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By Timothy Bates

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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.

1

Small Business Overview

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.

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 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.

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 theUnited 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.

2

A Brief History of the Development of the Underdevelopment of the Minority-Business Community in the United States

Scholars studying the historical development of minority-owned businesses in the United States are unanimous on at least one issue: minority self-employment patterns only make sense when viewed in the context of prevailing constraints and opportunities (Waldinger et al., 2006). A "push, pull" dynamic has shaped and reshaped the nature of minority-owned ventures over time as constraints have evolved in changing historical circumstances and new opportunities have arisen (Bates, 1997b). Barriers limiting the range of opportunities for wage and salary work have often *pushed* minorities toward embracing self-employment, even among individuals who preferred to work as employees. Alternatively, many preferred to own their own business ventures and chose to give up paid employment when attractive opportunities became available; in this sense, they were *pulled* into small business ownership. The push/pull dynamic continually altering the size and scope of the minority business community is easily clarified by examining applicable constraints and opportunities in historical context.

The case of Japanese immigrants acquiring farmland in California is illustrative. Immigrant Japanese living in western American states in the early 20th century aggressively leased and purchased agricultural land, concentrating heavily upon vegetable farming. Although cultivating under 5,000 aggregate acres in 1900, Japanese farmers, by 1913, had increased their California land holdings to over 280,000 acres (Ichihashi, 1932, cited in Bonacich and Modell, 1981). To combat this rapid expansion of unwanted competition, California growers in 1913 turned to the state legislature, leading to passage of the Alien Land Laws, preventing Japanese farmers from acquiring additional agricultural land. Copied quickly by other western states, these laws halted the growth of independent farming by Japanese immigrants and drove many into urban areas where opportunities were initially restricted to menial wage employment. Facing such constrained employment options, many eventually made the transition to small-business ownership. The fact that 47 percent of all employed Japanese men living in Los Angeles in 1941 were self employed might suggest that they were particularly entrepreneurial by nature, but the presence or absence of entrepreneurial inclinations is overshadowed by the fact that they were "pushed into small business by the surrounding society, rather than by forces internal to the group" (Bonacich and Modell, 1981, p. 61).

Social proscription has not always ruled out attractive entrepreneurial opportunities, as the case of African American small-business ownership in the 19th century makes clear. Even in the antebellum South, free blacks were prominent in several lines of personal-service ventures utilizing the skills they had acquired under slavery. Restrictive barriers were certainly widespread: South Carolina, for example, required after 1865 that blacks pursuing self employment as artisans or mechanics purchase licenses — at $10 annually — which whites were not required to buy (Ransom and Sutch, 1977). Most southern states had passed laws by the 1850s prohibiting blacks from engaging in lines of business requiring a knowledge of reading and writing. In northern states, black merchants were routinely denied the right to file law suits.

The traditional route to successful business ownership and operation in the 19th and early 20th century urban America entailed selling personal services to affluent whites; catering and barbering were prominent lines of black enterprise. In trades connoting servility, whites were reluctant to create firms, leaving blacks near monopoly positions in some fields (Harris, 1936). Thus, entrepreneurial African Americans were relegated to owning businesses in fields deemed appropriate for freed slaves. W.E.B. Du Bois (1899), in *The Philadelphia Negro,* observed that blacks owned the city's leading catering firms. Black caterer Peter Augustin originated this Philadelphia tradition, entering business in 1818 and establishing a reputation for courtesy and efficiency that spread nationwide. Throughout most of the 19th century, no entertainment in Philadelphia high society was socially correct if not catered by Augustin and his successors (Du Bois, 1899). Affluent whites, Lieberson (1980) observed, viewed certain jobs as suitable for minorities to perform in service to whites — preparing and serving meals, ironing shirts, shining shoes. Prevailing white attitudes opened certain entrepreneurial opportunities for minorities and blocked others.

Well into the 20th century, distinct traces of a caste system shaped minority business ownership and employment opportunities. Highly educated members of minority groups were particularly trapped. According to a Stanford University official, speaking in 1931, "It is almost impossible to place a Chinese or Japanese of either the first or the second generation in any kind of position, engineering, manufacturing, or business. Most firms have general regulations against employing them; others object to them on grounds that other men employed by the firms do not care to work with them" (Ichihashi, 1932, quoted in Bonacich and Modell, 1981, p. 86). Self employment was thus a common refuge for Asian college graduates.

The career choices of college-educated minorities have long been hemmed in by attitudes of the dominant society about occupations appropriate for Asians, African Americans, and Hispanics. Thus, 73 percent of blacks graduating from college and universities nationwide between 1912 and 1938 became either teachers or preachers (Holsey, 1938). The few entering professional fields served an all-black clientele. Caterers, shoe shiners, even barbers might serve white clients, but black professionals did not. Merit still mattered in this American variant of the caste system, but the career choices open to entrepreneurially inclined minorities were greatly narrowed (Bates, 1997a). The nature of the minority business community was thusly circumscribed, consisting of widespread presence in a few industries and minimal presence in most other fields.

By 1920, self-employed Chinese were heavily concentrated in only two lines of business, restaurants and laundries. Entrepreneurial Chinese did not by nature gravitate into these fields: operation of laundries and restaurants offering inexpensive meals was tolerated by the dominant society because few native-born whites chose to own businesses in these two fields. Chinese-owned manufacturing firms, in contrast, faced intense pressure not to compete with white-owned firms. Whites "raised no barrier to Chinese in the laundry trade, since this occupation was not one in which white males cared to engage" (Light, 1972, p. 7). Since business opportunities in the broader marketplace were limited to fields viewed by white society as appropriate for their inferior status, minority entrepreneurs often chose, instead, to create ventures catering to fellow racial/ethnic-group members. Growing urbanization and ghettoization of minorities strongly encouraged this emerging market orientation.

The rise of "Chinatown" illustrates key attractions drawing entrepreneurially inclined Chinese into ownership of retail ventures. Foreign-born Chinese residents living in urban enclaves had specific demands for traditional food products, many of which most Americans could not even identify. Not surprisingly, "only Chinese operate Chinatown grocery stores where exotic Chinese vegetables are sold" (Light, 1972, p. 12). Asian immigrants often preferred to shop in stores where business was conducted in the own language and product choices reflected the specific product demands of Asian consumers.

Culturally specific product demands, however, were only one of the primary motivating forces encouraging minority entrepreneurs to pursue business opportunities in early 20th century urban America. Newly ghettoized urban black populations often supported African-American-owned firms as an explicit expression of racial solidarity. The World-War-I era was the decisive turning point in terms of the reorientation of America's community of black-owned businesses toward serving predominantly urban black — as opposed to an affluent white — clients. Facing labor shortages during World War I, manufacturers in many industrial cities actively recruited black employees in southern rural areas and small towns, thus initiating the "great migration" to northern urban areas (Drake and Cayton, 1962). Because restrictive laws prevented European migration to America from resuming after World War I, rapidly expanding manufacturing firms — autos in Detroit, steel and meatpacking in Chicago, cigarettes in Durham — often relied heavily upon black workers to staff entry-level positions throughout the 1920s. Thus, the African American population of Chicago grew from 44,103 in 1910 to 233,903 in 1930 (U.S. Bureau of the Census, 1935 (quoted in Fusfeld and Bates, 1984); Chicago Commission on Race Relations, 1922).

Large-scale migration of black Americans from the rural South to urban industrial centers after World War I was soon followed by rising housing segregation and growing racial antagonism. Increased competition for a limited stock of affordable housing encouraged concentration of black migrants in constricted sections of growing northern cities (Weaver, 1948; Spear, 1967). Returning soldiers seeking jobs in 1919 were often faced with rising unemployment as war-induced prosperity faded. To many working-class whites, blacks were increasingly seen as competitors for scare housing and manufacturing jobs. It was no coincidence that 1919 produced the largest wave of urban race riots ever experienced in United States cities, including Chicago, where rioting produced 38 deaths, over 500 injuries, destroyed much property, and left over 1,000 Chicagoans homeless (Spear, 1967).

Coming together for mutual help and protection, black urbanites built and supported their own institutions, including community-oriented black-owned businesses. A prominent example of this community building in the midst of increasing racial consciousness was the widespread development of black-owned newspapers serving an urban African-American readership. Capitalizing upon racial sentiment and the earnings of residents employed in manufacturing jobs, black-owned ventures formed in every line of commerce. A "buy black" sentiment prevailed, reflecting growing community solidarity in an increasingly hostile, racially intolerant urban environment (Fusfeld and Bates, 1984; Bates, 1973a).

The 1920s were the golden years for the community-oriented black businesses, not only in northern industrial cities, but in select southern cities as well. The Hayti district of Durham North Carolina had become, by the 1920s, home to a widely diversified black business community serving black clients almost exclusively. In addition to numerous types of retail and personal service businesses, the district included black-owned hotels, professional services, finance, insurance and real estate firms, and trade schools (Butler, 1991). During the 1920s, black-owned businesses operating in a wide range of industries became commonplace in black urban residential areas of mid-western, southern and eastern-central states.

While urbanization and rising racial antagonism were spurring rapid growth of firms serving black households, an older business model — personal services and catering firms relying upon affluent white customers — was in decline. "The Negro caterer has slowly been losing ground, probably through loss of personal contact with the fashionable group whose first thought used to be for the Negro when 'service' of any kind was to be done" (Fleming and Sheldon, 1938). In Durham and other cities, Chinese laundries continued to benefit from expanding white patronage, but black-owned laundries increasingly found new customers only in urban black communities.

