CHAPTER 3

Race and Ethnicity

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he U.S. government reports on minority business ownership as part of the regular economic census performed every 5 years in years ending in 2 or 7. For the purposes of this census, minority-owned businesses are all those not owned by nonminority (Caucasian) business owners. By this definition, minority-owned businesses make up approximately 15% of all U.S. firms. Between 1992 and 1997, minority firms grew at a rate that far outstripped the growth rate of non-minority firms; minority-owned firms grew at 30% while nonminority firms grew at 4% (U.S. Small Business Administration [SBA], 1997). According to the U.S. Small Business Administration, there are currently about 3 million minority-owned firms in the United States that generate approximately \$495 billion in revenues and employ almost 4 million workers (SBA, 2002).

What the general numbers mask is the diversity of the phenomena of minority business ownership. During that same 5-year time frame, the number of Hispanicowned and Asian-owned businesses each grew by 30%. The number of Blackowned businesses grew by 26% while, notably, the number of businesses owned by Native Americans grew by 84% (Greene & Chaganti, 2003). This type of variation in self-employment levels across racial and ethnic groups has been observed (Fairlie & Meyer, 1996; Reynolds & White, 1997) and yet frameworks to explain these differences and advance our understanding of ethnic economic activity remain limited. This chapter begins with a conceptual consideration of the topic of minority entrepreneurship and examines the theoretical frameworks as each relates to business creation and development. We next discuss the background of the minority ownership variables in the Panel Study of Entrepreneurical Dynamics (PSED) and present basic descriptive statistics of the relevant variables. We conclude the chapter with suggestions for further research.

Literature Review

Sociology, anthropology, business, and labor economics literature have each contributed to the development of theoretical frameworks addressing the effect of ethnicity and race on entrepreneurship. Research into ethnicity and entrepreneurship can be traced back to classic works such as those of Weber (1930), Sombart (1914), and Simmel (1950). These scholars' concepts of the stranger as trader, combined with the social structure of societies and pervasive religious canons, have influenced subsequent literature about and study of ethnic entrepreneurship (Butler & Greene, 1997). Enclave theory and middleman theory, two of the primary explanatory frameworks, each evolved from these early frameworks.

However, there are two fundamental traps that underlie many discussions of minority entrepreneurship. First, the term *minority* itself lends itself to studies in which the aggregate nature of the data combines racial and ethnic groups that have no basis for such an aggregation other than that of being Caucasian and non-Hispanic. The assumption seems to be that these groups share some commonality at the individual, business, or community level that allows knowledge to be generated while exploring what might be quite dissimilar populations.

Second, the conceptual discussion in both academic and trade journals often uses terms such as ethnic, immigrant, and minority as interchangeable descriptors for entrepreneurial activities or behaviors by nonmajority individuals (Greene, 1997). Each of these terms has a specific definition and attachment to a set of theoretical frameworks.

Ethnic entrepreneurship is "a set of connections and regular patterns of interaction among people sharing common national background or migration experiences" (Waldinger, Aldrich, & Ward, 1990, p. 3). Given that the emphasis or grounding assumption for theoretical explanations of this phenomenon is based upon those patterns of interaction, the focus of the majority of studies in this area is the ethnic community. Examples abound in sociology where researchers have explored diverse ethnic communities in the United States, including Japanese (Bonacich & Modell, 1980; Light, 1972), Chinese (Zhou, 1992), Pakistani (Greene & Butler, 1996), and both Cuban and Mexican (Portes & Bach, 1985). A variety of studies on such communities have also been conducted in many other countries, including Israel (Lerner, 1994) and the Netherlands (Van Delft, Gorter, & Nijkamp, 1999).

Middleman minority theory is the primary theoretical explanation for ethnic entrepreneurship. It provides the explanation that a minority group arrives in a geographic location where they are a recognizable minority and as such are denied jobs in the primary labor market. In order to survive, they turn to basic types of entrepreneurial activities. Two of the fundamental characteristics of such a

community are (1) bounded solidarity and (2) enforceable trust, and these interact to allow the community to survive economically and socially. The most traditional middleman minority perspectives also assume that the original minority arrivals enter as sojourners, but this assumption is often less explored in later applications. However, the sojourner element is an important one in that it provides the explanation for the types of businesses generally started as being highly liquid so the business owner can "cash out" easily and quickly when the decision is made to return home (Bonacich & Modell, 1980).

