Households are the consumers of goods and services that come from the product market. The households in this context are particularly relevant for two reasons. First, they create the demand for goods and services provided by the product market. Second, households provide the labor for NCMSDC MBEs or any company serving as a supplier. Households may also provide other resources including, but not limited to, entrepreneurial ability. As can be seen in this example, households can be made up of consumers, MBEs or anyone providing labor, property, money or any other factors of production necessary for businesses to deliver the goods and services that households consume (Piorkowsky, 2011).

FACTOR MARKET

The factor market is a conceptual term. Whereas households (i.e. consumers) do exist, the factor market is where households go to sell their labor, land, capital and entrepreneurial talent and, in reality, it does not exist. In other words, there is no single place where businesses gather to meet potential employees, lease land or borrow money directly from households.

For example, if a business needs to borrow money for working capital, the business may choose to go to a bank. The bank will lend the money the household has already deposited into the bank as part of its savings. In return for lending the money to the business, the bank will charge the company interest. The bank in turn pays the household a portion of this interest collected from the borrowing entity, in exchange for depositing their money. This, in turn, will enable the bank to have a supply of funds from which to draw. From this pool of funds, the lending institution can then loan these funds to the businesses. In this case, the households are lending the prospective business money indirectly through their relationship with the bank. In reality, however, the household did not meet the company at the factor market to make the exchange (McConnell, Brue & Flynn, 2009).

BUSINESSES

This section is where the proverbial rubber meets the road, and as such is arguably the most important to understand conceptually. In most instances, the NCMSDC certified MBE is a supplier to a corporate customer. Very rarely do NCMSDC certified minority businesses sell directly to the public (households in this scenario). As a result, most of the MBEs can be found in this category (businesses).

The role of businesses in this component of the circular flow diagram is either to produce the goods and services that will be sold by others in the product market, or to help support the infrastructure needed to maintain the product market (McConnell, Brue & Flynn, 2009). The first scenario is easy to understand, but supporting the infrastructure may require a little more elaboration in order to fully comprehend.

REAL WORLD EXAMPLE – NCMSDC MBE

Many large businesses use Cisco phone/internet systems. In most instances, Cisco does not sell directly to customers. In fact, 90% of the time they use an intermediary or Value Added Reseller (VAR). One of the largest NCMSDC MBEs is exactly that: a Cisco VAR. They will sell, install, service and maintain the Cisco system that the company needs and manage its day-to-day activities. For example, if the NCMSDC MBE is providing the Cisco network to Walmart, the end customer (or household) will only see Walmart, not the NCMSDC MBE, implementing and maintaining the “behind the scenes” infrastructure needed in order for Walmart to run smoothly.

The NCMSDC MBE providing the Cisco equipment to Walmart needs to recruit, hire, and train several people to be able to install and maintain the Cisco hardware at Walmart. It would be cost-prohibitive to bring in hundreds of people from outside of the Northern California community to conduct this work. As a result, the Minority Business Enterprise must look within

the Northern California community to find the additional required labor. Going back to the model, the MBE looking to expand their workforce in order to maintain the Walmart account must go back to the factor market to recruit people from the Northern California area.

Figure (7) is intended to serve as a basic model that illustrates the economic impact of NCMSDC MBEs on the community, using job creation and income generation as measuring tools. It should be noted that the Cisco VAR scenario is just one real world example among many that are simultaneously taking place in various industries across the region.

PRODUCT MARKET AND THE CIRCULAR FLOW OF THE DOLLAR

Although unlikely, it is not unheard of for NCMSDC MBEs to provide goods and services directly to the public. There are several staffing firms, caterers, insurance brokers, and other businesses that may also be suited to compete in the product market in this scenario. The product market is where consumers go to spend their hard earned dollars, some of which they earned as employees of NCMSDC MBEs.

A percentage of the dollars collected by merchants selling their wares in the product market are used to pay their expenses, which include employees and suppliers. These suppliers could very well be NCMSDC certified Minority Business Enterprises. These MBE suppliers will use a portion of the dollars that they collect from merchants in the product market to pay wages to their employees, who come from households within the Northern California community. These employees receiving wages and salaries will then return to the product market to spend a percentage of dollars they have just received as NCMSDC MBE employees, and thus the cycle begins again (Pordeli & Wynkoop, 2009).

CONCLUSION

The reason the Northern California Minority Supplier Development Council (NCMSDC) exists is to promote the increased inclusion of certified Minority Business Enterprises in the corporate supply chains of *Fortune 1000* companies and other key buying organizations. The fact that minority business owners tend to hire more minorities as employees than do non-minority business owners is well documented in numerous articles, books and reports, including this white paper.

As minority businesses gain opportunities with significant buying organizations, historically they will look to the minority community first when seeking to hire new employees. These employees will likely invest in the minority communities in which they live, traditionally with money and volunteerism. In doing so, they will uplift some of the more socio-economically challenged neighborhoods quite often populated in large part by the minority community.

This train of thought is the impetus behind the purpose of the Northern California Minority Supplier Development Council. Without an understanding of how NCMSDC MBEs create jobs and generate revenue and income for their communities, it is difficult to determine whether or not NCMSDC is successful in fulfilling its mission of empowering the minority business community as an agent of positive change.

Using the data collected from NCMSDC certified minority businesses, this series of white papers quantifies and evaluates the economic impact of NCMSDC MBEs within 48 counties in Northern California, all of which fall within NCMSDC's territory. Never before has evidence revealing the broad economic impact of MBEs doing business in Northern California been collected and analyzed.

The addition of over \$11.3 billion dollars in aggregate annual revenues (generated either directly by NCMSDC certified minority businesses or indirectly by those vendors serving as suppliers to NCMSDC MBEs) is itself a tremendous boost to the economy. When combined with the more than 76,000 jobs that are created both directly and indirectly by those same minority businesses, the economic impact becomes all the more pronounced and meaningful. The additional \$688 million in revenue for the local, state and federal governments (which is generated by the various taxes paid by those who benefit from the goods and services produced and sold by NCMSDC MBEs) must therefore be addressed. Making such a significant contribution to the tax base goes a long way toward demonstrating that certified Minority Business Enterprises are not trivial, insignificant players in the economy, but vital, relevant businesses serving as the proverbial cogs that help make the wheels of the Northern California economy turn.

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