Lieberson's theory of ethnic stratification postulates that racial discrimination affects African American and Asian entrepreneurs differently. The assorted tasks whites viewed as suitable for minorities to perform in service of whites — ironing shirts, preparing meals — varied in status and working conditions. Because Asians had risen higher in the ethnic queue than blacks, they had a better chance of serving whites; Asian entrepreneurs therefore found it easier to penetrate the white market than did black business owners. White perceptions of various minority groups — servile versus threatening, courteous versus surly — were the crux of the matter (Lieberson, 1980). The more desirable the job, the greater the likelihood it would be performed by someone who was not African American.

Retail businesses owned by African Americans benefitted most heavily from the "Buy Black" campaigns of the 1920s and they were hit hardest by the Great Depression. White ghetto merchants had always enjoyed greater access to trade credit and bank financing, and this advantage often proved decisive in the 1930s. The rapid growth and flourishing industry diversity typifying black business communities during the 1920s in major cities was most commonly decimated in the 1930s, particularly in retailing. The firms most often surviving the Great Depression on Chicago's South Side were found in the traditional personal services fields (Drake and Cayton, 1962). In his landmark 1944 book, *An American Dilemma*, Myrdal (1944) observed, "The Negro businessman encounters greater difficulties than whites in securing credit. This is partially due to the marginal position of Negro business. It is also partially due to the prejudicial opinions among whites concerning business ability and personal reliability of Negroes. In either case, a vicious circle is in operation keeping Negro business down". In many cities, the ghetto-oriented black business community never again reached the size and scope prevalent in 1929. Little changed in the 1940s and 1950s.

Atlanta University professor Joseph Pierce in 1944 conducted the first large-scale, sophisticated survey of urban black-owned businesses ever undertaken in the United States. His path-breaking study of 3,866 black firms operating in 12 major southern, midwestern and east-coast cities revealed a community of very small business ventures heavily concentrated in several retail and personal-services industry sectors (Pierce, 1947). In scope and substantive findings, the Pierce study stood as the definitive work in the field until the 1970s. He described the black-business universe of 1944 as one consisting of very small firms crowded into a few industry sectors. Of the five most common kinds of business (in order of frequency) — (1) barber shop/beauty parlor, (2) restaurant, (3) food store, (4) cleaning/pressing, and (5) shoe shine/repair — four utilized owner skills historically rooted in slave occupations (Table 2.1).

For a subsample of ventures operating in nine cities, Pierce collected information on startup capitalization, firm age, and the problems identified by black business owners as barriers to business success. The median value of initial firm capitalization was $549 and the predominant source was the personal savings of the owner. Black-owned banks

Table 2.1. Pierce survey; urban black-owned business in 1944.

Line of business	# Firms	Cumulative percentage (%)
Barbershop, beauty parlor	1,004	26.2
Restaurant	627	42.2
Food store	491	54.9
Cleaning, pressing	288	62.3
Shoe shine, repair	130	65.4
Funeral parlor	126	69.0
All other	1,194	100

Source: 12-city survey; see Pierce (1947).

operated in five of the nine cities and bank loans were used by 8.6 percent of the owners; loans from family members were the second most frequent source of debt capital. When firm owners ranked the most significant obstacles to successful business operation among blacks, lack of financial capital — by a wide margin — was identified as the greatest obstacle; lack of skilled personnel was second and lack of negro patronage was third (Pierce, 1947).

The reality of a marginal black-business community concentrated in personal services and several lines of small-scale retailing explained why college-graduate African Americans avoided self employment and small-firm ownership in the 1940s and 1950s. Asian-owned firms during this period were similarly limited to a few fields where low owner remuneration was the norm: most were laundries, restaurants, or food stores. This fact explains why college-educated Asian Americans so frequently exited self employment in the post-World War II years as options for salaried white-collar jobs began to expand. As Nee and Nee (1973) pointed out, college-educated Chinese became civil-service workers, accountants, engineers, doctors, and businessmen. Waldinger et al. (2006) concurred: "After World War II, job opportunities in the mainstream economy multiplied, and college-educated sons and daughters of Chinatown's small business families entered the developing white-collar and professional sector of American society" (pp. 67–68). "The classic small businesses of prewar Chinese" noted Light, "were, in this sense, monuments to the discrimination that had created them" (1972, p. 8).

As late as 1970, most MBEs were mom-and-pop food stores, restaurants, barbershops, beauty parlors, small-scale retail outlets, laundries, and shoeshine firms serving household clienteles (Bates, 1973a; Light, 1972). From its origins, the minority business community has been constrained not only by limited access to credit and limited opportunities for education and training; the more fundamental constraint was the reality of white stereotypes about suitable roles for minorities in United States society. Indeed, it was difficult to claim that minority entrepreneurship was a major route to upward mobility in the United States. Minority-business owners commonly struggled to make a living running marginal enterprises.

The typical urban black business community in the 1960s consisted largely of barbershops, restaurants, shoeshine stands and the like concentrated in black-residential areas and serving a local clientele; it had been losing ground since the 1930s (Bates, 1973a; Light, 1972). The traditional Asian small-business sector exhibited even less diversity. Three lines of small-scale enterprise — laundries, restaurants, and food stores — made up the bulk of Asian-owned firms. Census data indicate that self-employed minorities nationwide had, on average, 8.9 years of education in 1960 and mean self-employment earnings of $2,282 in 1959 (Bates, 1987). Their earnings lagged behind those of minorities working as paid employees. Mean self-employment earnings of minorities — expressed as a percentage of nonminority self-employment earnings nationwide — stood at 45.3 percent in 1959. The traditional minority business community entered into the 1960s as a fading relic of a declining era. In fact, a new age was dawning. Years of growth stemming from expanding opportunities were about to begin for minority entrepreneurship in America.

3

Social Resources, Ethnic Enclaves, and the Contributions of Sociologists to Explaining Entrepreneurship Patterns Among Minorities

Perhaps the most influential pioneering work in the field of minority entrepreneurship, Ivan Light's 1972 book, *Ethnic Enterprise in America*, has significantly defined and shaped subsequent sociological scholarship. Light's book devotes several pages to describing the nature of the labor-market discrimination Chinese and Japanese immigrants faced upon arriving the United States in the late 19th and early 20th centuries. The following quote conveys the crux of this: "For the Chinese in the United States, obtaining a living was a matter of scraping the bottom of the barrel after whites had helped themselves" (1972, p. 7). Having established his analytical starting point, Light's next key premise was that self employment is an attractive opportunity for anyone disadvantaged in the labor market. Given that immigrants generally, and minority immigrants particularly, faced extreme disadvantages, the attraction of self employment as an alternative to wage labor followed logically: "the foreign born find in self employment relatively better income and status rewards than do native-born persons who have advantages in the labor market" (p. 5).

Having established the twin premises of (1) labor market disadvantage, and (2) the attractions of the entrepreneurial alternative, Ivan

Light next raised an issue that defined what was perhaps his most controversial contribution to the body of entrepreneurship scholarship: he posed the provocative question "what's wrong with African Americans"? Being visibly nonEuropean and subjected to discrimination in the labor market, Asian immigrants were pushed toward "the classic small business occupations with which they have now become identified." Yet black Americans were similarly visibly nonEuropean and they faced discrimination in the labor market: "the logic of Asian-American business development raises questions about the absence of parallel development among black Americans" (Light, 1972, p. 6). "It is difficult to explain why blacks, unlike other ethnic minorities, have relied on white outsiders to supply their retail needs" (Light, 1972, p. 3).

Light was certainly not the first to make this observation. In their influential book, *Beyond the Melting Pot*, Glazer and Moynihan noted the "complete absence of a business class" among black Americans (1970, p. 30). Yet this comparison of entrepreneurship patterns in differing racial groups has not been a major area of emphasis in minority entrepreneurship scholarly research because, as explained below, it is widely seen as an "apples to oranges" comparison. Light's influential and lasting contribution to the analysis of minority entrepreneurship dynamics was based upon his refinement of the sociological concepts of social resources/social capital utilization to explain the success of Asian immigrants, not the underrepresentation of African Americans in business ownership roles. The basic set of stylized facts — labor market disadvantage and entrepreneurship attractiveness — laid out by Light's 1972 study has provided the primary framework within which minority entrepreneurship research has been conducted by sociologists over the past 40 years.

I next turn to the writings of Min Zhou, a highly influential sociologist in the minority entrepreneurship field, who has the additional virtues of being a particularly clear, concise, and logical writer. Zhou spells out in additional detail both the questions guiding sociological inquiry and the broad scholarly consensus that has emerged regarding the nature of entrepreneurship among ethnic immigrants in the United States. Zhou is not the originator of the following key questions or consensus, only the chosen messenger. *Question one*: why are some groups more inclined to pursue entrepreneurship than others? *Question two*: is pursuit of "entrepreneurship a result of social conditions of the host society unfavorable to immigrant groups, or is it rooted in unique immigrant group characteristics, or of the interaction between the two" (Zhou, 2004b, p. 38)?

The consensus short answer to question one is labor market disadvantage — a combination of discrimination, blocked mobility, a lack of better employment alternatives pushes immigrants toward entrepreneurship. Limited English fluency is often a major cause of this, combined with other factors: "prospective ethnic entrepreneurs often have inadequate information about, and limited access to, mainstream labor and consumer markets, and they also presume racism and fear discrimination dealing with unfamiliar situations and institutions" (Zhou, 2004b, p. 46). The consensus short answer to question two is "interaction between the two." The nature of these interactions is spelled out briefly below and explained in detail in later sections of this summary, particularly in section four, *Explaining Rates of Minority Entry into Self Employment*.

