



# SMALL BUSINESS INSIGHTS FROM AMERICA'S INNER CITIES



**ICIC**

Initiative for a Competitive Inner City

OCTOBER 2018



## ACKNOWLEDGMENTS

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For more information about ICIC, please visit [www.icic.org](http://www.icic.org).

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## ABOUT THE INITIATIVE FOR A COMPETITIVE INNER CITY

ICIC is a national nonprofit research and advisory organization founded in 1994. Its mission is to drive economic prosperity in America's inner cities through private investment to create jobs, income, and wealth for local residents. For more information about ICIC, please visit [www.icic.org](http://www.icic.org).



**ICIC**

Initiative for a Competitive Inner City





# INTRODUCTION

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Each year since 1999, ICIC has identified, ranked, and spotlighted 100 of the fastest-growing companies located in America's inner cities. These companies are recognized and celebrated as part of the annual Inner City 100 list, published annually by *Fortune*.

Inner City 100 companies, which are selected based on their revenue growth over the previous four-year period, have demonstrated year after year not only that it is possible to have fast-growing companies in the inner city but that there are competitive business advantages to locating and operating there.

This year's 20th anniversary of the Inner City 100 offers an opportune occasion to study the companies that made the list from 1999 through 2016 and gain unique insight into their growth. This report's findings are based on an in-depth analysis of data from an ICIC survey of Inner City 100 winners.<sup>1</sup> The report provides an overview of these companies and examines key characteristics of the fastest-growing Inner City 100 firms, highlighting several surprising findings that cut against conventional wisdom about inner city businesses.







## SUMMARY

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Analysis of ICIC's survey of companies that won the Inner City 100 award between 1999 and 2016 shows that:

- Inner City 100 companies view their location in their inner city neighborhoods, particularly proximity to transit hubs, customers, and employees, as key to their success. This is consistent with Harvard Business School Professor and ICIC founder Michael Porter's longstanding revolutionary assertion that inner cities offer significant competitive advantages to companies that locate there.
- Manufacturing businesses make up a disproportionately large share of Inner City 100 businesses, demonstrating that U.S. manufacturers can still thrive in the inner city.
- Anchor institutions (universities, hospitals, large corporations, and government) are the majority of customers for the average Inner City 100 company. This shows that inner city firms do not have to serve inner city residents alone, but can attract large, sophisticated institutional customers. Anchor institutions might consider expanding their efforts to use inner city businesses as suppliers.
- Inner City 100 companies source most goods and services from outside their county, demonstrating that they are well integrated into regional, national, and international supply chains.
- Compared to other Inner City 100 companies, Inner City 100 "gazelles," or companies with a compound annual employment growth rate of at least 20 percent from 2012 to 2016, are more likely to:
  - Offer comprehensive employee benefits.
  - Have had a business plan in their first year.
  - Have a strong propensity for high-risk projects.
  - Have the federal government as an important customer.
- Most Inner City 100 winners offer one or more major employee benefits (health insurance, dental insurance, vision insurance, 401(k) plans, professional development training, paid time off, and bonus plans) and are more likely to offer health and retirement benefits than U.S. companies as a whole. These benefits are an important indicator of job quality.
- Only 5 percent of Inner City 100 companies have raised equity capital from institutional sources, showing evidence of a disconnect between institutional equity capital and inner city businesses.
- Inner City 100 companies whose CEOs received business education grew nearly three times as fast, on average, as those whose CEOs did not receive any.

The survey results reveal compelling findings that may provide helpful insights for other inner city small businesses seeking to sustain or accelerate their growth.



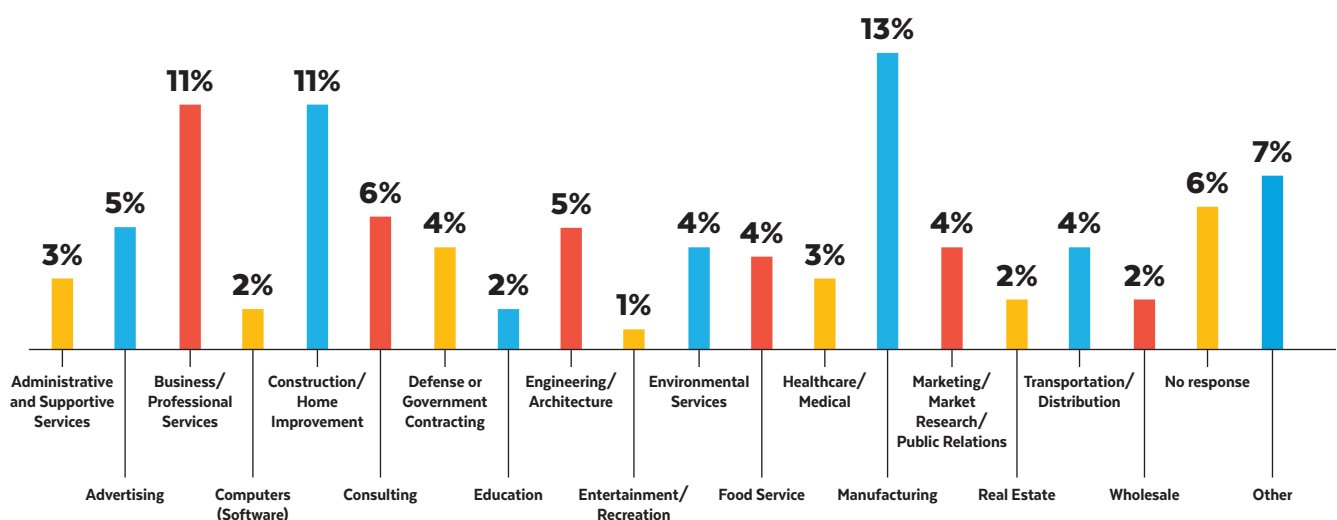
# A PROFILE OF INNER CITY 100 WINNERS

Inner City 100 companies span a wide range of industries, with the highest concentrations in manufacturing, business and professional services, construction and home improvement, consulting, engineering and architecture, and advertising (see Figure 1). Their annual revenue in the year prior to winning the award ranges from \$1.1 million to \$207 million, with a median of \$7.3 million. Most (68 percent) are profitable.<sup>2</sup>

About 15 percent of Inner City 100 CEOs are African American, 12 percent are Hispanic or Latino, 7 percent are Asian, and 61 percent are White. These figures are similar to those for the U.S. population as a whole, except for Hispanic or

Latino entrepreneurs, whose percentage of Inner City 100 CEOs is significantly lower than the 17 percent of the U.S. population that is Hispanic or Latino (see Figure 2). As a group, Inner City 100 CEOs are older and more likely to be male; 75 percent are between the ages of 45 and 74 years old (Figure 3) and 72 percent are male (Figure 4). They are also a very highly educated group, with 32 percent having a graduate or professional degree and 50 percent having a bachelor's degree but no higher degree. Each of these educational attainment percentages is more than 2.5 times the corresponding percentage for the U.S. population (see Figure 5).

