

APPENDIX A

Methodology

INTRODUCTION

Case study research constitutes the core of this project. The case study method is most appropriate for conducting this research because it allows for the kind of in-depth analysis that the goals of this project require. It also enables us to understand critical differences between types of microenterprise programs and between types of economic distress. The research questions posed—designed to determine what kinds of microenterprise intervention work best with what kinds of economic distress—are best addressed in case studies. Finally, the case study method allows for a wide range of data to be used.

These case studies are supplemented by: (1) an analysis of the socioeconomic context in which each program operates; (2) an identification of the industries most likely to produce the outcomes—job creation, wealth generation, and tax-base enhancement—in which EDA is most interested; and (3) an assessment of the potential of the microenterprise strategy in the context of the other economic adjustment tools EDA currently employs.

RESEARCH QUESTIONS AND HYPOTHESES

The purpose of this study is to assess the potential of the microenterprise strategy as a tool to alleviate regional economic distress. In order to accomplish this goal, the study is conducted on three levels: (1) the level of the program; (2) the level of the area in which the program operates; and (3) the level of the business. In other words, we will examine differences across programs, regions, and types of businesses. The overarching research question is, “Should EDA encourage microenterprise programs to help alleviate structural economic problems?” We have operationalized this broad question by creating the four following specific research questions.

Research Question #1:

What type of microenterprise intervention can produce the greatest results in economically distressed areas?

The umbrella term “microenterprise program” masks vast differences that exist between programs. Because most programs are locally initiated and (at least initially) largely privately funded, they are designed to suit the context in which they operate and to be responsive to the needs of their particular constituency. A range of programs were studied in order to understand what kinds of interventions work best with what kinds of distress.

Hypothesis #1:

Different microenterprise models will be useful in different settings, but a set of best practices will emerge as consistent across programs.

Research Question #2:

What types of economic distress are most likely to be responsive to microenterprise programs as an intervention strategy?

Types of distress also vary, and the microenterprise strategy will likely be more successful in some types of distressed areas than in others. This study chose programs operating in areas suffering from a range of types of economic distress in which EDA has demonstrated interest, including inner-city areas that have witnessed a long, slow deterioration of their economic base; areas in which structural economic change has occurred quickly and on a large scale (areas where military bases have closed or that have experienced a natural disaster); rural areas with long histories of entrenched poverty; and resource-dependent regions experiencing depletion.

Hypothesis #2:

Areas and groups hit with relatively sudden economic distress will lend themselves more easily to microenterprise intervention than will areas characterized by poverty that has persisted for many years.

Research Question #3:

What industries offer the most potential for recovery of losses through self-employment?

Most microenterprise programs do little to steer entrepreneurs toward specific kinds of businesses. The majority of microbusinesses are home-based sole proprietorships in the service or retail sector, and most are less than five years old (Clark and Huston 1993). These businesses require little start-up capital and gain easy entry into the market. If the microenterprise strategy is to be used as an economic adjustment tool, it is important to look at the kinds of businesses started through microenterprise programs within the context of an analysis of small business areas that offer the most growth potential. Earlier research shows that most of the businesses started in

microenterprise programs are unlikely to create jobs and generate income at a significant level in the short term, whereas the most promising potential for growth lies in emerging lines of business, such as business services, construction, and manufacturing (Bates and Servon 1997).

Hypothesis #3:

A mismatch exists between those businesses typically started within microenterprise programs and those businesses most likely to grow and generate stable employment.

Research Question #4:

In what ways can the microenterprise strategy complement existing EDA programs?

EDA currently operates economic adjustment programs in many of the areas where microenterprise programs already exist. It is important for EDA to learn whether and how these programs complement one another and what the potential is for greater coordination between them.

Hypothesis #4:

Potential exists for significant synergistic activity between microenterprise programs and other EDA-sponsored projects.

RESEARCH TASKS

To answer the questions set out above, we divided the research into the following five tasks.

Task I:**Description of Socioeconomic Context in Targeted Regions**

Before conducting research at each site, we researched the socioeconomic context of the regions in which the six case study programs operate. We completed a fine-grained description and analysis of changes in the economic base of each region. We also drew upon existing economic research and interviews with local experts.

Task II:**Case Studies of Six Microenterprise Programs**

The case studies were designed to assess the contribution microenterprise programs make to job creation and income enhancement in distressed areas and among the groups hardest hit by economic change. In addition, the case studies helped to identify the characteristics of businesses and entrepreneurs most likely to succeed using the self-employment strategy.