Enclave theory is an extension of middleman theory that adds the element of geographic concentration. Not all ethnic entrepreneurs live or own their businesses in physical proximity to co-ethnics. However, when they do exist, ethnic enclaves present strong cultural and economic linkages as well as physical concentrations. Enclave theory also focuses on internal labor market development as well as business enterprise formation (Portes & Bach, 1985).

Ethnic networks and social capital are also studied in an effort to understand the role they play in explaining the differences among ethnic groups' participation in the entrepreneurial process (Aldrich & Zimmer, 1986; Light & Bonacich, 1988; Portes & Bach, 1985; Waldinger et al., 1990). Ethnic entrepreneurs require social networks to support the establishment of their business start-ups (Light, 1972). The literature therefore focuses on those with strong ethnic group affiliations and those groups exhibiting high entrepreneurial participation rates to use as a basis for explaining entrepreneurial outcomes. Light and Bonacich (1988) claim that class and ethnic resources explain entrepreneurship, and these resources include not only material property and wealth but also knowledge, information, and skills. Although the community dimension and the contribution of community resources to the individual's business creation process is highly relevant (Butler & Greene, 1997), the community dimension cannot be automatically assumed for an ethnic entrepreneur (Chaganti & Greene, 2002).

Immigrant entrepreneurship is another term found in academic work in this area as well as in trade publications. However, this term has less of an identifiable theoretical foundation. Given that racial and ethnic groups have strikingly different propensities toward entrepreneurship, there is little basis for the assumption that the state of being an immigrant in itself can be correlated with specific entrepreneurial activities, behaviors, or outcomes.

Minority entrepreneurship is the final term and is often used as a catch-all expression. A variety of studies have been published that use race or ethnicity to test for differences in the demographics of entrepreneurs. For instance, comparisons have been made in characteristics of minority business owners (DeCarlo & Lyons, 1979; Hisrich & Brush, 1986; Gomolka, 1997), values (Enz, Dollinger, & Daily, 1990), and pathways to ownership (Feldman, Koberg, & Dean, 1991).

More specifically, Black business ownership has also been studied both from a theoretical and from an ad hoc perspective. Truncated middleman minority theory presents an adaptation of the middleman minority theory used to explain ethnic entrepreneurship. The truncated theoretical model for Black business owners and communities emphasizes the historical impact of racially based laws 03-Gartner.qxd 5/17/04 2:55 PM Page 29

that served to restrict markets and therefore negatively impact Black-owned businesses (Butler, 1991). This work served to launch research connecting Black entrepreneurship and economic development (Boston, 1994). And finally, other and more separate studies examined issues related to owner characteristics (Auster, 1988) and the financing of the businesses (Bates, 1993; Bates & Bradford, 1979). Overall, with the exception of the middleman and enclave theories and the truncated explanation, there is little evidence of an emerging agreement on theoretical frameworks for this discussion.

Minority Entrepreneurship in the PSED

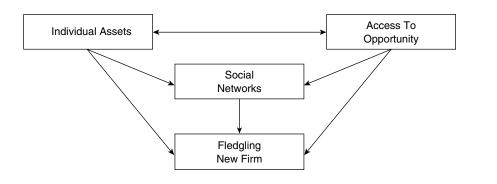
Minority entrepreneurship was a point of interest in the PSED from the early days of developing the original design of the Entrepreneurship Research Consortium (ERC) project and was approached as part of the Gender and Minority Variables Group (GMVG). As described in the previous chapter, this group included scholars from multiple disciplines who were responsible for bringing a lens sensitive to gender and minority issues to the study. The approach included issues related to procedures and measures, inclusivity of multiple types of experiences, and the generation of specific items and measures attuned to the populations under study (Carter & Brush, chap. 2).

One of the most unexpected and interesting findings that emerged from early exploratory analysis of the ERC screening data was that Black and Hispanic respondents reported working on starting a business at significantly higher rates than White respondents. These findings were particularly interesting when juxtaposed with business ownership statistics.

