

## **Critical Success Factors for Inner City Businesses**

**Robert C. Eisenstadt, University of Louisiana at Monroe**  
**Paul S. Nelson, University of Louisiana at Monroe**  
**Tammy R. Parker, University of Louisiana at Monroe**

### **ABSTRACT**

*We survey incumbent businesses in the Ouachita Enterprise Community primarily located in Monroe, Louisiana. We seek to discover what common factors are critical to the success of inner city businesses. Our results indicate that taxes are a strong negative factor while government regulation is a positive factor. The availability of information technology, good transportation links, and location are important positive factors. Internal factors such as good customer relations were important while production costs relatively unimportant. Internal factors were rated as more important than external factors suggesting training programs to be an effective economic development tool.*

### **INTRODUCTION**

Many in both the public and private sectors continue to look for the magic formula to revitalize the inner city. Yet, despite an enormous amount of research, conventional wisdom holds that there is no silver bullet, businesses survive or fail for a multitude of reasons, many of which are beyond outside control or influence. This conclusion is unsatisfying because the ongoing depressed condition of the inner cities. Residents who live in the inner city lack access to basic consumer products and job opportunities near their homes forcing them to travel to the suburbs. Eventually, residents move to where shopping and jobs are located, further increasing the decline of the inner city. Bringing enhanced vitality to the inner city would not only improve the circumstances and options for those residents but also slow urban sprawl and flight into the suburbs.

Attempts by public or private agencies to increase development in the inner city have usually focused on getting existing businesses to expand or locate operations there. The results of such policies have been decidedly mixed. Proponents point to businesses or jobs created as a result of development policies. Critics counter that the advertised development would have taken place regardless of these revitalization strategies. Barlas (1998)

An alternative development strategy would be to look at which businesses are surviving and thriving within the inner cities. Observing which businesses are already in depressed areas leads to two development approaches. First, if an economic development

agency desires to focus on attracting new businesses then it makes sense to target firms that are complementary to existing businesses. Attracting complementary businesses is the ‘cluster’ strategy promoted by Porter (1997). Complementary businesses will strengthen existing industries as well as creating jobs themselves. However, there might be circumstances where complementary businesses do not practically exist or are irrelevant. For instance, a small grocery store is unlikely to be substantively helped by a nearby food processor. An alternative approach would be to promote the growth of existing enterprises and the formation of new enterprises. If existing inner city firms are able to grow, there will be employment and service opportunities created. There may be common factors among the incumbent firms. It is reasonable to assume these commonalities are associated with success. If these common factors are identified then we can focus development policies that emphasize those traits. Therefore, the odds for success of new firms will be enhanced.

This paper will report on a survey of existing firms within the Ouachita Enterprise Community (OEC) located primarily in Monroe, LA. The OEC also includes a small area of the city of West Monroe as well as unincorporated areas of the Parish. The OEC was set up as part of a concerted attempt to revitalize a declining area. Table I compares the demographics of the OEC, Ouachita Parish and Ouachita Parish outside the OEC. By Table I, we see that the OEC is a highly economically depressed area compared with the surrounding Parish.

**Table I: Demographics of OEC and Ouachita Parish**

<b>Statistic Description</b>	<b>OEC</b>	<b>Ouachita Parish</b>	<b>Ouachita Parish Outside OEC</b>
<b>Percent Below Poverty</b>	53%	28%	20%
<b>Average Household Income</b>	\$10,568	\$21,213	\$24,636
<b>Unemployment Rate</b>	18%	8.7%	6.4%
<b>Labor Force Participation Rate</b>	42%	52%	55%
<b>Population</b>	34,600	142,191	107,591

The survey discovers those factors that were important (and unimportant) to the success of these firms. This information is of interest to those interested in economic revitalization so that they can focus their limited resources in those areas that are likely to yield the highest benefit.

In the next section, we will describe our methodology. In section three, we will discuss the results of our survey. We will conclude with a summary and recommendation.

### **SURVEY CHARACTERISTICS**

We sent out 166 surveys to businesses by mail within the OEC. To increase our response rate, we sent out a pre-survey letter and included a small thank you gift with the survey. We received 57 responses, a response rate of 34.3 percent. Table II describes some key characteristics of the respondents.

