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**Minority  
Entrepreneurship**

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# Minority Entrepreneurship

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*Published, sold and distributed by:*

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Tel. +1-781-985-4510  
[www.nowpublishers.com](http://www.nowpublishers.com)  
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*Outside North America:*

now Publishers Inc.  
PO Box 179  
2600 AD Delft  
The Netherlands  
Tel. +31-6-51115274

The preferred citation for this publication is T. Bates, *Minority Entrepreneurship*, Foundations and Trends<sup>®</sup> in Entrepreneurship, vol 7, nos 3-4, pp 151-311, 2011

ISBN: 978-1-60198-490-6

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Foundations and Trends<sup>®</sup> in Entrepreneurship, 2011, Volume 7, 6 issues. ISSN paper version 1551-3114. ISSN online version 1551-3122. Also available as a combined paper and online subscription.

Foundations and Trends® in  
Entrepreneurship  
Vol. 7, Nos. 3–4 (2011) 151–311  
© 2011 T. Bates  
DOI: 10.1561/03000000036



## Minority Entrepreneurship

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### Abstract

In the field of minority entrepreneurship, sociologists and economists have written most of the influential studies, yet these groups typically ask different questions and base their analysis on different assumptions. The literature predictably lacks a single unifying focus and is quite diverse regarding issues explored and methodological approaches employed. Differing approaches and their outcomes are summarized and critically probed in this review. My intent is to illuminate strengths and weaknesses — along with patterns of common findings — in this voluminous literature.

Minority-owned businesses are collectively reflections of evolving constraints and opportunities operating in broader society. Minorities seeking to create viable business ventures have traditionally faced higher barriers than whites as they sought to exploit market opportunities, raise financing, and penetrate mainstream networks. Entrepreneurial dynamics are clarified by focusing upon specific contexts in which firms are being shaped by prevailing opportunity structures. Progress has been noteworthy overall for minority-owned businesses, in part because barriers impeding their collective development have been gradually declining.

The dominant methodological approaches and findings of economists and sociologists in the minority entrepreneurship literature are, ultimately, highly complementary. Sociologists have posed bolder questions while economists have paid more attention to pinning down cause-and-effect relationships, yet their findings have been gradually moving towards convergence over the past two decades. It is possible — and desirable — that these respective bodies of work may someday merge, creating a minority entrepreneurship scholarly synthesis.

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# 1

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## Small Business Overview

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### **1.1 Do Minority Entrepreneurs Somehow Differ from Other Entrepreneurs?**

Key ingredients of viable small-business creation, operation, and expansion include (1) involvement of skilled and capable entrepreneurs possessing appropriate human capital for operating the business venture, (2) assembly of sufficient financial capital to achieve efficient scale and to exploit business opportunities, and (3) identification of, and access to markets in which to sell the firm's products. The uniqueness of minority entrepreneurship is highlighted by viewing these venture prerequisites as barriers to be overcome before successful firm creation and operation is achieved. Acquiring appropriate educational credentials, skills, and applicable work experience, accessing financial capital, and exploiting market opportunities have traditionally been more challenging for minorities than for aspiring white entrepreneurs. Presence of barriers complicating owner tasks of acquiring needed expertise, adequate firm capitalization, and market access often result, in turn, in overly small, less profitable, and generally less viable firms. Furthermore, these barriers discourage some aspiring minority entrepreneurs from ever taking the plunge into self employment.

## 2 *Small Business Overview*

Simply asserting that discriminatory processes handicap firm creation and operation among minority entrepreneurs is not appropriate. A task frequently undertaken in entrepreneurship studies entails measuring discriminatory barriers impeding minority business creation and subsequent performance. Evidence on how these barriers impact minority business enterprises (MBEs) has been generated, in part, by observing how the lessening of discrimination in recent decades has opened up new opportunities. Minority business progress has been strongly rooted in the human-capital gains of business-venture owners: the depth of expertise among minority entrepreneurs has grown substantially in recent decades. Market access has also broadened and financial capital availability has expanded (Bates, 1997b). Yet the prevailing scholarly consensus is that minority access to human- and financial-capital resources and clients continues to lag behind the accessibility enjoyed by nonminority white small-business owners.

When scholars first began to collect and analyze data describing MBE performance, many argued that minority businesses generally and black-owned ventures specifically — being few in number and small in size and scope — were collectively insignificant (Brimmer and Terrell, 1971; Osborne, 1976). Examination of cross-sectional data indicated that MBEs were heavily concentrated in several marginal lines of personal services and retailing, including barber shops, small restaurants, mom-and-pop retail stores, and the like. Brimmer (1966) — the nation's first African American to serve on the Board of Governors of the Federal Reserve System — concluded that minority-owned firms typically lacked the managerial and technical competence needed to compete successfully in the business world.

