

The Annie E. Casey Foundation

**Institute for Justice:
Building Wealth Through Entrepreneurship**

January 2008

The Annie E. Casey Foundation
701 St. Paul Street
Baltimore, MD 21202
410-547-6600
www.aecf.org

Institute for Justice: Building Wealth Through Entrepreneurship

Summary

Entrepreneurs with means can obtain with relative ease the advice they need to pursue an idea or aspiration, but those whose incomes are more limited often must face the daunting tasks of starting and sustaining a business without such guidance. The Institute for Justice's Clinic on Entrepreneurship was created in 1998 to fill that gap by using University of Chicago law students, supervised by licensed attorneys, to provide intensive, extended assistance to low- and moderate-income entrepreneurs.

Recognizing that minority-owned businesses are more likely than others to hire people of color, the Foundation decided to "bet" on this approach to making services accessible and on the idea of entrepreneurship as a potential complement to other ways of promoting the economic well-being of families living in distressed neighborhoods. The Foundation has supported the Clinic since its inception, until recently covering about a fourth of its operating costs each year. From the Institute's perspective, this support has had symbolic as well as financial value. Characterizing itself as a libertarian organization, the Institute appreciates having diverse funding sources that reflect the common ground with those of various viewpoints that can be found in on-the-ground help for entrepreneurs from disadvantaged communities.

- Impact: Since 1998, the Clinic has provided intensive assistance that has resulted in creation or expansion of a business to 156 entrepreneurs, including current clients; several hundred others have benefited from workshops and/or brief consultations. Most businesses helped by the Clinic are minority-owned, and many employ at least several people besides the owner. Participating law students are rewarded with the sense of satisfaction that comes from helping someone bring a dream to fruition, which IJ hopes will encourage them to be advocates for low-income entrepreneurs and to do *pro bono* work in the future.
- Influence: IJ staff and Clinic students share their experience through presentations, publications, participation in professional forums, and consultation with those interested in starting similar programs, which likely has contributed to the substantial growth of law-school based services for small businesses in

recent years. With Annie E. Casey Foundation encouragement, IJ produced a pamphlet to share its model and the lessons it has learned.

- Leverage: Operating as a program of the University, the Clinic has been able to draw on the talents, skills, and enthusiasm of top-flight law students and, in some years, students from the Business School as well. Several Chicago law firms provide *pro bono* services to Clinic clients. In the past year, IJ has been successful in securing additional philanthropic support for the Clinic beyond what it receives from the Annie E. Casey Foundation.

Background

For at least some residents of low-income communities, entrepreneurship -- especially in arenas that do not require advanced education or a lot of capital -- is potentially a viable and even promising avenue to increase income and build assets. But starting and sustaining a business can be a daunting undertaking, requiring much more than the skills, creative ideas, and familiarity with the relevant market that the entrepreneur naturally brings to the table. Securing financing and space, finding good employees, and navigating the web of laws, rules, and regulations that will govern the organization and operations are equally important. Those with means can turn to a host of resources for legal, financial, and business advice, but counsel for low- to moderate-income entrepreneurs often is hard to come by, because traditional sources either are not interested in the proposed ventures or are too expensive. Even entities that target this group usually provide only general guidance, often in the form of classes, not the detailed, individualized and extended services that may make the difference between failure and success.

The Institute for Justice's Clinic on Entrepreneurship

The Institute for Justice's Clinic on Entrepreneurship at the University of Chicago Law School was established to fill this gap, while simultaneously exposing talented law students to the value and rewards of serving inner city entrepreneurs.

Founded in 1991 as a libertarian public interest law firm, the Institute for Justice "litigates to secure economic liberty, school choice, private property rights, freedom of

speech and other vital individual liberties and to restore constitutional limits on the power of government. In addition, IJ trains law students, lawyers and policy activists in the tactics of public interest litigation."¹

Among the Institute's activities are summer seminars that give law students an opportunity to learn about IJ's work and the issue areas it addresses. After attending one of these seminars, two University of Chicago law students approached the Institute about setting up a program at the University where students could gain experience applying the type of law that was discussed. Although different from IJ's usual litigation work, the idea was intriguing as another way to address the barriers confronting entry-level entrepreneurs, which is one of the Institute's core areas of focus.