**Table II: Key Characteristics of Respondents**

<b>Ownership</b>	Minority – 16%	Public – 17%	Family – 23%	Private – 44%
<b>Geographical Extent of Sales</b>	Inside Parish – 52%	Louisiana – 21%	National or International – 27%	
<b>Time in Business</b>	< 20 years – 40%	20 – 30 years – 28%	> 30 years – 32%	Mean = 28.9 years
<b>No sales to Government</b>	City – 72%	State – 68%	Federal – 82%	

Looking over Table II, we see that a majority of firms have a local geographical reach yet over a quarter have at least a national presence. Notice that most firms have no dealings with any level of government. One of the supposed advantages to the enterprise community designation is preferential access to government contracts, yet only a small percentage of firms utilize this advantage. It is possible that firms do not know of the advantages in bidding by being located in an enterprise community. A more likely explanation is that their products and services are not what the government entities need. Finally, firms in our study have been around the block a few times. A majority of firms in our sample have been in business for over 20 years. Respondents to this survey have a variety of ownership forms. A huge majority (83%) are privately owned though they divide themselves into minority, family, or simply privately owned.

### **CRITICAL SUCCESS FACTORS**

To gauge what factors are likely to lead to business success or failure, we asked our respondents to comment on 29 potential items. Respondents were asked to rate each factor on a scale ranging from -5 (very strong negative impact) to +5 (very strong positive impact). A zero indicated no real impact on business success. A copy of our survey instrument is included in the appendix. Of the 57 surveys received, three had multiple missing data points so these were excluded from further analysis. Hence, the results reported below are for 54 completed surveys.

Potential success factors in our survey may be divided into four groups. These groups were governmental, physical and economic environment, competitors, and those under the firm’s control. Governmental factors were policies or actions undertaken by government at any level. An example of a governmental factor would be ‘Governmental regulations about safety and the environment.’ Physical or economic factors were attributes of the physical or economic environment. A physical or economic factor would be ‘Location’ or ‘A healthy national economy.’ Competitive factors were actions taken by perceived rivals in the market. ‘New competitors entering my market’ is an example of a competitive factor. Finally, there were factors under control of the firm such as ‘Long-term (personal) relationships with suppliers’ or ‘Level of the company’s debt.’

The results for governmental factors are reported in Table III. A positive value indicates that, on average, respondents thought an increase in this factor helps their

business. On the other hand, a negative value would signal that an increase in this factor would be detrimental to the respondent's business. We appreciate the fact that these are ordinal rankings and hence may not be comparable across respondents. With that in mind, the means nevertheless do confer meaningful information. Not surprisingly increases in taxes are viewed negatively with property taxes as the most negative. The property tax result may be due to the relatively heavy burden of property taxes on businesses in Louisiana. One interesting finding is that our respondents are favorably inclined toward increases in government regulation. Payroll taxes were considered less important. The reliability of the governmental factors as measured by Cronbach's alpha is low at 0.28

**Table III: Summary of Critical Governmental Factors**

<b>Factor</b>	<b>Mean</b>	<b>p-value</b>
Governmental regulations about safety and the environment.	0.61	.019
Payroll tax rates (social security, unemployment, worker's compensation).	-0.15	.578
Sales tax rates.	-0.67	.012
Property tax rates.	-0.94	.001

**Table IV: Summary of Critical Physical or Economic Factors**

<b>Factor</b>	<b>Mean</b>	<b>p-value</b>
A healthy national economy.	2.50	< .000
Reliable quality labor.	2.26	< .000
Advances in information technology and/or telecommunications.	1.69	< .000
Favorable weather/climate conditions.	1.57	< .000
Convenience, easy access, or ready transportation to my place of business.	1.54	< .000
Location.	1.46	< .000
Availability of financing.	1.00	< .000
Interest rates (cost of borrowing money to help finance the business).	-.02	.941
Institutional racism.	-1.87	.316

Table IV presents the results for physical or economic factors. It is unsurprising that a strong macro economy was considered an important positive factor, even ranking above quality of employees. Interestingly, the information technology revolution has become important even to firms in Monroe, LA. Good weather, good access, and location were also positive significant factors. Access to financing was statistically significant though substantively less important. Interest rates and institutional racism were negative but neither statistically different from zero. The two factors related to credit access and cost were rather weak. These results are notable since subsidized credit is a popular policy initiative for economic development. These results indicate that at least further increases in credit availability would not aid existing firms. The mean value on 'Institutional racism' was negative, which is reasonable, but not statistically

significant. Views on racism tended toward the extremes, either a very strong negative impact or a very strong positive impact. The reliability of the physical or economic factors as measured by Cronbach's alpha is low at 0.13.

The third group of factors is effects of competitors. The existence of competitors is not necessarily negative due to economies of agglomeration. For example, we commonly see auto dealers locate together so as to improve the attractiveness to car buyers in general. Table V summarizes factors related to competitors.

Recall that a positive value implies that increases in the factor helps the respondent's business. One initial impression from Table V is that the activities of competitors overall are not seen as that important. Information about competitors is the most important factor. Yet, no other values are substantively different from zero. It is interesting that actions of competitors are weakly positive. Perhaps firms believe that 'buzz' from promotions or sales may have at least some spillover effect. The entry of new competitors is seen as a weak negative factor. The reliability of the impact of competitors as measured by Cronbach's alpha is low at 0.14.