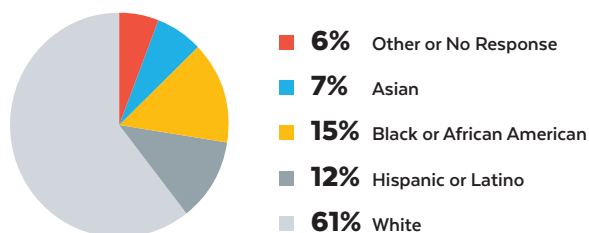
**Figure 1. Inner City 100 Companies, by Industry**



**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners.

**Note:** N=228. Percentages may not add to 100 percent due to rounding.

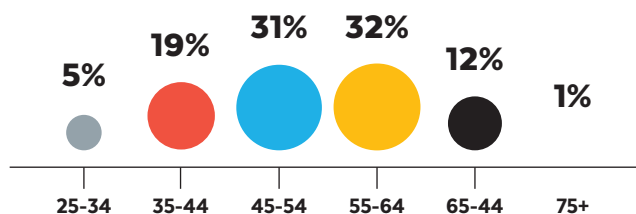
**Figure 2. Inner City 100 CEOs, by Race/Ethnicity**



**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners.

**Note:** N=228. The Hispanic or Latino percentage is the only one that is significantly different from the corresponding percentage of the U.S. population (17 percent) as shown in the 2016 American Community Survey 5-Year Estimates. This difference is statistically significant at the .05 level. The other percentages shown are not significantly different from the corresponding U.S. percentages at the .10 level of significance. Percentages may not add to 100 percent due to rounding.

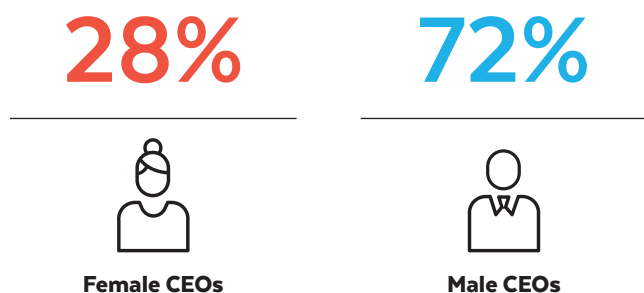
**Figure 3. Inner City 100 CEOs, by Age Group**



**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners.

**Note:** N=228. The percentage of Inner City 100 winners in each age group is significantly different from the corresponding percentage of the U.S. population as shown in the 2016 American Community Survey 5-Year Estimates. Differences for the 25-34 age group (5% vs. 14% for U.S. population), 45-54 age group (31% vs. 14% for U.S. population), 55-64 age group (32% vs. 13% for U.S. population), and 75+ age group (1% vs. 6% for U.S. population) are statistically significant at the .01 level. Differences for the 35-44 age group (19% vs. 13% for U.S. population) and the 65-74 age group (12% vs. 8% for U.S. population) are significant at the .05 level.

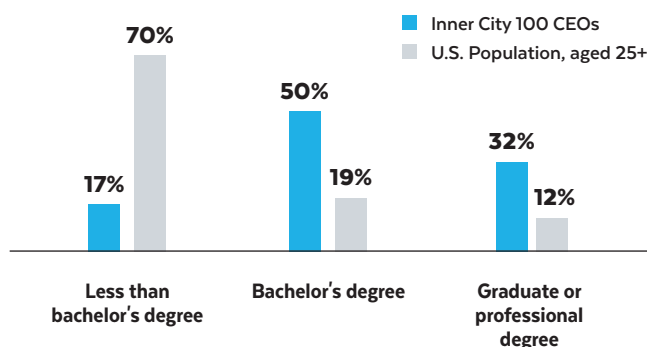
**Figure 4. Inner City 100 CEOs, by Gender**



**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners.

**Note:** N=228.

**Figure 5. Inner City 100 CEOs and U.S. Population, by Highest Degree Completed**



**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners and 2016 American Community Survey 5-Year Estimates.

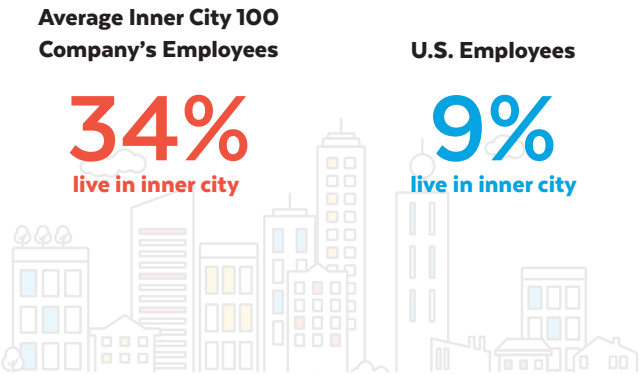
**Note:** N=228. For each level of education, difference between Inner City 100 CEOs percentage and that of the U.S. population is statistically significant at the .01 level. Percentages may not add to 100 percent due to rounding.

Inner City 100 companies are important employers of people who live in inner cities. Residents living in the same neighborhood as the company make up more than one-third of the average Inner City 100 company's workforce, which is more than three times higher than the 9 percent of all U.S. employees that live in the inner city (see Figure 6). African Americans and Asians also account for

disproportionately high average shares of Inner City 100 employees (see Figure 7).

Our analysis also reveals several other characteristics of Inner City 100 companies that are worth highlighting because they diverge from conventional wisdom about inner cities and the companies that locate there.

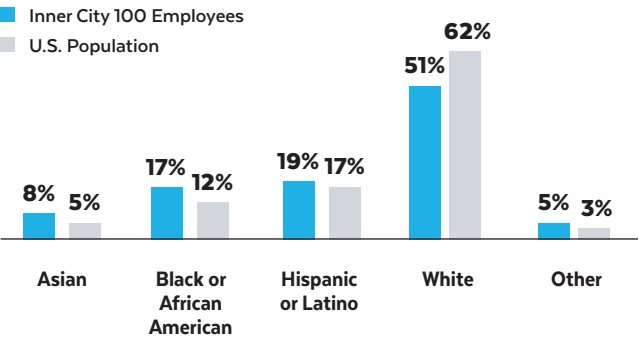
**Figure 6. Percent of Employees Who Are Inner City Residents**



**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners and ICIC analysis of 2015 American Community Survey 5-Year Estimates.

**Note:** N=156. Difference is statistically significant at the .01 level. Percentage of Inner City 100 employees refers to the average percentage of Inner City 100 companies' employees who live in the neighborhood where the company is located.

**Figure 7. Employees of the Average Inner City 100 Company and U.S. Population, by Race/Ethnicity**



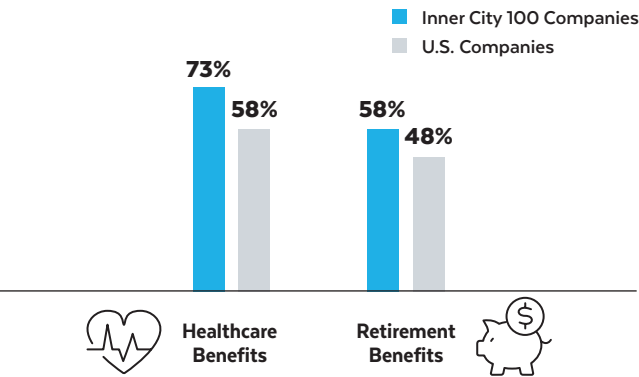
**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners and 2016 American Community Survey 5-Year Estimates.