3.1 Ethnic Enclaves

Ethnic enclaves are most often identified within residentially concentrated ethnic urban areas where a clustering of ethnic businesses is found within the community. A strong correlation between the residential density of Korean immigrants in Los Angeles and the incidence of Korean-owned businesses was noted by Lee (1992). Kwong (1987) documented a similar correlation between the residential concentration of Chinese in New York's Chinatown and the clustering of Chinese-owned firms in that south Manhattan community. Ethnic enclaves became a major focus of attention in the 1980s. During this decade, small-business ownership among Asian Americans in the United States grew nationwide, and within select large cities, the community of Asian-owned firms increased spectacularly. While firm numbers nationwide grew from 187,691 to 355,331 between 1982 and 1987, corresponding gross sales revenues of Asian-owned business ventures nearly tripled (U.S. Bureau of the Census, 1992).

This rapid growth was clearly immigrant driven. Influential works forthcoming in the 1980s by Bonacich, Light, Waldinger, Zhou, and others sought to explain this Asian business growth dynamic. All agreed that it was heavily reliant upon group resources (social capital) internally generated by the broader immigrant community: enclaves in Los Angeles, New York, and other large cities were providing valuable social resources to fellow ethnic-group members, enabling them to establish and expand viable small businesses in these same enclaves. Note that the "ethnic enclave" idea is a theoretical construct designed to suggest apparent isolation of the enclave area from the surrounding region. Social isolation of recent immigrants from mainstream society was clearly noteworthy, but economic isolation was less apparent. In a nation where economic resources flow regularly across neighborhood and regional boundaries, the notion that one area might be economically isolated from others is rather odd.

3.2 Embeddedness, Social Resources, Social Capital

Class resources, broadly defined, are endowments of individual entrepreneurs and their families, and these resources contribute directly to the formation and expansion of viable business ventures, whether immigrant owned or not. Thus, for example, the education, skills, and work experience business owners utilize when operating of their businesses are essential class resources. The household net worth that provides much of the startup capital used to launch business ventures is a key class resource. *Social resources*, in contrast, encompass such phenomena as the resources embedded in one's social networks, the inclinations, social values, and preferences of co-ethnics, and the like. Certain manifestations of racial and ethnic solidarity are often stressed as important types of social resources — or social capital — contributing to the viability of immigrant minority-owned ventures. Social resources/social capital were the primary analytical tools used by sociologists to explain entrepreneurship patterns among co-ethnic immigrant groups specifically and minority groups generally.

This line of analysis is rooted in the premise that entrepreneurship is embedded in a specific social, cultural, and political context: this approach "focuses on entrepreneurship as embedded in a social context, channeled and facilitated or constrained and inhibited by peoples' positions in social networks" (Aldrich and Zimmer, 1986, p. 14). Stated differently, entrepreneurship is fundamentally a social role. Because of the inherent vagueness of common definitions of social resources, the usefulness of social-resource explanations of entrepreneurial dynamics is compromised, absent specificity as to exactly why and how specific forms of social capital are hypothesized to be beneficial to ethnic enterprises. Illustrative examples of valuable social resources commonly emphasized in the minority entrepreneurship literature are briefly described below. Pioneering sociological studies sought to explain how and why specific types of social resources were being successfully utilized by Asian immigrant entrepreneurs to create new firms and to exploit business opportunities.

Product preferences and tastes peculiar to a particular ethnic group were concrete examples of social resources exploitable by co-ethnic entrepreneurs: catering to those tastes could generate a loyal customer base. Operating within an immigrant ethnic enclave where the business owner shared a common native language, culture, and migratory experience with customers facilitated understanding client preferences unique to that group. According to Alvarez and Busenitz (2001), a business opportunity arises when an entrepreneur has insights concerning the value of an important resource that key competitors do not share. In those instances where mainstream businesses poorly understood product preferences of immigrants, firms owned by co-ethnics catering to those customer preferences realized valuable competitive advantages by serving co-ethnic clients residentially clustered in enclave areas.

The desire of fellow ethnic-group members to conduct business in the language of their homeland generated a complementary form of social resources, boosting competitive advantages derived by entrepreneurs catering to ethnic-group-specific preferences. These types of social resources created, for the ethnic enterprise, a comparative advantage often described as a "protected market" (Light, 1972). Offering products meeting those preferences, co-ethnic entrepreneurs gained valuable advantages over competitors less attuned to these specific customer tastes (Aldrich et al., 1985). The more unique the product in demand, the more protected the market.

Another example of pragmatic social-capital utilization benefitting immigrant-owned ethic enterprises was the practice of hiring co-ethnic immigrant workers (Waldinger, 1986). A preference for familiarity, in conjunction with social distance, often led recent immigrants to the United States to rely upon ethnic-group members to find employment. Paternalistic practices pursued by employers — helping a new employee seeking housing, extending a loan to meet unexpected obligations, and the like — enhanced employee loyalty. If the outcome of such practices permitted employers to secure a hard working, loyal, low-cost co-ethnic workforce, then business viability was enhanced. Of course, "newcomers' dependence upon their bosses/patrons makes them likely to accept conditions that may fall below standard" (Waldinger et al., 2006, p. 38). Seeking work and housing through co-ethnic networks, furthermore, led many new immigrants to ethnic occupational and residential ghettos. Yet this process helped build the critical mass needed for formal ethnic institutions — businesses, aid societies, churches — that in turn reinforced ethnic identity in the new homeland.

Precise, widely accepted definitions of the interrelated analytical concepts — social resources and social capital — have remained elusive, raising issues about whether or not a particular type of resource could be considered "social capital." Some sociologists preferred to call social resources "ethnic resources" (Min and Bozorgmehr, 2000); the two terms are apparently used interchangeably. Family resources exemplified this ambiguity: were unpaid family members working in the immigrant-owned venture a form of social capital? Was a loan from a family member used to fund firm startup a form of class resources or social resources or something else? Some sociologists labeled resources provided by family members as social resources (Min and Bozorgmehr, 2000); economists treated these as class resources (Bates, 1997b); Sanders and Nee suggested that family resources should be viewed as a distinct subcategory of social capital, called "family-based social capital" (1996, p. 236); another common response was to define family resources as a separate category, called, quite logically, "family resources" (Yoon, 1997, p. 44).

As studies moved beyond the realm of theory and generalizations to empirical testing, it was awkward for sociologists to have their essential analytical tools loosely defined. Bankston and Zhou (2002) identified why precise definitions of social capital are elusive: as a process of embeddedness taking place through stages, social capital is necessarily defined by the contexuality and conditionality of the process. The basic sources of social capital — ethnic solidarity and trust among co-ethnics — were situationally induced coping mechanisms against the disadvantageous status minority immigrants found themselves in as they adopted to life in the United States. Thus, the forms of social capital facilitating small business creation and operation did not originate in pre-migration experiences or the prevailing values in one's country of origin but were rooted, instead, in the fact that immigrants were treated differently than natives in the host country (Portes and Zhou, 1992).

As Korean immigrants increasingly sought to pursue small-business ownership, notes Yoon, a web of social networks based on school ties, friendship, church membership, and kinship gradually formed and evolved in the immigrant community. The specifics of running a small business successfully became of popular topic of conversation. Korean business success stories spread within these networks, offering role models for aspiring entrepreneurs. Business advice and financial assistance were often exchanged among family, friends, and church members. "In this manner, small business became an ethnic matter, not simply an individual initiative" (Yoon, 1997, p. 5).

While "social capital" is thus not precisely defined, suggestions for adding precision were of course forthcoming. Portes and Sensenbrenner undertook the task of "fleshing out the concepts of embeddedness and, in particular, social capital into more specific components" (1993, p. 1321). "The concepts of the new economic sociology," they noted, "represent a broad programmatic statement in need of further specification . . . we must better specify just how social structure constrains, supports, or derails individual goal-seeking behavior" (1993, p. 1321).

Their clarification efforts focused specifically on the social-capital concept and they proceeded to identify its four sources, broadly treating social capital as a process of social interaction leading to constructive outcomes. "Value introjection is a first source of social capital because it prompts individuals to behave in ways other than naked greed; such behavior then becomes appropriable by others or by the collectivity as a resource" (Portes and Sensenbrenner, 2003, p. 1324). Arising from group affiliations, the second source — "social capital arising from reciprocity transactions consists of the accumulation of 'chits' based on previous good deeds to others, backed by the norm of reciprocity" (p. 1324). "The third source of social capital, bounded solidarity, focuses on those situational circumstances that can lead to the emergence of principled group-oriented behavior ... " (p. 1324). The final source is enforceable trust, social capital generated by individual members' disciplined compliance with group expectations, and this behavior is motivated by "long-term market advantages" achieved "by members' disciplined compliance with group expectations" (p. 1325).

Indeed, to an economist, the second, third, and fourth sources of social capital identified above have an uncanny resemblance to the motivations attributed to oligopolistic corporations participating in price-fixing and market-sharing cartels. My motivation for spelling out these four aspects of social capital, as specified by Portes and Sensenbrenner (1993), is to clarify the nature of the concept; it is not my intention to suggest that most sociologists view social capital through this precise lens. It is inherently an elastic concept and there is a tendency for scholars to interpret social capital to fit conveniently into the context at hand.

Theories of immigrant entrepreneurship put forth by sociologists have consistently relied profoundly upon social-resource (social capital) concepts to explain the apparent success of Korean- and Chinese-owned businesses in the United States during the latter 20th century. Along with loyal co-ethnic workers and protected markets, other types of social capital provided expanded ethnic-firm access to credit and capital, vertically integrated supply chains, and various other business-viability-enhancing benefits (Yoon, 1997; Light et al., 1990). A methodologically similar literature developed in the 1980s to explain the widespread formation and growth of business ventures owned by Cubans migrating to the Miami, Florida region following Fidel Castro's rise to power in the aftermath of Cuban Revolution (see, for example, Wilson and Portes, 1980; Portes and Jensen, 1989).