- African Americans are considerably less likely than the population at large to be self-employed (SBA, 1996, p. 95).
- Hispanic Americans, like African Americans, are less likely to be self-employed than non-Hispanic Whites (SBA, 1996, p. 100).

The numbers were so intriguing that following the precedent set by the members of a subset of the GMVG group, a proposal was sent to the National Science Foundation (NSF) for a second grant that would fund both an oversampling of Black and Hispanic nascent entrepreneurs as well as a follow-up control group. The group proposed the following:

ERC's preliminary analysis of screening a representative sample of US adults indicates that contextual and life course factors affecting the decision to initiate a new firm are quite different for Whites, African-Americans, and Hispanics; and that these results do not support previous research findings in the academic literature. For example, African-Americans are





57% more likely to report participation in a start-up than Whites; Hispanics are 20% more likely than Whites. Age, gender, and geographic context have different impacts on the sub-populations with regards to participation in start-ups... This will provide an opportunity to test a theoretical model that posits differences between ethnic groups. (Greene, Carter, Reynolds, Aldrich, & Stearns, 1999, p. 1)

The theoretical model proposed for testing was the same one supporting the discussion for the overall PSED as well as the gender effort. The important relationships were posited between individual assets and attributes, access to opportunity, social networks, and the fledgling new firm (See Figure 3.1). Although pieces of this model were evident in previous research on ethnic entrepreneurs as well as research categorized as studies in minority entrepreneurship, there was not a unified approach toward testing the model and advancing the theoretical explanation.

The theoretical model guiding the PSED lends itself well to the investigation of the topic, recognizing the importance of considering the phenomenon from a "preorganizational" perspective (Katz & Gartner, 1988). The factors most relevant are the assets of the individual, the opportunities located in the external environment, and the social systems of the individuals (Greene et al., 1999).

Individual Assets

Assets include both resources and motives related to entrepreneurship, including human capital aspects of education, experiences, and career transitions. At the time of the study, self-employed African Americans were found to have lower levels of education than self-employed Whites (SBA, 1996). Career differences were also seen in both preparatory education and actual practice. African American business owners were less likely to have a technical concentration in their education and less likely to have more than 2 years' work experience. It was also less likely that work experiences were in managerial areas (U.S. Bureau of the Census, 1992). The level of education and number of years of work experience were lower for Hispanic business owners than for African American or nonminority males (U.S. Bureau of the Census, 1992).

Access to Opportunity

The environment is the source of external resources with potential value for the business start-up process. However, opportunities are diverse and uncertain. Differential access to opportunity has been offered as a fundamental explanation for varied propensity rates for entrepreneurial behaviors between groups and genders. For African American business ownership, differential access to opportunities is explained through grounding in slavery, racism, and segregation (Bates, 1997; Butler, 1991; Greene et al., 1999; Walker, 1998). Thus environmental structural issues contribute to the explanation of rates, process, and outcomes. The results of such barriers include the types of businesses started and financial constraints (Bates, 1997; Blalock, 1967; Bonacich & Modell, 1980; Butler, 1991).

Opportunity structures have been noted to have different types of impact for Hispanic nascent entrepreneurs. The Cuban refugee enclave in Miami, Florida, is an exemplar of the ethnic entrepreneurial enclave in which an internal opportunity structure was created (Portes & Bach, 1985). However, in various studies of Mexican immigrants, the process and outcomes were quite different and reflected a greater challenge in facing structural barriers to access to resources and opportunities (Light, Bhachu, & Karageorgis, 1993; Portes & Bach, 1985).

Social Networks

Social networks are the pathway for all types of resources and connect other factors of the model. They allow the resources needed to create the businesses to connect other resource types and opportunities. Social networks of ethnic entrepreneurs have primarily been studied at the community level (Aldrich & Waldinger, 1990; Light, 1972; Greene & Butler, 1996). Each of these studies recognizes the substantial differences in communities as to the types of resources that flow through the networks and the process of acquiring the resources (Biggart, Castanias, & Davis, 1994; Bonacich & Modell, 1980; Tenenbaum, 1993). Research on the social networks of African American entrepreneurs is more limited and the findings are mixed, often reporting less active business creating networks (Bates, 1994; Light, 1972). However, studies of the history of Black businesses find a strong relationship between business emergence and Black churches and benevolent associations (Butler, 1991; Pierce, 1947; Walker, 1998).