**Table V: Impact of Competitors**

<b>Factor</b>	<b>Mean</b>	<b>p-value</b>
Access to information about my competitors.	1.37	< .000
Actions of my major competitors (such as price changes, sales promotions, new products/services and so on).	0.41	.150
Introduction of new products that are similar to that of my company.	0.09	.574
New competitors entering my market.	-0.24	.395

Governmental, economic and physical, and competitive factors all are external to the firm. We now turn to the largest number of questions in our survey. These questions concern internal decisions and policies undertaken by firms. It might appear that decisions and policies by firms are outside the purview of economic development agencies. However training programs are an example of a viable product that economic development agencies could provide to assist businesses in this area. Small business and entrepreneurship training programs are often an integral part of economic development efforts. Yet, these programs cannot do everything. They must choose a few aspects on which to focus. Hence, knowing which critical factors are most important is vital in getting maximum effect from public seminars and training. Table VI summarizes the internal factors.

Care of customers ranks highest among these critical factors. A close second was relationships with suppliers. These respondents believed that relationships were the most critical factors for success. Closely related with customer relationships was customer service. Interestingly, information on customer satisfaction rated lowest, even insignificantly negative. Perhaps the respondents believe that if the relationships with customers are sound then information about customer satisfaction follows. Respondents

believed improving products, service and quality was important, substantially more important than being first in the market. Managing, retaining and utilizing employees were of moderate importance. Additionally, setting long-term objectives and creative marketing we noted by the respondents as moderately important.

**Table VI: Summary of Internal Decisions and Policies**

<b>Factor</b>	<b>Mean</b>	<b>p-value</b>
Long-term (personal) relationships with customers.	3.48	< .000
Long-term relationships with suppliers.	3.31	< .000
Customer service.	3.06	< .000
Continuous improvements in products/service/quality.	2.57	< .000
The brainpower/initiative of company employees.	2.48	< .000
Established long-term objectives for the company.	2.00	< .000
Innovative/creativity in marketing.	1.63	< .000
Programs for hiring and retaining high-performing employees.	1.37	< .000
First-to-market with products/services.	1.02	< .000
Level of the company's debt.	0.61	.038
Valuable resources such as persons, products, ideas, technology.	.44	.815
Continuous updated information about customer satisfaction.	-0.13	.945

Company debt and valuable resources were of lesser importance. These results may be an artifact of our sample. A majority of respondents have been in business over 20 years. They have most likely solved for themselves the critical issue of cash flows and keeping debt under control. This result is consistent with the relatively low importance of credit availability and interest rates mentioned above. Further, the firms may view themselves, as being in a highly competitive environment where all firms have roughly equivalent costs and production technologies.

The reliability of internal decisions and policies as measured by Cronbach's alpha is substantially higher than previous measures at 0.80. The reason the reliability of the earlier measures was substantially lower was that these firms were very diverse. Their commonality was their physical location but they competed in a variety of circumstances and markets. However, internal factors were much more closely correlated.

## **SUMMARY AND CONCLUSION**

We reported on a survey of 57 businesses in the OEC, a depressed inner-city area. The average duration of being in business was 28.9 years. The survey asked firm owners and managers to respond to a list of 29 potentially critical factors to firm success. Of the 29 factors, 22 were favorable and 7 unfavorable. Of the 22 favorable factors, 18 were found to be statistically different from zero. Only 2 of the 7 negative factors were statistically different from zero.

A few of the factors found to be important were favorable weather and climate; however these factors are but uncontrollable. Of those that might be subject to influence, our survey showed that internal policies and decisions were the most critical. Of course, those interested in economic development cannot force firms to make good decisions but it does indicate that training and seminars can play an important role in enhancing business success. Good customer and supplier relationships are important to firm success is not a new finding. Yet, the enormous variance in how we all have been treated as customers indicates the substantial need for training. Training employees is another important direction for economic development agencies. Commonly utilized economic development tools such as providing transportation links and access to financing were significant factors but of secondary importance.

The good news is that programs that provide training can be created and maintained at relatively low cost. Most locations have ready access to business schools and small business development centers. Private and public programs that emphasize entrepreneurship are growing. The bad news is that training is not highly visible and therefore less likely to create the political excitement that a road or subsidized loans would create. Nevertheless, our results indicate that the decisions and policies undertaken by firms themselves are of highest importance to business success than external factors.

## REFERENCES

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## ABOUT THE AUTHORS

Robert Eisenstatdt is Associate Professor of Economics and Head of the Department of Economics and Finance at the University of Louisiana at Monroe. (ULM) He received his Ph.D. from Georgia State University. Dr. Eisenstadt's current research interests are in labor economics and regional economic development. Paul Nelson is Associate Professor of Economics at ULM. He received his Ph.D. from Texas A&M University. Dr. Nelson's current research interests are in taxation and economic development. Tammy Parker is Alumni Professor of Entrepreneurship and Associate Professor of Economics at ULM. She received her Ph.D. from the University of Southern Illinois at Carbondale. Dr. Parker's research is in monetary economics and entrepreneurship.