Perhaps the quintessential form of social capital is the rotating credit association (RCA), a co-ethnic institution exemplifying all four of the sources of social capital identified by Portes and Sensenbrenner (2003). The RCA is an ethnic finance network attracting savings from members of the co-ethnic community, who seek higher interest rates than those offered by formal banking institutions. Savings mobilized by RCAs are often made available to finance co-ethnic business startup and operation. Full repayment is forthcoming from borrowing business owners because of bounded solidarity and disciplined compliance to group expectations, as explained above. RCAs are examined in detail later in this monograph.

Predictably, social-resource explanations of both the presence *and* the absence of vibrant minority small-business communities among other racial and ethnic groups were forthcoming. The greater success of small businesses owned by Asian immigrants — relative to African Americans — was commonly attributed to the latter's limited access to social resources: black communities were too riven by individualism, competition, and status differentiation to overcome barriers to successful business formation (Light, 1972). Broadly, influential sociological studies portrayed successful ethnic entrepreneurs as members of supportive co-ethnic networks providing captive customers, loyal employees, financing to their business ventures, and various other perks; these valuable resources derived, in varying degrees, from explicit social resources embedded in these networks. As we shall see, the above summary statement provides a broad theoretical overview of the immigrant and minority entrepreneurship sociological literature; empirical application of these theories to specific business situations has been complex and typically messy.

This literature, indeed, has coped inadequately with serious methodological problems raised by empirical attempts to demonstrate causal links between actual social- resource utilization practices of ethnic businesses and enhanced firm viability. Properly viewed, early studies raised many interesting hypotheses, but their stated conclusions were too often unverified assertions. Social capital's net impact upon firm viability was (and is still) quite unclear because a strategy of utilizing social resources to bolster one's business prospects has very real downsides. Portes and Sensenbrenner observed, "The greater the social capital produced by bounded solidarity and community controls, then the greater the particularistic demands placed on successful entrepreneurs ..." (1993, p. 1341). Less diligent members of ethnic solidarity communities attempt to enforce upon successful members all kinds of demands, which may, in turn, impose increased operating costs on firm owners otherwise benefitting from their embeddedness within that community. This specific downside was only one of the methodological issues compromising empirical efforts to determine whether utilization of social capital in fact positively impacted minority business viability.

3.3 Empirical Investigation of Social-Capital Impacts

Discussions in the immigrant minority entrepreneurship literature about networking and social capital utilization use the language of social networks but rarely employ the real concepts and statistical tools of general network analysis. The predominant qualitative methodological approach based on small nonrepresentative samples ignores important variables that should be controlled for using appropriate statistical procedures. Pioneering studies of immigrant entrepreneurs operating in ethnic enclaves essentially side-stepped the methodological difficulties of measuring cause-and-effect relationships between social-capital utilization and firm viability.

A common analytical tool was the qualitative case study of a specific immigrant group located in a specific city. Delving into subjective determinants of business behavior not easily subjected to statistical analysis, these studies conveyed human-interest aspects of business strategy more effectively than statistical analysis alone. Waldinger's (1986) study of Chinese garment manufacturers in New York was perhaps the best of these; his analysis was well written, provocative, and entertaining. Yet, this qualitative approach alone could not establish cause-and-effect relationships nor could it distinguish factors peculiar to one geographic location at one point in time from factors promoting firm success generalizable to other situations. Case studies, at best, noted Reimers, "serve as a starting point by providing insights that suggest what information should be collected from a broader-based sample" (1996, p. 198).

Lacking the kinds of large representative samples describing characteristics of owners and their firms and the environment in which these business ventures operate, sociological studies of minority entrepreneurship have struggled to reconcile the views of normative sociologists with the findings of empirical sociologists. Indeed, the former were often the ones conducting the empirical studies of small-firm dynamics. The problem of dissociating values introjection from effective causal analysis was indeed recognized by Portes and Sensenbrenner's (1993) observation that the bias of the new economic sociology was to see good things emerging out of social embeddedness.

Representative large-scale databases appropriate for testing social-capital impacts upon firm formation, viability, growth and survival are still rather rare in the 21st century, but major breakthroughs in the 1990s allowed researchers to explore social-capital impacts upon firm viability. The CBO survey, released by the United States Census Bureau in 1993, included nationally representative samples of tens of thousands of firms owned by Asian, African American, and Hispanic owners; very large comparison groups of firms owned by white nonminority owners facilitated isolating features of racial/ethnically defined subgroups of businesses that differed systematically from the small-firm mainstream. Detailed owner- and firm-specific variables in the CBO data measured numerous class-resource and social-resource characteristics (Bates, 1997b). Useful owner traits included immigrant status and ethnicity designations — Chinese, Korean, Asian Indian, Vietnamese, Filipino, etc. — thus allowing researchers to compare groups as specific as Korean-immigrant — as opposed to Asian Indian-owned firms.

Analysis of CBO data revealed numerous startling correlations between social-resource utilization patterns among Asian-immigrant ventures and firm viability measures: those least reliant upon social resources were clearly the larger scale, more profitable businesses. Firm survival rates over time, furthermore, were inversely related to reliance upon of common forms of social capital (Bates, 1994a). Firms owned by Asian-Indian immigrants, for example, most often sold products to a mainstream, predominantly white clientele, while Korean-owned

Table 3.1. Traits of Asian-immigrant-owned firms started nationwide between 1979 and 1987.

	Asian Indian	Chinese	Korean	Vietnamese
Firm/owner characteristics:				
Gross sales revenues, 1987 (mean)	$161,675	$126,499	$128,022	$86,986
Startup capitalization (mean)	$68,013	$61,521	$52,146	$25,626
College graduates (%)	80.4%	53.9%	52.3%	26.4%
Firms out of business by 1991 (%)	15.7%	17.1%	21.6%	24.0%
Social capital utilization:				
% minority employees (employer firms only):				
0–49%	41.9%	32.6%	16.2%	11.5%
50–74%	11.9%	9.9%	10.0%	12.7%
75%+	46.2%	57.5%	73.8%	75.8%
Customer base — predominantly minority	42.3%	46.2%	68.3%	52.0%
Agglomeration: % of firms operating in Los Angeles, San Francisco, or New York regions	27.0%	56.8%	48.5%	47.1%

Source: U.S. Census Bureau, 1987 Characteristics of Business Owners database; all firms were actively operating in 1987.

firms were least reliant upon nonminority white clients. Similarly, firms owned by Asian Indians relied much more heavily upon white employees than their Korean-business counterparts. Yet, profitability and survival-rate statistics describing the former versus the latter indicated that greater venture longevity and higher average profits were traits of the Asian-Indian-owned firm group (Table 3.1). A general pattern emerged: heavier firm reliance upon mainstream clients, nonminority white paid employees, and loans from established financial institutions (banks) was positively correlated with higher survival likelihood and greater profitability for businesses owned by Asian immigrants (Bates, 1994a).

Because the class resources employed by the more successful Asian-immigrant owner subgroups were clearly greater than those utilized by the less successful, an inference of social-resource reliance as a *cause* of poor firm performance could not be drawn from mere summary statistics. The fact that greater reliance upon common forms of social capital continued to be related to lower business profits and reduced survival prospects when firm capitalization, owner human-capital endowments, and other firm and owner traits were controlled for statistically (Bates, 1994a) was also not necessarily inconsistent with sociological studies attributing entrepreneurial success to heavy reliance upon social resources. Instead, it raised the issue of the very meaning of the term "success" in the small-business context.

It is noteworthy that comparisons across ethnic groups — Asian Indian versus Korean, for example — or within groups — surviving Chinese-owned firms versus those going out of business — the more viable firms were consistently those better endowed with class resources and the more mainstream-oriented ventures, while the less viable were more heavily social-capital reliant, minority-market-oriented businesses. While these findings are not entirely inconsistent with sociological studies attributing minority-business success to heavy reliance upon social-capital utilization, they do highlight the fact that sociologists and economists ask different questions when they investigate small-firm viability.

Bruderl and Preisendorfer's (1998) "network compensation" hypothesis states that entrepreneurs with limited financial resources and weak human capital rely more heavily on social resources than others because they desperately need to mobilize certain types of social resources to compensate for their deficiencies. There are strong suggestions and hints in the minority entrepreneurship literature that social resources are often relied upon to compensate for specific deficiencies in owner financial- and human-capital resources: "highly developed social networks . . . can compensate shortfalls of human capital" (Light and Karageorgis, 1994, p. 658). Yoon (1997), after documenting that loans from commercial banks and RCAs were the two major sources of debt used by Korean firm owners, noted that bank loans were less expensive than RCA borrowings. The RCA was therefore a backup source of venture financing relied upon by those unable to qualify for bank loans.

When the compensation hypothesis is valid, we would expect to find that greater entrepreneurial reliance on social resources is negatively correlated with such business outcomes as survival and above-average profitability. To test whether social-capital utilization might nonetheless be beneficial, one would need to control statistically for the class resources — business owner's human capital and the firm's startup capital — in order to isolate possible incremental impacts of the social-resource inputs on venture viability. "Only after controlling for these other critical variables, positive influences of social support should be observed" (Bruderl and Preisendorfer, 1998, p. 216). When Bruderl and Preisendorfer thusly tested the network compensation hypothesis using data describing class- and social-resource utilization patterns among samples of small firms in Germany, the hypothesis that social-capital utilization improved small business outcomes was not empirically supported.