**Note:** N=162. Difference between Inner City 100 employee and U.S. population percentages for Asian employees is significant at the .10 level, for Black or African American employees at the .05 level, and for White employees at the .01 level. Differences for Hispanics or Latinos and Others are not statistically significant at the .10 level. Percentages may not add to 100 percent due to rounding.

### Most Inner City 100 companies offer employee benefits, an important indicator of high-quality jobs

Employee benefits are an important indicator of job quality.<sup>3</sup> Contrary to the common belief that inner city businesses do not offer high-quality jobs, most Inner City 100 companies offer one or more key employee benefits, including healthcare and retirement benefits. In fact, as Figure 8 shows, Inner City 100 companies are more likely

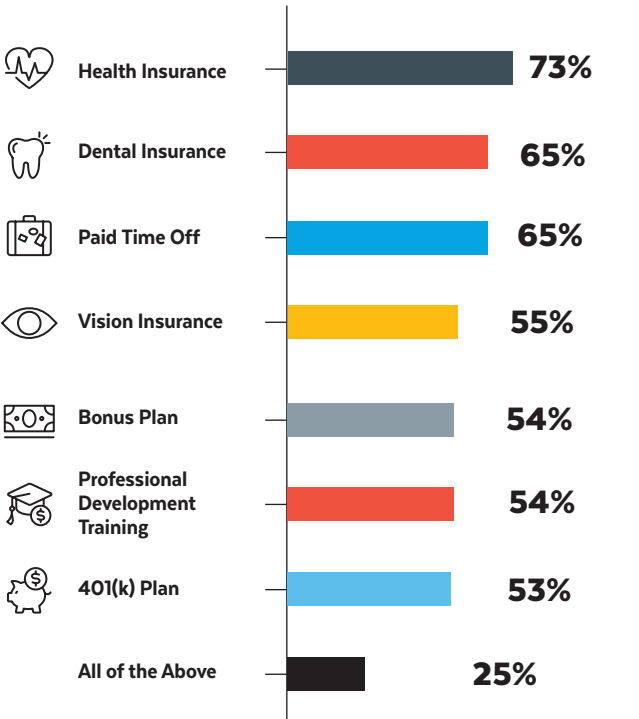
Figure 8. Percent of Companies Offering Healthcare and Retirement Benefits



**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners and May 2017 Bureau of Labor Statistics National Compensation Survey.  
**Note:** N=228. Companies with healthcare benefits include those offering health insurance, dental insurance, and vision insurance. Companies with retirement benefits include those offering a defined benefit pension plan and/or a defined contribution plan. Differences between percentages of Inner City 100 companies and corresponding percentages of U.S. companies are statistically significant at the .01 level.

than U.S. companies as a whole to offer healthcare benefits (73 percent, compared to 58 percent for all U.S. companies) and retirement benefits (58 percent, compared to 48 percent for all U.S. companies). Most Inner City 100 companies offer each of the following benefits: health insurance, dental insurance, vision insurance, 401(k) plans, professional development training, paid time off, and bonus plans (see Figure 9). A quarter offer all of these benefits.

Figure 9. Percent of Inner City 100 Companies Offering Key Employee Benefits



**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners.  
**Note:** N=228.

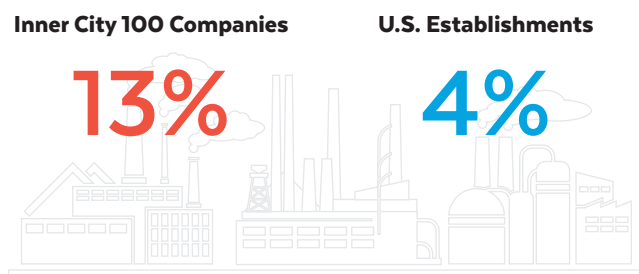


## Manufacturing is far from dead among the Inner City 100

According to conventional thinking, a decline in manufacturing in the U.S. over the past couple of decades has resulted in manufacturing no longer playing an important role in metropolitan economies.<sup>4</sup> However, Inner City 100 winners paint a far different picture. Manufacturing is the only industry whose share of Inner City 100 businesses exceeds its share of all U.S. business establishments. Manufacturing businesses make up 13 percent of all Inner City 100 winners (see Figure 10). This is more than three times the national average (4 percent of all business establishments) and indicates that there is still a meaningful opportunity for manufacturers to thrive in America's inner cities.

A Brookings Institution and Pratt Center for Community Development report on urban manufacturing shows that, compared to U.S. manufacturers in general, urban manufacturers are typically smaller and more environmentally sustainable. Their products are of higher value in relation to their weight and are often specialized and produced for niche markets.<sup>5</sup> Manufacturers with these characteristics may be an especially good fit for inner cities.

**Figure 10. Inner City 100 Companies and All U.S. Establishments, by Percent in Manufacturing Industry**



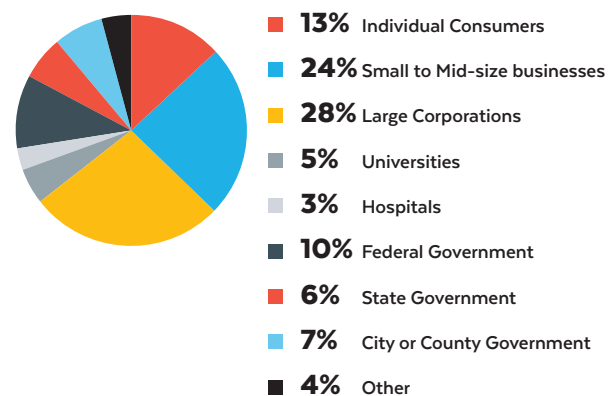
**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners and 2016 U.S. Census Bureau County Business Patterns.

**Note:** N=228. Difference is statistically significant at the .01 level.

## Anchor institutions are important customers for Inner City 100 businesses

One commonly held assumption about inner city companies is that they are largely “mom and pop” shops serving local individual consumers. However, the survey data show that this belief is not true of Inner City 100 winners. Over half of the customers of the average Inner City 100 company are large “anchor” institutions (universities, hospitals, large corporations, and government). In fact, individual consumers make up on average only 13 percent of customers and small to mid-size businesses just under a quarter (see Figure 11). This demonstrates that inner city companies have the opportunity to reach beyond local individual demand and serve larger customers. Anchor institutions, which may sometimes have difficulty finding reliable local procurement opportunities in their inner city communities, should be aware that there are in fact qualified and growing suppliers there and might consider expending more effort and resources exploring such opportunities.