**APPENDIX: SURVEY  
BACKGROUND**

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**To be sure that we have a representative “profile” of the businesses in Ouachita Enterprise Community, please check the categories below that describe you or your company. All of your answers are completely anonymous.**

My company is owned: (Check all that apply)

- Minority – owned
- Publicly
- Privately
- Family owned & operated business

My company’s (formal) planning horizon is:

- 6 months
- 1 year
- 2 years
- 5 years
- 10 years or more
- We don’t do formal planning

My company’s competitive market is mainly:

- Ouachita Enterprise Community (“Southside”)
- Monroe/West Monroe
- State-wide
- National
- International

My company has been in business for \_\_\_\_ years

My company’s primary industry is:

- Manufacturing
- Construction/engineering
- Wholesale
- Transportation/shipping
- Real Estate
- Entertainment/tourism
- Oil & gas
- Telecommunications
- Education
- Restaurant
- Health care
- Financial services
- Legal services
- Retail
- Other service
- Industry not listed \_\_\_\_\_

During the last two years, what percentage of your sales revenue has come from business (contracts) with the city government of Monroe? \_\_\_\_%

During the last two years, what percentage of your sales revenue has come from business (contracts) with the Louisiana state government? \_\_\_\_%

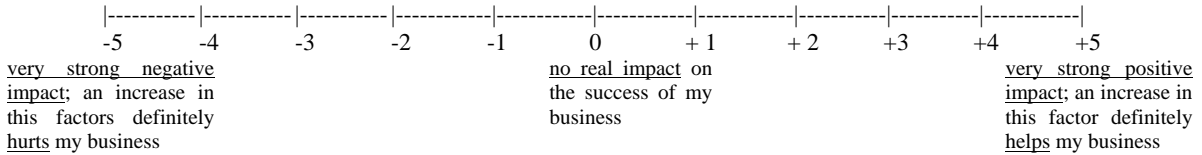
During the last two years, what percentage of your sales revenue has come from business (contracts) with the federal government? \_\_\_\_%

Do you believe that business and political leaders have an important role to play in the success of your business?

- Yes
- No

## CRITICAL SUCCESS FACTORS

The factors listed below have been suggested by area executives such as yourself as having a potential strong impact on the financial performance or success of a business. For each factor listed, rate how important it is to sustaining **YOUR** company's profitability using the rating scale below. For instance, if you thought "the performance of the Monroe Moccasins" had a slightly positive impact on your firm's profitability, you might rate it a '+1' and write that number in the blank next to the factor.



- |  |  |
|--|--|
| <p>_____ Governmental regulations about safety and the environment.</p> <p>_____ Advances in information technology and/or telecommunications.</p> <p>_____ Actions of my major competitors (such as price changes, sales promotions, new products/ services and so on).</p> <p>_____ Favorability of general economic conditions.</p> <p>_____ Payroll tax rates (social security, unemployment, worker's compensation).</p> <p>_____ New products/services that substitute (fill the same need) as my company's.</p> <p>_____ New competitors entering my market.</p> <p>_____ Sales tax rates.</p> <p>_____ Property taxes.</p> <p>_____ Convenience, easy access, or ready transportation to my place of business.</p> <p>_____ Availability of financing.</p> <p>_____ Interest rates (cost of borrowing money to help finance the business).</p> <p>_____ Location</p> <p>_____ Favorable weather/climate conditions.</p> <p>_____ The quality of employees in the local</p> | <p>_____ Developing long-term (personal) relationships with customers.</p> <p>_____ Developing long-term relationships with suppliers.</p> <p>_____ Setting objectives for the company and consistently sticking with them.</p> <p>_____ Capitalizing on the brainpower/initiative of company employees by letting them make important decisions.</p> <p>_____ Being innovative, creative, or first-to-market with products/services.</p> <p>_____ Aligning the company's strategic plans and its structure to fit what's happening in the external environment.</p> <p>_____ Continually collecting and updating conformation about customers and their satisfaction.</p> <p>_____ Level of the company's debt.</p> <p>_____ Systematic programs for hiring and retaining high-performing employees</p> <p>_____ Maintaining an emphasis on customer service.</p> <p>_____ Maintaining an emphasis on continuous improvement in products/service quality.</p> <p>_____ Protecting the valuable resources (persons, products, ideas, technology) that make my company unique.</p> <p>_____ Tracking competitor information and using it in</p> |
|--|--|

labor market.

long-term planning.