Reliance upon social resources forthcoming from co-ethnics might undermine venture viability for well-known reasons. Once ethnic-oriented businesses become common in enclave environs, "the ethnic population is too impoverished to provide sufficient buying power" (Waldinger et al., 2006, p. 23). More importantly, the enclave business environment tends toward a proliferation of small firms competing intensely against one another, and these overly competitive market conditions produce high venture failure rates and low returns for owners of the surviving businesses (Waldinger et al., 2006; Bates, 1997b). Kwong (1987), for example, described New York City's Chinatown as a saturated market plagued by suicidal conditions because of too many firms were concentrated into too few lines of business. This fact indeed explains why ventures owned by Asian immigrants often sought clients beyond the enclave. Although agreeing with this characterization, Waldinger observed that reliance on ethnic clients might nonetheless be beneficial to startup firms, allowing them to build up expertise before "edging out into the broader market" (1986, p. 21). Yet, the econometric findings briefly noted above (Bates, 1994a) are not consistent with this: very young Asian-immigrant-owned firms selling products to mainstream white clients were the better capitalized, larger scale ventures, while the businesses serving a predominantly minority client base were weaker and more failure-prone firms (Table 3.2).

3.4 Empirical Investigation of Impacts of Ethnic-Enclave Location on Firm Viability

In the context of immigrant community isolation from the host society, interactions between ethnic solidarity, small business concentration,

Table 3.2. Traits of very young Asian-immigrant-owned firms, by clientele served (includes firms started in 1986 or 1987 only).

	Minority clientele	Predominantly white clientele
1. Firm characteristics		
Gross sales revenues, 1987 (mean)	$74,498	$95,715
Startup capitalization (mean)	$35,581	$62,006
# paid employees (mean)	0.6	1.2
Firms out of business by 1991 (%)	32.0%	20.8%
2. Owner characteristics		
College graduates (%)	52.0%	59.6%

Source: U.S. Census Bureau, 1987 Characteristics of Business Owners database; all firms were actively operating in 1987.

and the hostility of mainstream society may possibly facilitate community economic resource mobilization capable of sustaining substantive — even rapid — development of business ventures owned by co-ethnics. The ethnic-enclave-economy hypothesis formalized by Alejandro Portes and his co-authors builds upon this framework and claims that immigrant residents of large enclaves — Miami's Cuban enclave most prominently — may actually reap substantial economic benefits from residing and working within the enclave. Such economic benefits arise when a significant portion of the immigrant workforce is employed by enterprises owned by co-ethnics.

Mainstream sociology has traditionally linked immigrant progress in the host country with active participation in the broader society, initiated by intergroup mixing and leading eventually to accommodation and assimilation, however painful this may be to newcomers not fluent in English and unfamiliar with prevailing social customs in America. Restricting oneself to the immigrant community, in contrast, limits employment options and minimizes opportunities to achieve English fluency. Immigrant assimilation is eventually achieved as social-structural barriers recede, a process that may not be achieved in a single generation. Segregation and social isolation retard socio-economic advancement for recent immigrants; integration and assimilation, according to classical sociological interpretations, expand opportunities and generate socio-economic advancement.

Portes' strongly stated ethnic-enclave-economy hypothesis challenged this assimilation view. Their social isolation and segregation in the enclave may instead impose no costs upon recent immigrants; avoiding mainstream society may even improve one's prospects for economic advancement and upward mobility. Resident immigrants "go about their work and leisure activities without having to know the language of the host society and without extensive interactions outside of their ethnic group" (Sanders and Nee, 1987a,b, p. 746). Working for enclave businesses owned by co-ethnics, immigrant residents of the ethnic enclave are likely to earn a "significant economic return to past human capital investments" (Portes and Wilson, 1980, p. 302), while wage work outside of the enclave — largely restricted to poor paying unskilled jobs — rarely offers such returns.

Immigrant workers employed specifically in the Miami enclave economy in firms owned by co-ethnics, we are told, earn higher wages and enjoy greater opportunities for upward economic mobility, relative to equally educated and experienced recent immigrants who choose to seek their livelihood in the economic mainstream (Portes and Bach, 1985). Yet this claim is disputed by other scholars (Sanders and Nee, 1987a,b). Does social isolation and segregation within the enclave impose costs upon its residents in the form of reduced employment opportunities or does working for enclave firms provide higher wages and greater opportunities for upward mobility? Similarly, does owning an enclave business venture and employing co-ethnics provide a better livelihood for entrepreneurially inclined immigrants, relative to alternative opportunities in the economic mainstream? These are empirical questions.

Ethnic enclave businesses have been defined by empirically-inclined scholars in a variety of (often inconsistent) ways, but two elements are stressed — (1) spatially clustered businesses owned by members of a specific ethnic group, and (2) firm location within a community where residents frequently shared the ethnic identity of those firm owners. Econometric investigations of social-capital explanations for enclave business robustness were initially forthcoming before appropriate databases were available to support this line of research. Their findings often served only to heighten scholarly disagreement. Defining enclave business communities in terms of spatial concentration facilitated testing empirically whether the net advantages of having owners, customers, workers, suppliers, and/or business lenders share an ethnicity were positive or negative on balance. Interpreting whether net impacts of specific types of social resources forthcoming from this interaction of spatial concentration and shared ethnicity had positive or negative impacts upon firm viability, however, required either a leap of faith or additional probing.

Empirical modeling along these lines has traditionally been frustrated by the limited ability of researchers to construct data describing appropriate enclave areas accurately. Reliance upon crude enclave geographic proxy measures was the common fallback strategy. Thus, Zhou and Logan (1989) defined the entirety of the New York City area as their proxy measure of New York's ethnic enclave for Chinese immigrants. Regarding Miami's famous Cuban enclave, Sanders and Nee (1987a,b) and others applied several definitions — including equating the enclave with the Florida county of Dade and, alternatively, defining it as the entire Miami metropolitan area — and tested their empirical findings for robustness across alternative definitions. This is rather mystifying to outsiders to the enclave debate, since Dade county certainly does not qualify as a Cuban-immigrant enclave cut off from the broader economy. As proxies go, this one was certainly crude. Efforts to define and operationalize exact boundary cutoffs useful for measuring the degree of adequacy of enclave proxy measures were not forthcoming. Attendant complications of reproducing findings of single-area enclave studies meant that attempted replication of empirical results in other enclave contexts was difficult to interpret.

Using more geographically specific PUMA data from the 2000 decennial census of population to identify enclaves, Aguilera (2009) tested the hypothesis that advantages of operating ethnic firms within the enclave were, on balance, greater than the disadvantages of enclave business locations. Aguilera proceeded by developing an innovative "continuum" measure of ethnic geographic concentration of the self employed, focusing upon all small firms in Florida, Texas, and California. Enclave boundaries were approximated by PUMAs — geographic areas defined by Census that include at least 100,000 people. Using such an enclave measure in large metropolitan areas like Los Angeles is preferable to metro-area-wide proxies since PUMAs better capture geographic areas of high racial/ethnic concentration and local labor-market conditions. Aguilera (2009) calculated PUMA-specific ethnic concentrations of self employed Mexican immigrants working in Texas and California — which predictably coincided closely with ethnic population concentrations — and corresponding concentrations of Cubans self employed in Florida.

Using conventional controls and ethnic-enterprise concentration measures as explanatory variables, Aguilera (2009) proceeded to explain econometrically the earnings of self-employed immigrants. His results did not support the hypothesis of enclave advantage: the greater the concentration of the Mexican immigrant self-employed within a PUMA, the lower their actual earnings, other factors constant. The earnings of the self-employed, in other words, were higher in areas with few co-ethnic businesses than in communities with high co-ethnic concentrations of firms, workers, and local residents. Cubans self-employed outside of co-ethnic enclaves, in contrast, generated earnings comparable to those self-employed within the enclaves. Running one's business in ethnic enclaves provided Cuban business owners no earnings advantage beyond what they would have earned by locating outside enclave areas.

Stepping back and assessing the absence of hard evidence about social-capital advantages accruing to ethnic firms operating in enclaves, a noteworthy point is that strong enclave social boundaries may create obstacles inhibiting creative business practices. Enclaves generate boundaries rooted in family, kinship, language groups, and ethnic communities, fostering highly concentrated social networks. The high density and strong ties of small-world networks create both positive and negative consequences for entrepreneurs. Concentrated networks promote an environment in which social norms are enforced and reciprocated. Coleman notes that network closure is a primary source of social capital: within closed networks, social norms are monitored and enforced more easily (1988). In a dense network, observe Kim and Aldrich, "violators suffer the consequences of local sanctioning, such as loss of reputation. Within closed networks, violators will confront a united front composed of fellow actors who call for a remedy" (2005, p. 66). Since dense networks tend toward conformity; they promote familiar routines in a context of homogeneous relationships, often constraining entrepreneurial autonomy, creativity, and innovation (Gargiulo and Benassi, 2000). Extending one's social ties beyond the enclave, in contrast, provides more diverse information, access to new ideas and opportunities, as well as expanded access to mainstream resources.

3.5 Concluding Remarks

The body of scholarly works introduced above — sociological analysis of entrepreneurship among immigrant minorities — although highly influential, provocative, and interesting, is not a mature body of scholarship, nor are its consensus views and conclusions well grounded in empirical studies carefully evaluating its many hypotheses. Findings of major empirical studies to date indeed emphasize the weakness of the evidence about outcomes and implications of minority business reliance on social resources specifically and the very meaning of "success" as a description of business outcomes among immigrant minority entrepreneurs generally.

Although the term "success" is often used to describe the community of businesses owned by Asian immigrants and others (Light and Bonacich, 1988; Zhou, 2004b; Waldinger et al., 2006), it is important to realize the context in which entrepreneurship among immigrants is most often labeled successful. The opportunities available to Asian immigrants to the United States in recent decades have been shaped by their differing degrees of English language fluency — very high, for example, among Asian Indians and very low among Koreans — which provides an important illustration of how pre-migration and post-migration experiences interact to shape their self-employment outcomes. "Immigrants who arrive in the United States with English-language facility have a broader range of opportunities than do those whose English is nonexistent or barely serviceable" (Waldinger et al., 2006, p. 45).