**Figure 11. Average Percent of Customers by Type, Inner City 100 Companies, 2016**



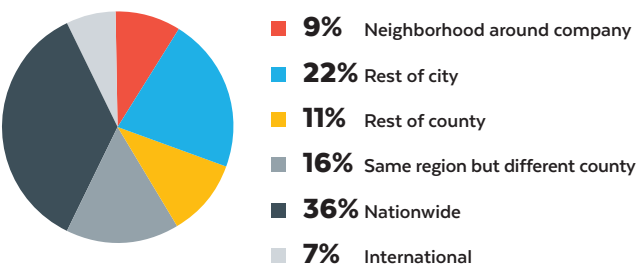
**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners.

**Note:** N=165.

### Inner City 100 supply chains reach well beyond the local neighborhood

In addition to breaking the stereotype that inner city businesses are generally confined to small, local customer networks, Inner City 100 companies also reach beyond their neighborhoods, cities, and counties to source goods and services for their operations. Nearly 60 percent of the average Inner City 100 company’s suppliers are located outside the county where the firm itself is located. This shows that Inner City 100 firms are able to source broadly and integrate themselves into regional, national, and international supply chains (see Figure 12).

**Figure 12. Average Percent of Suppliers by Supplier Geographic Location as Compared to Inner City 100 Company’s Location, Inner City 100 Companies, 2016**

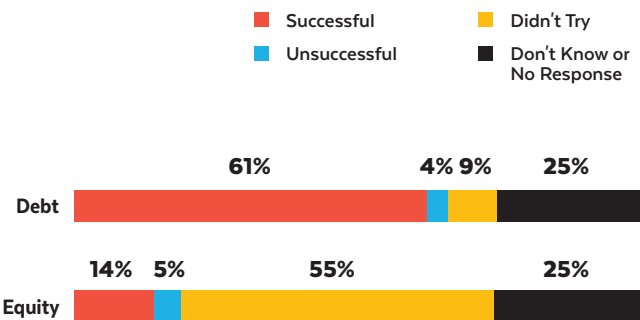


**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners.  
**Note:** N=161. Percentages may not add to 100 percent due to rounding.

### Equity capital still lacking despite high growth rates

All Inner City 100 companies experienced at least four years of rapid growth when they won the award. Even years later, most were still adding employees between 2012 and 2016. Unsurprisingly, given their solid track records of growth, the majority have successfully secured loans, primarily from banks. It is more surprising that only 14 percent of Inner City 100 companies have accessed equity capital (see Figure 13), the majority of which was from the owner’s personal funds. Only 5 percent of all companies raised equity from institutional sources, including venture capital and private equity firms, corporations, foundations, impact investors, or a Small Business Investment Company. Although the challenge many inner city businesses face in raising equity capital is not new, our survey data reaffirm that institutional sources of equity are still very much disconnected from inner city business opportunities despite seemingly robust investment potential.

**Figure 13. Inner City 100 Companies, by Success in Obtaining Debt and Equity Capital**



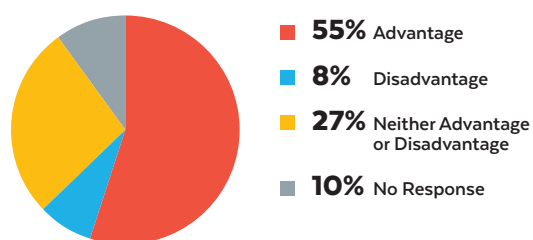
**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners.  
**Note:** N=228. Percentages may not add to 100 percent due to rounding.

## Inner City 100 companies see inner city location advantages as key to their success

More than twenty years ago, Harvard Business School Professor and ICIC founder Michael Porter described the economic potential of America's inner cities as "largely unrecognized and untapped."<sup>6</sup> Porter laid out a revolutionary economic strategy for revitalizing those inner cities. He pointed out that unmet local demand and inner cities' strategic location near transportation hubs were two crucial competitive advantages, among others, that could help inner city businesses thrive.<sup>7</sup> Still, a widespread assumption has persisted to this day that inner cities' problems make it difficult to have a successful growing

business there. The survey of Inner City 100 companies strongly supports Porter's original vision. The majority (55 percent) of those businesses report that their inner city location has been beneficial, while only 8 percent consider it a disadvantage (see Figure 14).<sup>8</sup> The two most important drivers behind their decision to locate in the inner city were proximity to transportation hubs and to their customers (Figure 15), as Porter correctly predicted. They were also the factors, along with attracting new employees, that Inner City 100 CEOs say have been the most important specific characteristics of their inner city neighborhood that contribute to the companies' success (see Figure 16).

**Figure 14. Inner City 100 CEO Perception of Impact of Inner City Location on Business Success**

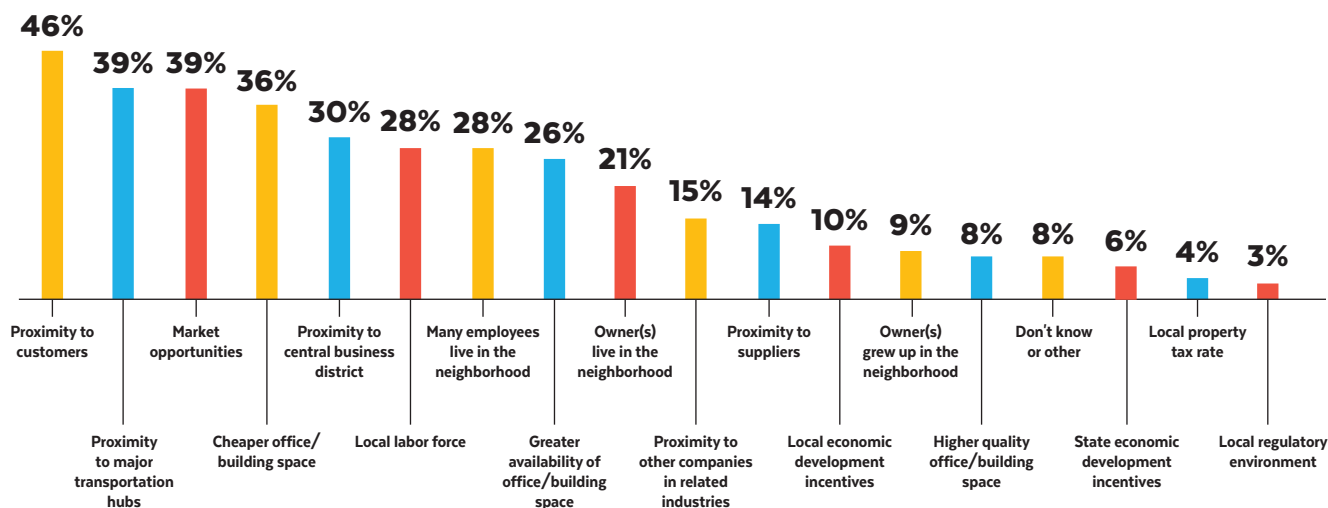


Source: ICIC 2017-18 survey of 1999-2016 Inner City 100 winners.

Note: N=228.