Findings of the social networks of Hispanic business owners are similar to those relating to opportunity structures. Again, while Cuban entrepreneurs in communities such as Miami report strong social networks and resource flow, immigrant Mexican communities report quite different situations (Portes & Bach, 1985).

Measures

The categorization of measures capturing race and ethnicity is becoming increasingly more complex due to a growing sensitivity to the many types of backgrounds. At the time of the PSED original data collection, the United States defined race with just four categories: White, Black, American Indian or Alaskan Native, and Asian-Pacific Islander. An open-ended "Other" category was for those who felt they did not fit into any of these categories. Ethnicity was captured with a separate question as to Hispanic or non-Hispanic. The government categories were the source of the categories used in the PSED screener instrument. Ethnicity was asked first: "Are you Hispanic, Latino, or of Spanish origin?" Race was then asked, using only the categories of White, Black, Asian, or Other. These questions were asked of both the nascent entrepreneurs and the control group respondents. In an effort to create a single variable representing respondent ethnicity, those who answered White or Other to the first item and Yes to the Hispanic question were categorized as Hispanic. This classification scheme resulted in some overlapping for each ethnic category in the first question. Three percent of those who identified themselves as Black in the first question also identified themselves as Hispanic in the second question. Similarly, 8% of those respondents who identified themselves as Asian in the first question also answered Yes to the Hispanic item. Therefore, there are some identification inconsistencies in the ethnicity variable in the screening data.

In the detailed interview PSED sample, each respondent answered a single ethnic identification item as White, Black, Hispanic, Native American, or Asian. Some switching in respondents' ethnic identification between the detailed interviews and the screening interviews was observed. For example, of those who identified themselves as White in the screening interviews, 92% were classified as White in the detailed interviews. Given that these data items were captured at two different phases of the collection process, it is possible that other members of the team including spouses may have responded differently resulting in some inconsistencies in respondent reporting.

Based upon the awareness of the danger of aggregating members of disparate minority groups, the members of the GMVG added a series of questions designed to elicit more detail on race and ethnicity. These questions focused upon identifying the countries of birth of the respondents and their parents. The exact wordings for the resulting items representing race and ethnicity are listed in Table 3.1.

Several variables were subsequently created in order to identify respondents by race or ethnicity as accurately as possible. First, the variables USETHNIC and USHISP from the Market Facts screening data were used to create USRACE, which assigned one race or ethnicity category to each respondent. Second, ITRWRACE was created to include a race/ethnicity categorization for respondents who were starting a business on a team but who were not the first team member. ITRWRACE had 52 cases with missing data as to race or ethnicity. Each of the 52 cases was further evaluated by Patricia Greene for race designation using USRACE plus the other

03-Gartner.gxd	5/17/04	2:55 PM	Page 33

Item Number Code	Question
USHISP	Are you Hispanic, Latino, or of Spanish origin?
USETHNIC	Which of the following best describes your race: White, Black, Asian, Other?
Q203	What would you consider to be your race or ethnic origin: White, Black or African American, Hispanic, American Indian, Southeast Asian, Other Asian or Pacific Islander, or something else?
Q357a_MT	How long have you lived in the United States? (months)
Q358	Were you born in the United States?
Q358a	What is your birth country?
Q358b	Are you a citizen of the United States?
Q358c	Where country respondent's ancestors came from?
Q358c_2	What country do you feel closest to?
Q360	Was your father born in the United States?
Q360a	In what country was your father born?
Q361	Was your mother born in the United States?
Q361a	In what country was your mother born?

 Table 3.1
 Race and Ethnicity Items in the PSED

variables on the questionnaires related to race/ethnicity, including length of time living in the United States, country of birth, and parents' race or ethnicity. Of the 52 cases with missing data, 39 were identified by matching with USRACE, 9 were identified using related questions, and 6 were unable to be identified and remained coded as missing. Question 203 also asked the race/ethnicity of the respondent; however, the variable had a significant number of missing answers and therefore was used only to validate other categorizations. A final review of the race/ethnicity variables found 10 cases in which the ITRWRACE value was not the most appropriate, and the cases were recoded. All changes on the race/ethnicity variables reflecting recoded missing values and misclassified data are captured in the variable PGRACE. The summary of the variables and the distribution of the cases are presented in Table 3.2 for the nascent entrepreneurs and Table 3.3 for the comparison group.