In fact, the minority business community has grown substantially in size and scope in recent decades, albeit from a rather small base. To comprehend the growth dynamic in this diverse and continually evolving business community, it is useful to track changing conditions through time. Several studies discussed in this minority entrepreneurship literature overview analyze how declining discriminatory barriers have transformed the minority community in the United States. The essential point to understand is that the nature of minority business is derivative of broad social, economic, and political forces. A lessening of

discrimination has generated a larger scale, more diversified minority business community. Its future composition may derive from expanded opportunities offered by a less discriminatory society, or it may reflect growing constraints imposed by evolving discriminatory barriers.

## **1.2 Scholarly Studies Analyzing Minority Entrepreneurship**

The scholarly literature analyzing minority entrepreneurship lacks a single unifying focus and is quite diverse regarding issues explored and methodological approaches employed. This fact is a reflection, first, of the natural diversity typifying different scholarly disciplines — the issues and approaches of sociologists studying minority entrepreneurship differ sharply from those economists most often emphasize. Second, the diversity of topics investigated and methodologies employed are partially a reflection of the scarcity of sophisticated databases describing genuinely representative samples of minority owners, the characteristics of their business ventures, and the nature of their operating environments. Unfortunately, the few available high-quality databases are infrequently the data sources scholars have chosen to analyze. Often by necessity, scholars studying minority entrepreneurship use data plagued by serious known deficiencies. Case-study methodology has often been employed, resulting in numerous subjective studies. This approach complicates efforts to compare findings across studies. A predictable result is an inevitable difficulty resolving disagreements arising among scholars regarding cause-and-effect relationships driving minority entrepreneurship dynamics.

When nationally representative databases have been used to analyze minority entrepreneurship, they have most often focused on traits of the self employed, since popular database choices — the decennial census of population public-use microdata (PUMS) files, for example — lack even basic information about the traits of the applicable businesses. Databases describing actual small businesses have often been avoided because most fail to identify accurately the race/ethnicity of firm owners; Dun and Bradstreet (D & B) small-firm data suffer from this deficiency. Other key variables emphasized in the minority

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entrepreneurship literature — immigrant status of the firm owner, in particular — are often unavailable.

Studies of Hispanic-owned businesses are notable in the minority entrepreneurship literature for their rarity, and the fact that United States Census Bureau databases have inconsistently defined — and repeatedly redefined — “Hispanic” over the last five decades has not helped matters. Even the occasional database that carefully measures race/ethnicity of minority entrepreneurs and includes, as well, both firm and owner characteristics, nonetheless suffers from basic inconsistencies. The census bureau’s Characteristics of Business Owners (CBO) database — recently renamed the Survey of Business Owners (SBO) — initially failed to delineate immigrant from nonimmigrant business owners. Subsequent rounds of the CBO did identify owner immigrant status. The CBO’s 1997 round was never conducted; the census bureau instead chose to revamp this pioneering small-business database, culminating in the release of the 2002 SBO database (in 2007), which did *not* identify owner immigrant status. Thus, scholars studying entrepreneurship among minority immigrants currently find themselves working with 1992 data if they choose to analyze the census bureau’s most comprehensive small-business database.

Predictably, many scholars studying minority entrepreneurship have relied upon small, nonrepresentative firm samples collected in one or two cities. These data have most often been complemented by in-depth interviews of business owners and the resulting studies have typically had a strong case-study tone. Such studies make up perhaps the most influential body of scholarship existing today in the minority entrepreneurship field. Studies of entrepreneurship among Asian immigrants by sociologists Edna Bonacich, Ivan Light, Pyong Gap Min, Roger Waldinger, and Min Zhou (among others) have been hugely influential, as have the writings of Alejandro Portes on entrepreneurship among Cuban immigrants. The diverse writings of Howard Aldrich on entrepreneurship among minority immigrants (and nonimmigrants) make up another highly influential body of scholarly studies in the minority entrepreneurship field.

Economists have taken a fundamentally different approach: analyses of minority entrepreneurship have been based typically upon

large-scale, nationally representative databases describing traits of the self employed and the businesses they operate. Relying heavily upon econometric models analyzing firm formation, performance, and access to such resources as bank financing, economists have written most of the literature on entrepreneurship among African Americans. They have written, as well, the major works measuring discriminatory barriers shaping the nature of the minority business community, and they have been dominant in the analysis of public policies impacting minority business development.