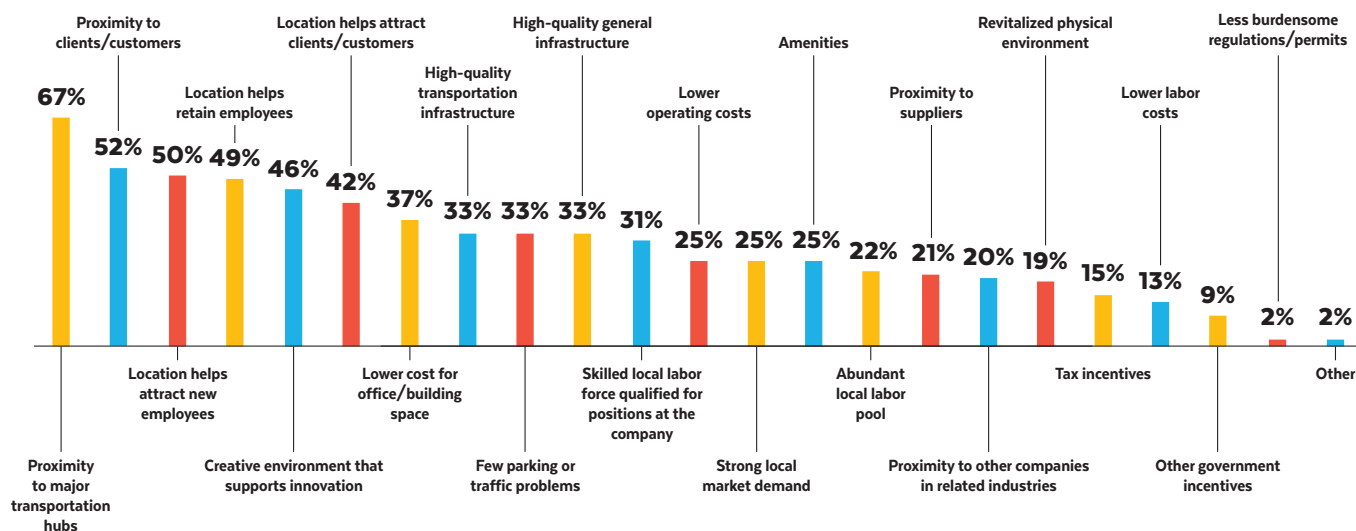
**Figure 15. Inner City 100 CEO Perception of Factors Important for Company's Decision to Locate in the Inner City (Percent of CEOs Who Consider Each Factor to be Important)**



Source: ICIC 2017-18 survey of 1999-2016 Inner City 100 winners.

Note: N=228. Respondents may give more than one response.

**Figure 16. Inner City 100 CEO Perception of their Company's Neighborhood's Advantages (Percent of CEOs Who Consider Each Neighborhood Characteristic to Contribute to Company Success)**



Source: ICIC 2017-18 survey of 1999-2016 Inner City 100 winners.

Note: N=126. Respondents may give more than one response.



# THE FASTEST-GROWING INNER CITY 100 COMPANIES AND THEIR CHARACTERISTICS

Most companies that won the Inner City 100 award between 1999 and 2016 experienced employment growth from 2012 to 2016, but some of them experienced truly remarkable growth. These are high-growth companies that have achieved “gazelle” status, which we define as job growth of at least 20 percent per year (compounded) for four consecutive years.<sup>9</sup> Researchers widely agree that gazelles are responsible for the vast majority of job creation and economic growth that comes from entrepreneurial activity.<sup>10</sup> Therefore, understanding the characteristics of these firms is particularly important.

Some of the business characteristics that research has found to be associated with entrepreneurial growth are the entrepreneur’s educational attainment,<sup>11</sup> risk-orientation,<sup>12</sup> and business conducted with the government sector.<sup>13</sup>

We highlight these characteristics as well as some more surprising ones that other studies have not examined.<sup>14</sup>

To examine key characteristics of Inner City 100 gazelles, we analyzed ICIC’s survey data to identify statistically significant differences between the gazelles (once again defined as companies that had a compound employment growth rate of at least 20 percent per year during the 2012–2016 period)<sup>15</sup> and all other Inner City 100 winners. Gazelles make up 15 percent of all Inner City 100 firms for which we are able to calculate 2012–2016 job growth (see Figure 17). To identify any significant differences in job growth rates among Inner City 100 companies other than those that distinguish gazelles from other firms, we also analyzed average growth rates for each survey question’s responses.<sup>16</sup>

**Figure 17. Inner City 100 Companies, by Gazelle Status**

15%



**Gazelles**

85%



**Non-Gazelles**

**Source:** ICIC 2017–18 survey of 1999–2016 Inner City 100 winners.

**Note:** N=101. Gazelles are defined as companies that had a compound employment growth rate of at least 20 percent per year during the 2012–2016 period, which is equivalent to a total growth rate of approximately 107.4 percent over the 2012–2016 period.

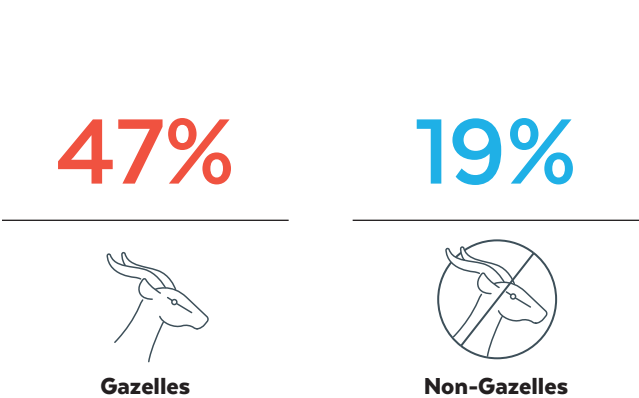




**High-growth Inner City 100 companies are more likely to offer comprehensive employee benefits**

Most Inner City 100 companies not only offer important employee benefits; the high-growth companies among them are more likely than other Inner City 100 firms to offer a robust, comprehensive benefits package. As Figure 18 shows, high-growth Inner City 100 companies are more likely than all other Inner City 100 companies to offer a combination of health insurance, dental insurance, vision insurance, a 401(k) plan, professional development training, paid time off, and a bonus plan. A disproportionately large share of high-growth businesses also offer paid maternity and paternity leave (see Figure 19).

**Figure 18. Percent of Inner City 100 Companies Offering Comprehensive Employee Benefits Package, by Gazelle Status**

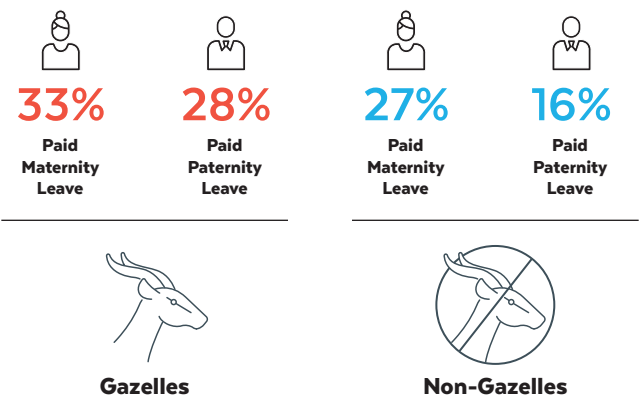


**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners.

**Note:** Gazelles N=15, non-gazelles N=86. Comprehensive benefits package includes a combination of health insurance, dental insurance, vision insurance, a 401(k) plan, professional development training, paid time off, and a bonus plan. Difference between Inner City 100 gazelles and non-gazelles is statistically significant at the .05 level. Gazelles are defined as companies that had a compound employment growth rate of at least 20 percent per year during the 2012-2016 period, which is equivalent to a total growth rate of approximately 107.4 percent over the 2012-2016 period.