Interested, if a bit doubtful that the students would follow through, IJ agreed to sponsor the program if University approval was secured. It turned out that these were particularly determined and capable students -- one became a Supreme Court clerk -- who quickly obtained the concurrence of the Law School. By the start of the next academic year, the Clinic on Entrepreneurship was a reality. The student enthusiasm and interest that sparked creation of the Clinic continues today, manifest in the fact that over a hundred students apply each year for the fifteen to twenty positions in the Clinic. Demand also exceeds capacity in courses on entrepreneurial law taught by Clinic staff at the Law School.

At the Clinic, under the supervision of experienced, licensed attorneys, second- and third-year students provide free legal advice to help aspiring entry-level low- and moderate-income entrepreneurs start, sustain, or expand a small business. Some advice is provided in workshops or brief consultations, but the heart of the Clinic is the in-depth representation to get or keep an enterprise up and running that is offered to those selected to be clients. Entrepreneurs receive guidance on issues such as structuring the entity, developing a business plan, securing financing, licenses and permits, commercial leases and contracts, employment agreements, and regulatory compliance. The proximity of the University to the neighborhoods in which the entrepreneurs live and work is an advantage for all -- it affords the clients easy access

¹This is excerpted from the Institute's mission statement, as presented on its website.

to the Clinic and encourages students to visit their clients' communities, providing insights that many otherwise never would have.

Just as there is a waiting list of students who want to participate, there always is a waiting list of entrepreneurs who are eager to benefit from the Clinic's services.

The story of Tasty Delite captures what the Clinic is about and demonstrates what can be achieved when aspiring inner city entrepreneurs receive intensive, extended and high-quality assistance to develop a business. With a little mixer retrieved from a junkpile, Darryl Brown and Michael Davis began experimenting with recipes for a spicy flavor coating for meat and seafood. When family and friends told them they had a winner, they turned to the Clinic for help with matters ranging from financing to branding to employment issues. Nurtured by the founders' entrepreneurial zeal and guidance from the Clinic, Tasty Delite today is a vibrant business -- the mixer now is industrial-size, the company employs fifteen people, and the product is sold in major grocery stores throughout the country.

Why This Was of Interest to the Annie E. Casey Foundation

The Institute for Justice first came to the Foundation's attention through a board member, and the Foundation funded IJ to conduct a seven-city study of barriers to entrepreneurial activity several years before it began support for the Clinic.

When the Institute presented the Clinic proposal, the Foundation decided to "bet" on the idea, even though it was well outside the usual agenda, because it potentially represented an interesting complement to other ways of promoting the economic well-being of families living in distressed communities. Minority-owned businesses are more likely than others to hire people of color, and so encouraging entrepreneurship to develop these businesses is one way to help create jobs in or accessible to neighborhoods of interest to the Foundation. The university-based model also was intriguing as a means to increase access to the type of advice on which successful small business start-ups often rely.

Annie E. Casey Foundation Assistance to the Institute for Justice

The Foundation has supported the Clinic since its inception, until recently covering about a fourth of its operating costs each year. Grants since 1998 have totaled almost \$900,000.

IJ's President believes that Annie E. Casey Foundation support has made "a huge difference," symbolically as well as financially, because "the Casey imprimatur carries weight." Other recipients of Foundation innovation grants also have cited the importance of Casey participation as a credential, but in this instance the credential has served a different purpose than helping to attract other philanthropic support. IJ characterizes itself as a libertarian organization, and its proponents and supporters generally fall toward the conservative end of the spectrum. But in creating the Clinic, IJ recognized that on-the-ground help for entrepreneurs from disadvantaged neighborhoods is a place where people of diverse viewpoints can find common ground. The President therefore deliberately sought to reflect diversity in funding sources and, for this reason, particularly values the Foundation's early and steady support.