Fieldwork at each site included:

1. *Collecting existing program data.* The data collected includes budgets; organizational charts; historical statistics on client base and program activity; internal reports and evaluations; externally generated research, including studies conducted by other researchers and grant-making institutions; and state and local interpretations of relevant policy.
2. *Non-participant observation.* Our fieldwork at each program site included attending classes, meetings, and related community events in order to get a sense of the day-to-day operations of each program and obtain a more complete picture of how outcomes are produced. We also studied the relationships formed both within the program and between the program and other agencies and institutions.
3. *Interviews with board and staff.* Interviews focused on interpretations of program mission and goals, and assessments of what the programs have and have not accomplished. These interviews also explored the relationships between programs and policy at all levels.
4. *Interviews with participants.* Interviews were broad in scope, covering issues ranging from a participant's educational and employment history, to his/her relationship with program staff, to his/her goals vis-à-vis the program, to the status and potential of his/her business.
5. *Interviews with officials at connected institutions.* These interviews were designed to obtain the perspectives of microenterprise "experts," program funders (both public and private), and policymakers.

These case studies provided us with very specific data regarding the outputs, outcomes, and impacts that microenterprise programs produce in economic development terms.

Task III:

Survey of Microentrepreneurs

To obtain a standard set of client data across all six programs, we asked each microentrepreneur interviewed as part of the case study research to complete a written survey. This survey helped us synthesize information about all six programs and also contributed to our discussion of the types of businesses most likely to allow clients to reach self-sufficiency.

Some of the findings presented in Chapters 3 and 10 are drawn from a client survey administered to the microentrepreneurs interviewed during this project. See Appendix D for the actual survey instrument. Originally, when the fieldwork was conducted for WEB in Baltimore and ISED in Iowa, these questions were asked as part of the formal interview. Upon completing that fieldwork, it was determined that a standardized survey would be a better mechanism for obtaining these data. Therefore, for the fieldwork at NEF, WEST, WESST Corp, and Working Capital, the respondent was asked to complete the survey before the open-ended interview began.

ISED and WEB clients previously interviewed were later mailed the same survey instrument, with a self-addressed, stamped envelope, and asked to return the completed survey. Of the ten clients interviewed at WEB, three returned the survey; of the 22 clients interviewed at ISED, nine returned surveys. Additionally, we received only six complete surveys from the ten Working

Capital interviews, although we have some data on all ten clients. The resulting distribution of client interviews by program is given below in Table A.1.

TABLE A.1
Distribution of Client Surveys by Program

<i>Program</i>	<i>Frequency</i>	<i>Percent</i>
ISED	9	14.3
NEF	12	19.0
WEB	3	4.8
WESST	16	25.4
West	13	20.6
Working Capital	10	15.9
Total	63	100.0

As a result of the small number of surveys per program, the potential self-selection bias from WEB and ISED, and incomplete data from Working Capital, we cannot make statistically significant observations about individual programs. Rather, we have taken all the client surveys together to observe general trends about microentrepreneurs.

One final note about the generalizability of the survey findings: since the respective programs essentially chose which clients we interviewed, there is a potential bias in our findings. Although we requested programs to supply us with a representative sample of interviewees, in general, we interviewed clients with strong relationships with the particular microenterprise program. Such individuals tended to be in two classes: (1) those within the first year of starting their business, when an intense relationship is developed with the microenterprise program, and (2) successful entrepreneurs who have been in business for several years, and have maintained their relationship with the microenterprise program. Any survey findings viewed as representative of a larger community of microentrepreneurs should be considered with these facts in mind.

Task IV:

Identification of “Growth” Businesses

We analyzed the Census Bureau “Characteristics of Business Owners” (CBO) database in order to identify those self-employment scenarios that are most likely to result in job creation and creation of wealth; these are termed “growth” or “emerging” lines of business. We compared the emerging lines of business identified through CBO analysis with the types of businesses started through the six microenterprise programs studied. This comparison enabled us to tell whether microenterprise programs are fostering the creation, stabilization, and expansion of businesses most likely to combat economic distress. Determining which businesses are most likely to succeed and which programs are doing the most to promote the creation of businesses in emerging lines is important if the microenterprise strategy is to be used as an economic adjustment tool.

Task V:**Assessment of the Microenterprise Strategy in the Context of Other Economic Adjustment Tools**

Once the case studies were completed, we assessed the usefulness of the microenterprise strategy in the context of other economic adjustment strategies undertaken by EDA, such as Revolving Loan Funds, local technical assistance, planning, trade adjustment, and defense adjustment. The research conducted for this task both compares microenterprise programs to other strategies EDA currently supports and discerns potential synergy between microenterprise programs and other EDA strategies. We also interviewed state, regional, and local economic development officials in order to obtain a sense of their perceptions of and experiences with the microenterprise strategy.