High-growth Inner City 100 companies may offer comprehensive benefits simply because they have more financial resources. Alternatively, they may do so because they believe that it improves the retention and performance of their current employees. Another possibility is that offering a comprehensive benefits package enables firms to recruit and retain higher-quality employees than they would otherwise be able to secure. In either of the latter cases, offering benefits would increase productivity and, therefore, serve as a competitive advantage.

**Figure 19. Percent of Inner City 100 Companies Offering Paid Family Leave Benefits, by Gazelle Status**



**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners.

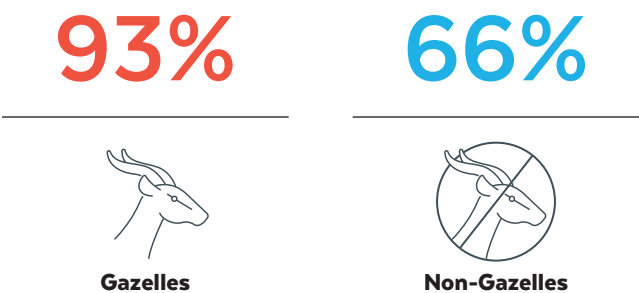
**Notes:** Gazelles N=15, non-gazelles N=86. Differences between Inner City 100 gazelles and non-gazelles are statistically significant at the .05 level. Gazelles are defined as companies that had a compound employment growth rate of at least 20 percent per year during the 2012-2016 period, which is equivalent to a total growth rate of approximately 107.4 percent over the 2012-2016 period.

**Having a business plan early on is important to high-growth Inner City 100 companies**

Although there are diverging views on whether having a formal, written business plan is necessary for a startup to be successful, entrepreneurship researchers advise entrepreneurs to have a strategy in mind when launching a new business, even if the strategy changes over time.<sup>17</sup> The growth performance of Inner City 100 firms is consistent with this recommendation. Inner City 100 gazelles are more likely than all other Inner City 100 companies to have a business plan during their first year in business (see Figure 20).

This finding could indicate that having a plan helps guide the companies toward faster growth. It is also possible that the companies that are more likely to achieve high growth for other reasons are the ones that also took time to lay out their strategy in a business plan.

**Figure 20. Percent of Inner City 100 Companies with a Business Plan in Their First Year, by Gazelle Status**



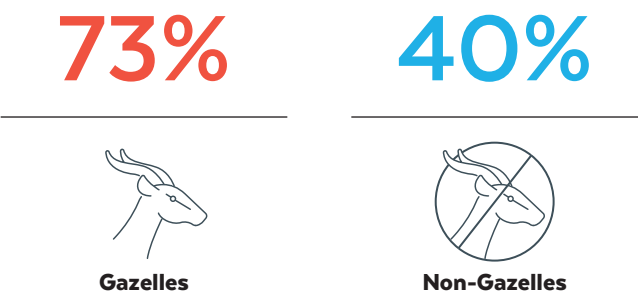
**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners.  
**Note:** Gazelles N=15, non-gazelles N=86. The difference between Inner City 100 gazelles and non-gazelles is statistically significant at the .05 level. Gazelles are defined as companies that had a compound employment growth rate of at least 20 percent per year during the 2012-2016 period, which is equivalent to a total growth rate of approximately 107.4 percent over the 2012-2016 period.

**Inner City 100 gazelles are more likely to report having a strong propensity for high-risk projects**

Among Inner City 100 businesses, our survey data indicate that gazelles are more willing than other companies to take business risks. As Figure 21 shows, high-growth Inner City 100 businesses are more likely than all other Inner City 100 businesses to report having a strong propensity for high-risk projects, which often offer opportunities for high financial returns.

There are several possible explanations for this relationship. It could be that the gazelle CEOs' preference for risk drives these companies to take on riskier projects, leading to high financial returns and business growth among those firms that remain in business. Another possibility is that the CEOs of rapidly growing companies are more comfortable taking on risk because the revenue from rapid growth gives them a cushion to fall back on if they fail. Alternatively, the CEOs of companies that grew rapidly because they have taken on risky projects (and reaped the rewards from doing so) may become more comfortable with risk simply because they have succeeded with riskier projects in the past.

**Figure 21. Percent of Inner City 100 Companies That Report Having a Propensity for High-Risk Projects, by Gazelle Status**



**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners.  
**Note:** Gazelles N=15, non-gazelles N=86. The difference between Inner City 100 gazelles and non-gazelles is statistically significant at the .05 level. Gazelles are defined as companies that had a compound employment growth rate of at least 20 percent per year during the 2012-2016 period, which is equivalent to a total growth rate of approximately 107.4 percent over the 2012-2016 period.

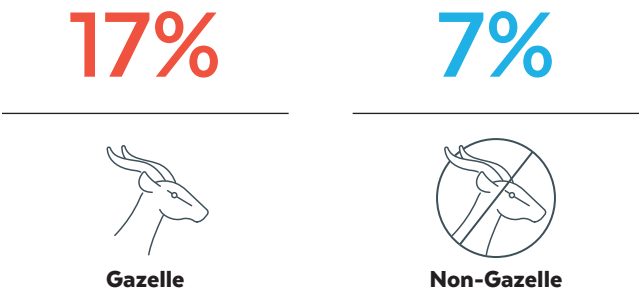
**Federal government contracting opportunities are critical to success of Inner City 100 gazelles**

Previous research has demonstrated the importance of government contracting to African American-owned businesses.<sup>18</sup> Our survey findings are consistent with this, but with a caveat; among Inner City 100 firms, it is true for federal government contracts but not for state and local government contracts. As Figure 22 shows, the federal government makes up 17 percent of the average Inner City 100 gazelle’s customer base but only 7 percent of the

average non-gazelle Inner City 100 firm’s customer base. No significant difference between gazelles and non-gazelles exists for state and local government contracts.

These results do not indicate whether Inner City 100 gazelles grow faster because they take on more federal contracts or whether these companies are more likely to win federal contracts because they are already high-growth organizations. However, the survey results do show that federal contracts are an important source of business for Inner City 100 gazelles.

**Figure 22. Average Federal Government Percent of Inner City 100 Customer Base, by Gazelle Status**



**Source:** ICIC 2017-18 survey of 1999-2016 Inner City 100 winners.

**Note:** Gazelles N=14, non-gazelles N=71. The difference between Inner City 100 gazelles and non-gazelles is statistically significant at the .01 level. Gazelles are defined as companies that had a compound employment growth rate of at least 20 percent per year during the 2012-2016 period, which is equivalent to a total growth rate of approximately 107.4 percent over the 2012-2016 period.