The descriptive statistics for the variables used to verify respondents' race and ethnicity in both the nascent entrepreneur and comparison groups are presented in Table 3.4.

	1	1	1	1		
Variableª	USETHNIC	USHISP	USRACE	Q203	ITRWRACE	PGRACE
White	586		541	252	538	564
Black	147		147	76	140	145
Hispanic		106	101	31	70	81
Asian	10		10	6	14	14
American Indian				8	9	9
Other	76	719 (Not Hispanic)	20			8
Something Else				6	8	10
Subtotal ^b	819	825	819	379	778	824
Missing	11	5	11	451	52	6
Total	830	830	830	830	830	830

Table 3.2 Frequency Distributions: Race and Ethnicity Variables for Nascent Entrepreneurs

NOTES:

a. Weighted Variables (WtW1).

b. Figures in the subtotal row may not be exact sums due to rounding off.

Variable ^a	USETHNIC	USHISP	USRACE	Q203	ITRWRACE	PGRACE
White	303		272	311	311	310
Black	64		64	47	47	49
Hispanic		77	70	27	26	31
Asian	12		12	8	10	10
American Indian				10	8	8
Other	49	351 (Not Hispanic)	10			
Something Else				23	24	22
Subtotal ^b	427	427	428	427	426	429
Missing	4	4	3	4	5	2
Total	431	431	431	431	431	431

 Table 3.3
 Frequency Distributions: Race and Ethnicity Variables of Comparison Group

NOTES:

a. Data weighted.

b. Figures in the subtotal row may not be exact sums due to rounding off.

Item Number	Comparison Group				Nascent Entrepreneurs					
Variable	n (%)	Min	Max	Mean	SD	n (%)	Min	Max	Mean	SD
Q357_MT	426	30	1116	484.92	178.92	785	0.37	888	443.17	151.78
Q358 Yes No	147 122(28.2) 25(5.8)	1	2	1.17	0.38	308 250(30.1) 8(7.0)	1	2	1.19	0.39
Q358a	25					58				
Q358b Yes No	25 20(4.6) 5(1.2)	1	2	1.20	0.41	58 39(4.7) 19(2.2)	1	2	1.32	0.47
Q358c	82					103				
Q358c_2	8					0				
Q360 Yes No	427 369(85.6) 58(13.4)	1	2	1.14	0.34	815 709(85.4) 107(12.8)	1	2	1.13	0.34
Q360a	56					107				
Q361 Yes No	431 378(87.7) 53(12.3)	1	2	1.13	0.39	830 728(87.7) 90(10.8)	1	2	1.22	1.00
Q361a	53					90				

 Table 3.4
 Descriptive Statistics: Related Variables

NOTE: Data weighted.

Conclusion and Future Research

Early uses of the PSESD data set for Black and Hispanic entrepreneurship resulted in a proposal to extend theory relating to organizational emergence through a consideration of teleological and dialectical motors as useful for integrating the individual and group levels of analysis that are so relevant to studies of minority entrepreneurship (Greene, Carter, & Reynolds, 2003). Building on such studies, the PSED data set has significant potential to expand our understanding of the entrepreneurial behaviors of Black and Hispanic nascent entrepreneurs.

The early findings that prompted the NSF proposal showed that Blacks and Hispanics were undertaking efforts to start businesses at a rate that far exceeded that of Whites but that more operating businesses were owned by Whites. The assumption is that Black and Hispanic nascent entrepreneurs must be falling out of the process somewhere before the business is actually opened. The longitudinal nature of the PSED data set provides the opportunity to identify such "falling out"

points. The knowledge that may emerge from the theoretical frameworks and empirical analyses also has great potential to aid practitioners. Understanding when and why people chose to end their entrepreneurial activities prior to even starting a business can inform educational and training curriculums in order to more closely target the actual points of pain. This identification can lead to a business emergence process with a more successful outcome.

The theoretical frameworks described in this chapter offer guidance in investigating differences in entrepreneurial behaviors between the racial and ethnic groups but perhaps more important in focusing upon different paths and outcomes of the business creation process.

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Race and Ethnicity **37**

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