English proficiency among the foreign born who migrated to the United States within the past five years differs hugely among Asian immigrant groups. Among males 25 to 64 years of age self-identifying as "very proficient," Asian Indians ranked highest (70.0 percent) and

Koreans were lowest (15.4 percent). Among those in the United States for six to fifteen years, Asian Indians were still most often very proficient (85.2 percent) while Koreans were least proficient (35.4 percent) (U.S. Commission on Civil Rights, 1988). The college-graduate professional who ends up owning a food store in a poor neighborhood is, in reality, most often underemployed in the sense that one's human capital could be better utilized by working in an appropriate professional field. Yet, this business owner is typically blocked from jobs in most professions by lack of English-language fluency, and this fact of blocked mobility has pushed the individual toward entrepreneurship.

In this context, Zhou's characterization of success in self employment makes sense: "For immigrants with either sufficient human capital and/or financial capital, self-employment is their best strategy to adopt to their new country by minimizing the possibility of downward social mobility: to avoid low-wage menial labor, to prevent depreciation of the capital accumulated before migration, and to preserve their already established economic status" (2004b, p. 52). "What matters is that self-employment is an option over unemployment, that it creates job opportunities for oneself as well as for others in or out of the ethnic group, that it provides economic resources for the family and children, that it empowers group members with economic independence . . . " (Zhou, 2004a, p. 1050).

Ethnic-enclave-economy analyses sometimes conclude that agglomerations of enclave firms operating in Miami, or New York City, or elsewhere do indeed represent success stories, yet it is essential to keep in mind what "success," thusly described, means. These successes describe an adoptive strategy enabling immigrants to survive and overcome the initial constraints and disadvantages they face during their adjustment period to life in the United States. If we accept this interpretation of success, then we are recognizing entrepreneurship as an adoptive strategy that apparently worked in specific contexts at specific points in time. We are observing a self-employment strategy that could also be characterized as a form of underemployment; we are not observing a process of sustainable business-driven enclave economic development that has applicability broadly, claims of Professor Portes and his various co-authors notwithstanding.

Later sections of this monograph probe in greater depth many of the concepts, hypotheses, and stylized facts introduced in this section. How do we measure business success? Why have some immigrant groups pursued entrepreneurship more aggressively than others? How do business owners overcome capital constraints generally and how do they mobilize the resources to finance business startup specifically? In terms of target clienteles, is it better to sell to co-ethnics or compete in the broader economy? By exploring these questions, the nature of entrepreneurial dynamics among minorities generally — and immigrant minorities specifically — is clarified.

4

Explaining Minority Entry Into Self Employment

Economists commonly use large-scale nationally representative time-series databases to investigate patterns of self-employment entry, and the Survey of Income and Program Participation (SIPP), Current Population Survey (CPS), and Panel Study of Income Dynamics (PSID) databases have been popular choices. Regarding specific minority entrepreneurship topics, their choice of emphasis has most often been to understand why black Americans enter into self employment and small-business ownership at substantially lower rates than whites.

Sociologists, in contrast, rely largely upon Census Bureau decennial census of population PUMS to measure overall rates of self employment among minorities (primarily immigrants), and these rates serve, most often, in descriptive supporting analytical roles. If actual self-employment rates are high for a specific subset of minority entrepreneurs, then a corresponding high rate of entry is inferred. Thus, for example, Korean immigrants report a higher self-employment incidence than any other major subgroup of minority entrepreneurs; therefore, their entry rate must be high. Actual analysis of the entry process relies upon small-scale surveys of immigrant entrepreneurs operating in certain neighborhoods of specific large cities, and researchers explain entry patterns in terms of (a) the situational constraints individuals face that push them toward self employment and small-business ownership alternatives, (b) the resources owned by potential entrepreneurs, and (c) the social resources available to facilitate individual decisions to pursue entrepreneurship. These three interrelated socio-economic phenomena/resource endowments explain, in turn, the self-employment patterns observed in PUMS-based descriptive statistics. Case study methodologies analyzing ownership dynamics among immigrant minorities residing in one or perhaps two cities — Chicago, Los Angeles, and New York are common choices — are widely used to analyze why minorities pursue self employment and how they achieve competitive advantages in the operation of their business ventures (see, for example, Yoon, 1997; Waldinger, 1986; Min, 1984, 2008).

There are strong prevailing stereotypes in United States society concerning self-employment patterns, particularly regarding the experiences of Asian immigrants who create small businesses. "They demonstrate to everyone that America is still a land of opportunity" observes Bonacich, "and that anyone with initiative who is willing to work hard and take chances can make their fortune here" (1987, p. 446). It is certainly possible to find occasional academic endorsement of this stereotype, but this "bootstraps" image of paths to upward mobility is rarely supported by either sociologists and economists doing empirical research on minority entrepreneurship. "Asian immigrants were poor and visibly non-European and were subject to racial discrimination on that account. These very qualities tended to push the Chinese and Japanese into the classic small business occupations with which they have now become identified in the popular mind" (Light, 1972, pp. 5–6). This account does not represent the scholarly consensus nor does it reflect the opinions and conclusions expressed by Ivan Light in his subsequent writings on minority entrepreneurship. While this depiction accurately characterizes Asian self-employment patterns in California a century ago, its applicability to contemporary America is nil.

When studying minority entrepreneurship, it is essential to delineate class distinctions from racial differentiation. In fact, the ingredients for creating viable small businesses — and entrepreneurial success broadly — do not vary greatly across racial-ethnic groups in contemporary America. The people who most often pursue self employment are well educated and skilled, often possessing significant financial resources. Likewise, those lacking the requisite skills and resources, whether minority or nonminority, are unlikely to start small businesses. "Among people who choose self employment without appropriate education, skills, and financial resources, business failure and self-employment exit rates are high" (Bates, 1997b, p. 1). These patterns typify black, Asian, and white Americans, men and women, immigrants and the native born.

If there is one area of agreement among academic researchers studying self-employment patterns, it is the wide range of self-employment rates characterizing the various racial and ethnic subgroups. Fratoe's (1986) pioneering analysis of PUMS data found that Korean immigrant adults were ten times more likely than Puerto Ricans to be self employed. Another common finding is that the more advantaged, higher income racial/ethnic group members, not the disadvantaged, are the ones most likely to pursue self employment (Fairlie and Meyer, 1996; Min, 1984).

4.1 Self-Employment Entry as Seen by Economists

Throughout most of the 20th century, the ratio of white-to-black self-employment rates remained at a consistent three to one ratio, with improvements becoming apparent only in the 1990s and early years of the 21st century (Fairlie and Meyer, 2000; Fairlie and Robb, 2008). The great migration of African Americans out of the rural south from World War I to the 1960s, furthermore, had little impact upon this ratio, nor has the gradual trend toward racial convergence in educational attainment generated large changes in the black/white self-employment rate gap. Also noteworthy is the fact that the relatively low rates of self employment exhibited by African Americans reflect both their lower rates of entry — roughly one half those of whites — and their higher exit rates — about twice those of whites (Fairlie, 1999).

An excellent starting point for understanding both the widely differing rates of self employment and small-firm ownership among major racial/ethnic groups — as well as trends in these rates in recent decades — is provided by Fairlie and Robb (2008). Describing labor-force participants who worked at least 15 hours in the survey week, they employ CPS data to derive annual nationwide business ownership rates for African Americans, Latinos, Asian Americans, and nonminority whites. They define self employment based on one's main job activity and include those reporting ownership of either a corporation or an unincorporated businesses. Table 4.1 tracks annual nationwide self-employment rates for the above four racial/ethnic groups over the 1989 through 2006 period.

Among major minority groups, Asian Americans report the highest rates of self employment in both 1989 and 2006 (and most years in between), while African Americans report the lowest. Self-employment rates over this period are quite similar among the Asian respondents, in comparison to whites, with the latter group exhibiting a slight decline in business ownership rates (from 11.4 percent in 1989 to 11.1 percent in 2006) while Asian Americans report nearly identical self-employment

Table 4.1. Trends in self-employment and business ownership rates, CPS.

Year	White (%)	Black (%)	Latino (%)	Asian (%)
1989	11.4	3.8	7.5	11.7
1990	11.5	4.3	7.0	12.1
1991	11.7	4.1	6.7	12.1
1992	11.4	3.9	6.7	12.9
1993	11.7	3.8	7.2	12.2
1994	11.6	4.3	6.9	12.2
1995	11.4	4.3	6.1	11.2
1996	11.2	4.3	6.6	11.3
1997	11.3	4.1	6.4	11.1
1998	11.1	4.1	6.4	10.8
1999	10.8	4.3	6.4	10.9
2000	10.7	4.9	5.9	9.4
2001	10.5	4.4	6.1	10.5
2002	10.6	4.4	6.1	9.9
2003	11.1	5.2	7.0	10.4
2004	11.2	5.1	7.4	11.0
2005	11.1	5.2	7.0	10.8
2006	11.1	5.1	7.5	11.8

Source: CPS outgoing rotation group files — individuals 16 or over who work 15 or more hours during the survey week (Fairlie and Robb, 2008, p. 17). Self-employment status is based on the worker's main job activity and includes owners of both incorporated and unincorporated businesses.

rates (11.7 percent in 1989 and 11.8 percent in 2006) (Table 4.1). Black Americans are the sole group exhibiting rising rates of self employment over this period, from 3.8 percent in 1989 to 5.1 percent in 2006. Thus, the nationwide black/white self-employment rate ratio stood at 0.33 in 1989 and rose to 0.46 by 2006, a sharp departure from its near constant level throughout all earlier decades of the 20th century.