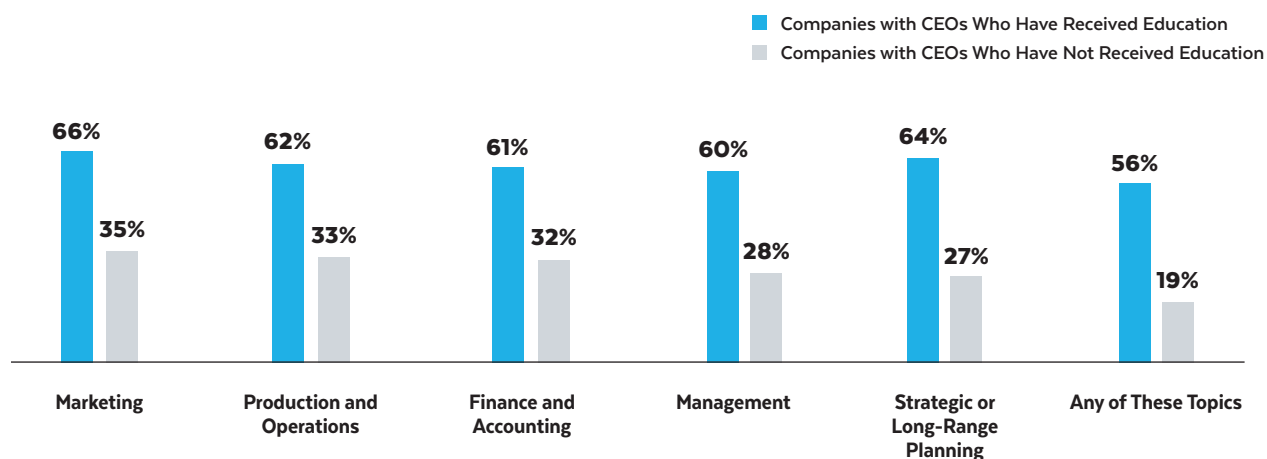


## Inner City 100 companies whose CEOs received business education grew nearly three times as fast as others

Most research that shows education to be an important contributor to business performance focuses on managers' level and years of general education.<sup>19</sup> The general education of the CEO is not significantly associated with gazelle status or rapid job growth among Inner City 100 firms. However, business education is associated with Inner City 100 company job growth, although not with gazelle status specifically. Our survey asked CEOs whether they had ever received education (formal or informal) about specific business topics, including marketing, production and operations, finance and accounting, management, and strategic or long-term planning. For each of these subject areas, Inner City 100 companies whose CEOs received some form of business education grew roughly twice as fast, on average, as those whose CEOs did not receive education in that subject. Companies whose CEOs received education in any business subject covered in the survey grew nearly three times as fast as those whose CEOs received no education in any of those subjects (see Figure 23).

It is possible that business education itself improves CEOs' decision-making ability. If that is true, then our findings reinforce the importance of education to business growth and performance and suggest that even CEOs who did not receive business education when they were in school can still benefit from formal or informal education in various business-related subject areas. Alternatively, the CEOs who are more committed to business success may also be more likely to pursue business education. A third possibility is that the revenue from more rapid growth gives CEOs additional financial resources with which to pursue business education; this could be especially important if CEOs of small firms cannot obtain loans to finance business education while continuing to run their companies. It is also possible that business education both contributes to business success and is also the result of past success or of CEOs' commitment to success. In that case, even CEOs whose companies succeed for reasons other than business education will benefit from such training.

**Figure 23. Average Percent Growth in Inner City 100 Company Employment, 2012-2016, by CEO's Receipt of Some Form of Business Education**



Source: ICIC 2017-18 survey of 1999-2016 Inner City 100 winners.

Note: For marketing education, N=95; for production and operations, N=90; for finance and accounting, N=94; for management, N=95; for strategic or long-range planning, N=92; for any of these topics, N=98. Differences in average growth rates between companies with CEOs who received marketing, management, or strategic or long-range planning education and companies whose CEOs have not are statistically significant at the .05 level. Differences in average growth rates for production and operations and finance and accounting education are statistically significant at the .10 level. Difference in average growth rates for any of these topics is statistically significant at the .01 level.



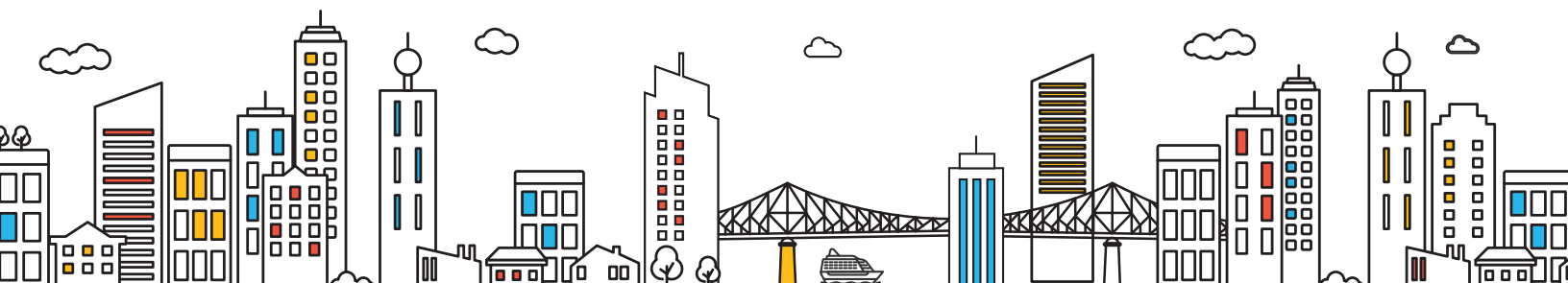
## FINAL THOUGHTS

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The results from our survey reveal some provocative findings about Inner City 100 companies that may be relevant to other inner city small businesses. Overall, Inner City 100 companies not only create jobs but offer many major employee benefits, see their inner city location as a distinct competitive advantage, have a broad base of customers that include large (anchor) institutions, have suppliers that are geographically dispersed, and are largely disconnected from equity capital despite their high growth rates. The gazelles among the Inner City 100 companies are even *more* likely to offer comprehensive benefits, have had a business plan in place in their first year, have a stronger propensity for riskier projects, and rely on the federal government as an important customer. Some of these findings affirm some of ICIC's long-held ideas and strategies. Others are more provocative and encourage a reexamination of commonly held assumptions about inner city businesses.

The findings of this report suggest the following action steps for inner city businesses and the organizations that assist and do business with them:

- Inner city CEOs seeking to grow their businesses may find it useful to compare their companies' characteristics and business practices with those of Inner City 100 winners.
- Economic developers in inner cities may benefit from a better understanding of the kinds of businesses that are located in their communities and of the business advantages that inner city locations provide.
- Institutional providers of equity capital might take a more careful look at the investment opportunities that inner city firms may offer.
- Anchor institutions located in inner cities might consider expending more effort and resources exploring local procurement opportunities in their communities.