There has been an underlying critical tone among economists analyzing the scholarly contributions of sociologists to the minority entrepreneurship field, and sociologists, similarly, have been highly critical of the scholarship of economists. Despite this fact, the dominant methodological approaches and findings of economists and sociologists in the entrepreneurship literature generally, and in the minority entrepreneurship subfield specifically, are highly complementary. Sociologists have posed bolder questions while economists have paid more attention to pinning down cause-and-effect relationships. It is possible — and indeed desirable — that these respective bodies of work may someday merge, creating some sort of minority entrepreneurship scholarly synthesis. Development of richer, more sophisticated time-series databases describing entrepreneurs, their businesses, and the contexts in which these ventures operate would certainly enhance the likelihood of developing a more unified and methodologically sophisticated body of scholarly literature.

In the field of minority entrepreneurship, sociologists and economists have written most of the influential scholarly studies, yet these two groups typically ask different questions and explain entrepreneurship dynamics basing their analysis on different assumptions. These profound differences in focus and technique predictably cause confusion; each group seems inclined to misinterpret the contributions of the other. Because the studies authored by each group most often address scholars within their own discipline, underlying assumptions are rarely made explicit. Thus, economists invariably struggle when they read major scholarly contributions of sociologists, which often strike them as shallow and methodologically unsophisticated.

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Sociologists, in turn, frequently view the questions economists address as overly narrow and not terribly interesting. Among economists, their reservations about sociological inquiries can be partially alleviated by explicitly identifying the underlying assumptions guiding the methodological approaches sociologists employ in their explorations of minority entrepreneurship in the United States.

Sociologists analyzing entrepreneurship patterns among minorities are properly seen as investigating the process of immigrant adjustment to life in America. Their frequent focus upon minority immigrants — most often Asian immigrants — is motivated in part by the major adjustment problems these immigrant groups have experienced. These problems often present particularly interesting sets of issues for sociologists to investigate: thus, studies of entrepreneurship among Korean immigrants are quite common, while studies of English-speaking white immigrants are rare. Sociological investigations of minority entrepreneurship proceed historically, and their starting point is defined by the point in history when the immigrant group of interest began to arrive in the United States, in large numbers. The presumption that new arrivals generally, and new minority arrivals particularly, face discrimination in the labor market upon arrival in the United States is typically a premise — a starting point from which the analysis of the choice to pursue self employment proceeds. The nature of this discrimination is not deeply probed; it is considered to be obvious.

Prevailing differences among sociologists and economists analyzing minority entrepreneurship are largely a matter of emphasis. “The dominant trend in sociological research on immigrant and ethnic entrepreneurship has been, following Light’s classic study (1972), to examine ethnic resources or ethnic ties as the major factor facilitating the entrepreneurial performance of a particular group” (Min and Bozorgmehr, 2000). Economists, by emphasizing human- and financial-capital resource utilization patterns as dominant explanations of entrepreneurial performance, are not rejecting the theoretical foundations of sociological research. Ethnic ties, social resources, social-capital utilization — all of these are interesting theoretical concepts potentially useful for explaining new-firm formation patterns as well

as entrepreneurship outcomes. Economists would be more impressed with these theoretical tools if sociologists would present more convincing empirical evidence that specific types of social-capital utilization do indeed explain small-business outcomes effectively.

The theoretical toolkits of economists and sociologists are complements to one another, rather than substitutes, and future progress in explaining entrepreneurial outcomes will derive from creative application of all of these tools. While theoretical disagreements between disciplines are not particularly substantive, criticisms certainly do prevail and those forthcoming from economists often derive from their desire to see more sophisticated empirical methodologies employed in sociological studies of entrepreneurship among minorities. Then sociological studies could either back up or alter their consensus findings with empirical evidence about cause-and-effect relationships between key theoretical concepts and entrepreneurial outcomes. A key objective of this review monograph is to promote interdisciplinary understanding among scholars and students seeking to expand their understanding of entrepreneurship dynamics. Such understanding is an essential precondition for progressing toward an effective minority entrepreneurship scholarly synthesis.

Many important studies of minority entrepreneurship dynamics, finally, are not discussed in this review monograph. My focus is limited to studies analyzing business ventures operating in the United States. The unique challenges facing minorities pursuing entrepreneurial alternatives arise in specific social, political, historical, economic contexts and these contexts differ from one nation to the next. Thus, key factors shaping MBEs in the United States may differ substantially from the relevant contextual factors in England or France or Italy. It is beyond the scope of this monograph to sketch the country-by-country contexts in which many of the circumstances shaping minority entrepreneurs arise.



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