The basic constancy in Latino self-employment rates over the 1989 to 2006 period (Table 4.1) is noteworthy in light of the truly enormous increases in numbers of Hispanic-owned firms reported by the Census Bureau — from 422 thousand in 1987 to 2.3 million in 2007 (U.S. Bureau of the Census, 1991, 2010). Abstracting from the issue of the over-inclusiveness of these Census Bureau firm counts, the fact that CPS data indicate a 7.4 percent Latino self-employment rate in 1987, rising to 7.5 percent in 2006 is perfectly consistent with the fact that Latino firm counts have grown rapidly since the 1980s. A "major reason for these rapid growth rates" in firm numbers, observe Fairlie and Robb (2008, p. 28) is population growth; the rate of growth of the number of Latino-owned business ventures has simply kept pace with the rate of growth of the U.S. Latino adult population.

Regarding specific causes of racial differences in self-employment entry rates, the nature of the human- and financial-capital resources possessed by potential entrepreneurs is a major analytical focus. Economists commonly attribute black/white disparities in business entry and ownership rates to the relatively low levels of education, personal net worth, and parental self employment characterizing the African American pool of potential entrepreneurs (Fairlie, 1999; Bates, 1997b; Hout and Rosen, 2000). Although rarely studied, Latino/white disparities in business entry rates appear to be explained largely by the lower net asset holdings and education levels typifying Hispanic adults, in comparison with nonminority whites. The pioneering work of Lofstrom and Wang (2009) analyzing entry rates among Mexican Americans (in comparison to nonminority whites) stresses these two explanatory factors.

Evidence of strong intergenerational links in business-ownership patterns is frequently noted: children of business owners are more likely than others to enter into self employment. Racial patterns in present-day self-employment rates partially reflect racial patterns in self-employment rates in previous generations (Hout and Rosen, 2000; Fairlie, 1999). A common finding is that an individual whose parent was self employed is at least twice as likely to be self employed as someone who did not have a self-employed parent (Fairlie, 1999; Dunn and Holtz-Eakin, 2000). Hout and Rosen (2000) report that black men are not only less likely than whites to have self-employed fathers but also less likely to follow their fathers into self employment. A refinement of this line of analysis stresses that owners having prior work experience in a family member's business experience better outcomes in their own business ventures than others lacking such experience (Fairlie and Robb, 2008).

A standard theoretical economic model of small-firm entry identifies the human capital of aspiring entrepreneurs and their access to financial capital as the two key determinants of business entry (Evans and Jovanovic, 1989). Herein lie major causes of racial disparities in self-employment entry rates. Relatively low levels of personal net worth typify black American workers, note Fairlie and Robb (2007), partially explaining why 3.8 percent of them are self-employed business owners, compared to 11.6 percent of white workers. Bradford (2003) used PSID data to measure nationwide median net-asset holdings of black families headed by employees ($10,679) as opposed to white families with employee heads ($67,449). Looking solely at Mexican American immigrants, Cobb-Clark and Hildebrand (2006) estimated that median household net worth was $6,792, about one twelfth the level for whites. More recent census data, cited by Fairlie and Robb (2008), indicate median wealth levels of $6,166 for black households and $6,766 for Latinos, roughly one tenth the corresponding $67,000 median net worth figure reported by white households. Fairlie's findings (2006) suggest that the largest single factor explaining racial differences in self-employment entry rates is differences in household net-asset holdings.

It is noteworthy that the relatively high household wealth levels typifying Asians are an important source of their high rates of entry into business ownership: mean values of household wealth among Asians and nonHispanic whites who were not self employed were $73,222 and $68,768, respectively. Tracking subsequent entry patterns of these same adults using SIPP data, those with household wealth exceeding $100,000 were particularly likely to enter into self employment, in comparison to adults with otherwise identical education and demographic profiles (Bates, 1997b). Whether invested directly into small businesses or used as collateral to obtain loans, high wealth levels facilitate entry into small-firm ownership for aspiring Asians and whites but often frustrate the entrepreneurship ambitions of African Americans and Latinos.

The lower net asset holdings of black Americans, along with their generally lower levels of educational attainment, relative to whites, raises an obvious question: do the differing personal profiles of blacks and whites regarding key human- and financial-capital characteristics account for all of the black/white entry-rate gap? Bates (1997b) used SIPP data to explain self-employment entry among whites and then proceeded to estimate what the corresponding black entry rate would be by applying the coefficients derived from the white regression model to a representative sample of black adults. Seeking thusly to simulate what the black entry rate would be (over a 28-month period) if they faced the same entry barriers as whites, he estimated a self-employment entry rate of 3.0 percent, less than half of the corresponding 6.8 percent rate for whites, but nonetheless well above the actual 2.4 percent black entry rate. Most — but not all — of the lower rate of black entry into self employment was thus attributed to their lower net worth levels and weaker educational credentials. Also noteworthy was the high rate of self-employment entry among Asians, which was fully explained by their higher net assets and stronger educational credentials, relative to whites (Bates, 1997b).

Lending discrimination practiced by financial institutions appears to lessen the ability of potential Latino and black entrepreneurs to leverage their household wealth by borrowing to finance entry into business ownership. Business startups generally are particularly vulnerable to problems of restricted credit access and undercapitalization, and these constraints hit minority ventures hard. The most comprehensive evidence to date regarding capital access and minority business viability concerns the constraints facing black-owned firms. Average startup capitalization among young black firms nationwide was \$14,108, and median capitalization was under \$10,000, according to 1992 Census Bureau CBO data, while the corresponding mean figure for nonminority-owned firms was \$40,065 (Bates, 2003).

Greater capitalization can serve as a buffer to protect startup ventures from the liabilities of newness. New firms, observe Cooper et al. (1994), are struggling to establish administrative procedures, define their institutional identity, and gain credibility with customers and suppliers. This process of experimentation is characterized by iterations of trial and error. Greater financial capital and access to capital at startup help firms to survive this process of experimentation and learning; under-capitalization, in contrast, limits the new firm's ability to withstand unfavorable shocks and to undertake corrective actions. More initial capitalization buys time while the entrepreneur learns how to run the business. Lacking an adequate buffer, poorly capitalized firms may be forced to close down during difficult periods. This reality may, in fact, discourage some potential entrepreneurs from ever taking the initial plunge into starting a small business.

Comparisons of the types of startup financing used to launch new firms owned by African Americans, Asian-immigrants, and whites are summarized in Table 4.2. These measures of debt- and equity-capital relative utilization are uniquely valuable because they are complemented by further data (Table 4.3) identifying sources and dollar amounts of borrowed capital. Although differing financing patterns are apparent across these racially-defined groups, similarities are actually more prominent. Most startups — whether white, Asian, or black owned — used no debt financing whatsoever to launch business

Table 4.2. Financing small business formation: Nationwide statistics.

	% of startups using borrowed funds	% of startups using equity capital only (no debt)	% of startups using no financial capital
Nonminority-owned firms	37.2	39.1	23.7
African American-owned firms	28.8	42.3	28.9
Asian-immigrant-owned firms	46.2	37.6	16.2

Source: U.S. Bureau of the Census Characteristics of Business Owners database.

Table 4.3. Sources of borrowed financial capital used by small-business startups, nationwide statistics on borrower firms.[a]

	Financial institutions	Family	Friends
A. Frequency of borrowings by loan source			
Nonminority owned	65.9%	26.8%	6.4%
Black owned	59.1%	21.2%	11.3%
Asian-immigrant owned	52.6%	37.6%	21.9%
B. Average loan size			
Nonminority owned	$56,784	$35,446	$30,907
African American owned	$31,958	$18,306	$16,444
Asian-immigrant owned	$67,299	$39,137	$34,255
C. Leverage (debt, equity ratio)			
Nonminority owned	3.25	2.32	2.03
African American owned	2.61	2.22	2.15
Asian-immigrant owned	2.23	2.07	2.06

Source: U.S. Bureau of the Census Characteristics of Business Owners database.
[a]Some firms borrowed from more than one source.

operations. Indeed, many new firms began operating with no financial capital whatsoever. Among firms owned by nonminority-whites, 23.7 percent started out with zero financial capital; corresponding figures for blacks and Asian immigrants were 28.9 percent and 16.2 percent, respectively. Zero-capital startups were largely zero-employee firms concentrated in service industries. Among startups, those owned by blacks were (1) most likely to begin with zero financial capital, (2) least likely to borrow, and (3) most often reliant solely upon equity capital, relative to firms owned by whites and Asians (Table 4.2).

Startups beginning operations using equity capital only (no debt) relied largely upon owner personal net worth as their equity source. Startups using borrowed funds stood out in the sense of being the larger-scale businesses. Young firms employing paid workers commonly financed new firm creation using a combination of debt and owner equity financing. Among startups using debt financing, where did that borrowed capital come from? Table 4.3 lists major sources of debt financing business formation. All of the racially defined groups — white-, black-, and Asian immigrant-owned ventures — relied much more heavily upon financial institutions for loans than any other source. Indeed, the order of importance of debt sources — financial institutions, family, and friends — was the same for Asian immigrant, white and black business borrowers (Bates, 1997b).

Considering average loan size in conjunction with borrowing frequency, the importance of financial institutions comes more clearly into focus. The much larger loans extended by financial institutions add up to a dominance of this source of startup financing: loans from banks provided more debt financing than all other sources combined. If a startup venture applies for a business loan and is turned down, consumer-credit alternatives are numerous. Thus, the loans from financial institutions described in Table 4.3 include both business loans *and* the consumer credit used to finance new-firm formation. Perhaps reflecting their restricted access to mainstream business loans, black-owned businesses were particularly reliant upon consumer credit — primarily personal credit card balances — to finance startup (Bates, 1997a).