As a way to help attract additional sources of support and foster replication, Annie E. Casey Foundation staff have strongly encouraged the Institute to find ways to tell the story of its approach and accomplishments. The pamphlet *Using Entrepreneurship to Build Wealth and Strengthen Communities* is a result of that encouragement.

Return on the Investment

While the IJ Clinic on Entrepreneurship operates on a relatively limited and local scale, it clearly has benefited families and neighborhoods of the type on which the Annie E. Casey Foundation focuses. Moreover, its experience demonstrates that entrepreneurship should be regarded as one viable way to increase employment options, income and assets in low-income communities. Among the achievements that support this conclusion are the following:

- Impact: The IJ Clinic on Entrepreneurship targets two groups: aspiring low- to moderate-income entrepreneurs and University of Chicago law students.

Since its creation in 1998, the Clinic has provided intensive assistance that has resulted in creation or expansion of a business to 156 entrepreneurs, including current clients. Several hundred more have attended Clinic-sponsored workshops and networking opportunities, or have been able to turn to the Clinic for answers to questions or brief consultations. Most businesses helped by the Clinic are minority-owned, and a significant portion are headed by women.

In addition to Tasty Delite, examples of businesses helped by the Clinic include a limousine service, restaurants, home and industrial cleaning services, and companies that do closed captioning, produce handcrafted furniture, import African art, and design and manufacture clothing. The Clinic also has assisted community organizations, nonprofit agencies and a charter school with issues similar to those of their private sector clients, such as leases, regulatory compliance and employment agreements.

To date, IJ has not routinely tracked the business status and development of former clients² and, because definitive data on small businesses in general are limited, it is difficult to measure the actual and relative performance of entities assisted by the Clinic. However, an informal survey conducted in 2005 found that half of the Clinic's former clients were still in business and that over half had employees in addition to the owner. When compared with national data that are available, this suggests that Clinic-assisted businesses are doing at least as well as the average, if not better -- a result that is especially notable given that inner city entrepreneurs are at a particular disadvantage, because they rarely have financial flexibility to handle unexpected expenses or problems.

Each year, between about fifteen and twenty students participate in the Clinic. (Some students serve in both their second and third year of school.) Beyond making services accessible to aspiring entrepreneurs, IJ's ambition for the Clinic is that these top-flight law students will be exposed to communities and people with whom they might not normally come into contact and that they will develop an interest in being advocates for low-income entrepreneurs and in doing pro bono work in general. Because graduates are only now reaching a point in their

² IJ is in the process of developing a system that, in the future, will allow them to track clients both during and after involvement with the Clinic.

legal careers where they have the freedom to pursue such interests, it is too soon to judge whether these objectives are being achieved, but IJ is optimistic that the impact of an early experience helping someone bring a dream to fruition indeed will pay future rewards.

- Influence: The Institute has not specifically pursued replication of the Clinic model under IJ auspices, but it is reasonable to assume that its pioneering work has contributed to the substantial growth of law school-based services for small businesses in recent years. IJ staff and Clinic students share their experiences through presentations, publications, and participation in professional forums, and the Clinic readily provides help when approached by students and faculty interested in starting programs at other universities.

The Clinic and the businesses it has helped have received some media coverage, mostly in the Chicago area, but also in some national vehicles such as *Forbes* and *Inc.* magazines.

In January 2006, with support and encouragement from the Foundation, the Clinic published *Using Entrepreneurship to Build Wealth and Strengthen Communities* to share its model and lessons it has learned about helping inner city entrepreneurs.

- Leverage: This year, the Harry and Jeanette Weinberg Foundation and the Ewing Marion Kauffman Foundation joined the Annie E. Casey Foundation as philanthropic supporters of the Clinic. Beyond what it receives in grants, IJ subsidizes the Clinic from its core operating funds and expects to continue doing so. Operating as a program of the University, the Clinic has been able to draw on the talents, skills, and enthusiasm of top-flight law students. In some years, students at the Business School also have provided assistance to the Clinic's clients. These resources are complemented by *pro bono* services donated by several Chicago law firms. The Clinic cooperates with microlenders and nonprofit organizations such as Hull House and the Women's Business Development Center, which are a source of referrals and complementary assistance for Clinic clients.