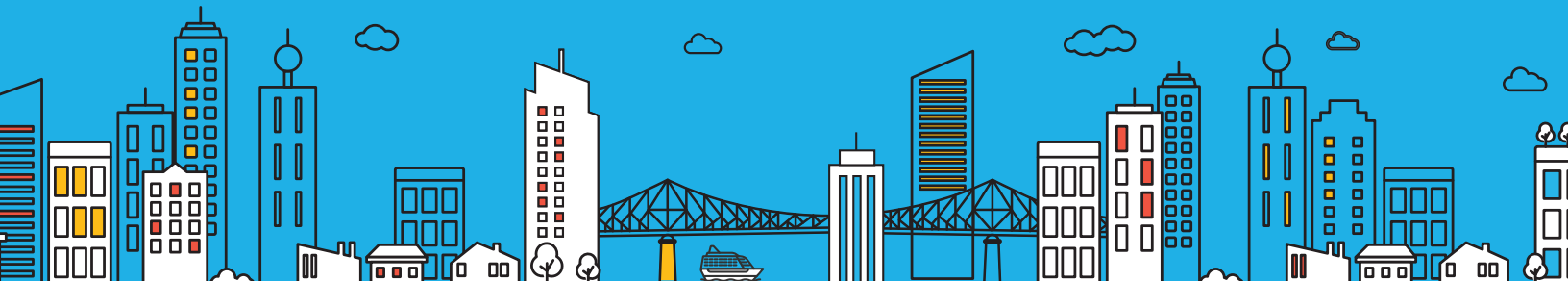






## ENDNOTES

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- <sup>1</sup> There were 894 Inner City 100 award winners from 1999 through 2016. ICIC surveyed these companies between April 2017 and March 2018. A total of 228 companies provided usable responses to the survey, although not all of those companies responded to all survey questions.
- <sup>2</sup> Of the Inner City 100 companies that responded to the survey, 68 percent reported a profit in 2016, 14 percent reported a loss, and 18 percent did not answer the question about profit or loss.
- <sup>3</sup> See, e.g., John Schmitt and Janelle Jones, “Making Jobs Good” (Washington: Center for Economic and Policy Research, 2013), <http://cepr.net/documents/publications/good-jobs-policy-2013-04.pdf>, which includes health care and retirement benefits in its definition of “good jobs.”
- <sup>4</sup> Alec Friedhoff, Howard Wial, and Harold Wolman, *The Consequences of Metropolitan Manufacturing Decline: Testing Conventional Wisdom* (Washington: Brookings Institution, 2010), [https://www.brookings.edu/wp-content/uploads/2016/06/1216\\_manufacturing\\_wial\\_friedhoff.pdf](https://www.brookings.edu/wp-content/uploads/2016/06/1216_manufacturing_wial_friedhoff.pdf).
- <sup>5</sup> Nisha Mistry and Joan Byron, *The Federal Role in Supporting Urban Manufacturing* (Washington and New York: Brookings Institution and Pratt Center for Community Development, 2011), [https://www.brookings.edu/wp-content/uploads/2016/06/04\\_urban\\_manufacturing\\_mistry\\_byron.pdf](https://www.brookings.edu/wp-content/uploads/2016/06/04_urban_manufacturing_mistry_byron.pdf).
- <sup>6</sup> Michael E. Porter, “New Strategies for Inner-City Economic Development,” *Economic Development Quarterly*, vol. 11 (1997), pp. 11-27.
- <sup>7</sup> *Ibid.*
- <sup>8</sup> The remaining companies either regarded their inner city location as neither an advantage nor a disadvantage (27 percent) or did not answer this question (10 percent).
- <sup>9</sup> A 20 percent annual growth rate is a common standard for gazelle status. See, e.g., Thomas D. Boston and Linje R. Boston, “Secrets of Gazelles: The Differences between High-Growth and Low-Growth Business Owned by African American Entrepreneurs,” *Annals of the American Academy of Political and Social Science*, vol. 613 (2007), pp. 108-130; and David Birch, *Job Creation in America: How Our Smallest Companies Put the Most People to Work* (New York: Free Press, 1987). Some authors define gazelles on the basis of job growth while others do so on the basis of revenue growth.
- <sup>10</sup> Scott Shane, “Why Encouraging More People to Become Entrepreneurs Is Bad Public Policy,” *Small Business Economics*, vol. 33 (2009), pp. 141-149.
- <sup>11</sup> David B. Audretsch, *Determinants of High-Growth Entrepreneurship*, report prepared for OECD/DBA International Workshop on High-growth Firms: Local Policies and Local Determinants, Copenhagen, 2012.
- <sup>12</sup> Wayne H. Stewart Jr. and Philip L. Roth, “Risk Propensity Differences between Entrepreneurs and Managers: A Meta-Analytic Review,” *Journal of Applied Psychology*, vol. 86 (2001), pp. 145-153.
- <sup>13</sup> Boston and Boston, “Secrets of Gazelles.”
- <sup>14</sup> Other characteristics that researchers been found to be associated with growth, but that we do not highlight in this report, are the extent of the company’s research and development activity (Shane, “Why Encouraging More People to Become Entrepreneurs Is Bad Public Policy”), strategies based on innovation (W. Chan Kim and Renee Mauborgne, “Value Innovation: The Strategic Logic of High Growth,” *Harvard Business Review*, January-February 1997, <http://nuffieldinternational.org/csc-conferences/2017/introduction/FYI-Value-Innovation-The-Strategic-Logic-of-High-Growth.pdf>), and external equity capital from angel investors (Organisation for Economic Cooperation and Development, *Financing High-Growth Firms: The Role of Angel Investors* (n.p.: OECD Publishing, 2011), <http://dx.doi.org/10.1787/9789264118782-en>) or venture capital firms (Manju Puri and Rebecca Zarutskie, “On the Life Cycle Dynamics of Venture-Capital- and Non-Venture-Capital-Financed Firms,” *Journal of Finance*, vol. 67 (2012), pp. 2247-2293.
- <sup>15</sup> A compound annual growth rate of 20 percent for four years is equivalent to a total growth rate of approximately 107.4 percent over the 2012-2016 period.
- <sup>16</sup> Because we examine only bivariate relationships between growth (or gazelle status) and other characteristics of Inner City 100 winners, our analysis does not enable us to say whether the business characteristics we identify are causes of growth, consequences of growth, features that are caused by something else that also causes growth, or not causally related to growth in any way.
- <sup>17</sup> Joshua Gans, Erin L. Scott, and Scott Stern, “Do Entrepreneurs Need a Strategy?” *Harvard Business Review*, May-June 2018, <https://hbr.org/2018/05/do-entrepreneurs-need-a-strategy>.
- <sup>18</sup> Boston and Boston, “Secrets of Gazelles.”
- <sup>19</sup> Jens M. Unger, Andreas Rauch, Michael Frese, and Nina Rosenbusch, “Human Capital and Entrepreneurial Success: A Meta-Analytical Review,” *Journal of Business Venturing*, vol. 26 (2011), pp. 341-358.



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