In light of the dominant reliance of startup firms upon loans from financial institutions, the issue of bank loan accessibility is front and center. A scholarly literature, based upon the Federal Reserve's Survey of Small Business Finances (SSBF), shows that minority-owned businesses generally and black-owned ventures specifically have less access to loans from financial institutions than similar firms owned by whites (Cavalluzzo and Cavalluzzo, 1998; Cavalluzzo et al., 1999; Cavalluzzo and Wolken, 2005; Blanchflower et al., 2003; Blanchflower, 2009; Blanchard et al., 2008) These studies, however, do not focus upon startup financing and thus lack direct relevance to issues of small-firm entry. They are therefore discussed in the next section — Barriers Restricting the Size and Scope of the Minority Business Community. It is nonetheless noteworthy that among the larger scale, more established MBEs included in the SSBF data, a majority of the firms expressing a need for credit report not applying for loans at least once in the three previous years because they expected their loan applications to be rejected: over 60 percent among Asians and Hispanics and over 80 percent of black firm owners thusly did not apply for needed credit. The consistent finding — for both startup and established black- and Latino-owned firms — is one of limited access to sources of financial capital, whether debt or equity (Bates and Bradford, 2008). Corresponding evidence on Asian-owned firms suggests that high household net worth among potential and actual entrepreneurs and their friends and family often alleviates financial constraints restricting entry and successful venture operation (Bates, 1997b).

The few studies of startup financing preceding the availability of comprehensive SSBF data consistently pointed toward bank redlining of African American residential areas. Using CBO data describing young firms located in 29 very large metropolitan areas — firms owned by African Americans and whites only — Bates (1989) compared loan amounts extended by banks to borrowing firms operating in minority neighborhoods as opposed to other sections of the metro areas. Neighborhood racial composition was measured at the level of individual zip codes and firms in predominantly minority zip codes were, by definition, "minority area" businesses: thusly defined, nearly 68 percent of the black-owned firms and 11 percent of the whites receiving startup financing from banks were in fact located in minority neighborhood areas.

Controlling statistically for the human-capital endowments of firm owners, their equity investments in startup ventures, and other characteristics, estimated loan amounts actually received by minority-area firms versus all other bank-financed startups in the 29 metro areas indicated that minority-neighborhood location resulted in smaller loans. The larger loan amounts went disproportionately to the firms whose owners were college graduates making relatively large investments of equity capital into their startup ventures, *except* in those instances of minority-area firm location. For black and white owners alike, a minority-area firm location was penalized (Bates, 1989).

Other studies of startup financing examining bank-loan-approval patterns and loan-size determination found that small firms owned by African Americans were less likely to have their loan applications approved — and, conditional on approval, received smaller loans — after controlling for various measures of business and owner credit risk (Bates, 1993). The fact that African-American-owned small businesses were heavily concentrated in black residential areas contributed to their limited access to bank credit (Bates, 1989; Immergluck, 1999, 2004). According to Stiglitz and Weiss (1981), when borrowers are distinguishable in terms of some trait positively linked to higher default risk, such as race, lenders may choose to deny credit to the entire group. Stiglitz and Weiss have provided the theoretical underpinnings — rooted in information asymmetries — demonstrating why profit-seeking bankers might rationally choose to redline minority communities. Further, because the value of collecting information on borrowers is likely to be less in minority communities (because of expectations of less lending activity), levels of imperfect borrower information may persist.

"The importance of personal wealth has taken center stage in the literature on the determinants of self employment," observe Fairlie and Robb (2008, p. 28). The educational backgrounds of aspiring entrepreneurs have been a weaker and less consistent predictor of self-employment entry, in contrast to personal wealth holdings (Evans and Jovanovic, 1989; Fairlie, 1999). Causal links between human-capital endowments of potential entrepreneurs and entry into firm ownership are disputed, both on theoretical and empirical grounds. Focusing specifically upon black entry, Fairlie's analysis of PSID data (1999) indicated that graduating from college — relative to dropping out of high school — did not increase the probability of entry. "Overall, the size of the coefficient estimates and their statistical significance suggests that the relationship between education and entry into self employment is weak" (p. 40). Yet, his later analysis of CPS data suggested that "6.0 percent of the black/white gap in self-employment entry rates is explained by racial differences in education levels" (Fairlie, 2006).

Possessing advanced educational credentials impacts the likelihood of entry into entrepreneurship in off-setting ways. On the negative side, greater education increases employment options, thereby increasing the opportunity costs of pursuing entrepreneurship. On the positive side, formal education often enhances one's analytical abilities, communication skills, provides specific skills needed to run certain types of ventures (accounting, engineering, etc.), and promotes understanding of markets and entrepreneurial processes (Parker, 2009).

An implicit assumption underlying the analysis of entry into self employment described above is homogeneity of the entrepreneurial occupational category. Thus, researchers typically treat all entries as though the human and financial endowments of potential entrepreneurs facilitating successful entry are identical in different industry sectors. In fact, the self employed are a diverse group, ranging from casual laborers at one end of the spectrum to highly educated and specialized professionals at the other. The human- and financial-capital requirements facilitating successful entry are not homogeneous across industry types (Lofstrom and Bates, forthcoming). Rather, the determinants of entry vary across industries requiring little in the way of advanced academic credentials and/or large investments of financial capital, as opposed to fields where potential entrepreneurs need substantial endowments of such traits. Simply stated, entry barriers are higher in some industries than in others. Similarly, opportunity costs incurred by entrants vary substantially across industry sectors. Research to date, nonetheless, has rarely recognized the heterogeneity of industry requirements and has instead combined disparate industry types when studying the entry process.

There are exceptions. Entrepreneurs lacking human and financial capital are more likely to enter service rather than manufacturing industries because entry barriers and minimum efficient scales are lower in the former than in the latter — making sustainable entry easier (Bhide, 2000). Bates (1995, 1997b), analyzing SIPP data, found positive and significant effects of formal education on the probability of entering into self employment in skilled services, as well as negative, significant effects on the probability of self-employment entry in construction.

In a study of the low self-employment entry rates typifying Hispanics, Lofstrom and Wang (2009) demonstrate that a classification of firms by entry barriers is effective in explaining differences in the rate of Latino entrepreneurship entry relative to whites. Entry rates in "low-barrier" industries, Lofstrom and Wang (2009) conclude, are actually higher among Hispanics than among whites possessing the same household net worth and educational credentials. Entry-barrier measures were defined on an industry-specific basis, where "low barrier" fields — personal services, landscaping, repair services, trucking, and others — were those where prevailing average levels of owner education and business equity were below certain threshold values. Thus, professional services was a high-barrier field (average owner educational attainment and business equity were 16.0 years and $63,839, respectively) and landscaping was low barrier (education and equity values of 11.2 years and $17,266). Driven by opportunity-cost considerations, college-graduate owners were positively selecting into high-barrier lines of business while intentionally steering clear of low-barrier fields. These results are broadly consistent with findings that strong educational credentials draw potential entrepreneurs toward some industries (professional services) and away from others (construction) (Bates, 1995).

The fact that entry barriers are overcome in part by the human-capital resources that self-employment entrants bring into their new ventures is not in dispute. Educational background traits of aspiring entrepreneurs have a mixed record of predicting entry not because of their irrelevance but, rather, because industry context heavily shapes impacts of owner resource endowments on the likelihood of successful entry. Entry barriers in skill-intensive fields like professional services are therefore commonly overcome by the aspiring entrepreneurs possessing educational credentials earned through graduate and professional studies. Utilizing a framework thusly defined by entry barriers, Lofstrom and Bates (forthcoming) demonstrate that determinants of self-employment entry among African Americans differ sharply across the high- and low-barrier industry sectors. Findings of Bates et al. (2011) further indicate that high educational attainment is a strong, positive predictor of entry into certain high-barrier fields (where average owner remuneration is high) for minorities generally, but not into low-barrier industries (including personal services, where average owner remuneration is low). This same pattern also applies to the financial-capital prerequisites for entry into business ownership. Because industry context indeed shapes entry patterns, the "one-size-fits-all" econometric models commonly used to predict entry into self employment fall short.

While relatively low rates of self employment among African Americans have prevailed throughout the 20th century (Fairlie and Meyer, 2000), an apparent paradox has been noted by studies exploring racial differences in nascent entrepreneurship rates. Among blacks 18 to 64 years of age, for example, these rates are "about 50 percent higher than (corresponding rates) for whites and the difference is statistically significant" (Reynolds et al., 2004, p. 271). Global Entrepreneurship Monitor (GEM) project data indicate that whites are less likely to engage in business start-up activities (6.2 percent) than blacks (11.1 percent). Indeed, Kollinger and Minniti find that blacks are "1.79 times more likely to be nascent entrepreneurs than whites with an identical socio-economic background" (2006, p. 16).

Panel study of entrepreneurial dynamics (PSED) data confirm these racial differences in nascent entrepreneurship patterns. Based upon nationally representative longitudinal samples, PSED data are noteworthy for their high quality, a key trait in a field of research often constrained by data quality limitations (Fairlie and Robb, 2008; Boden and Nucci, 1997). Data summarizing nascent entrepreneurship rates among whites, African Americans and Hispanics, disaggregated by gender and educational attainment (Table 4.4), reveal that nascent rates among black and Hispanic men and black women are consistently higher than the corresponding rates reported by white subgroups. Nascent entrepreneurship rates among black men and women are over 50 percent higher than corresponding rates for whites, and this difference is statistically significant. The corresponding rate among Hispanic men is roughly 20 percent higher than for white men. Particularly among black Americans with college degrees, prevalence rates of nascent entrepreneurship recorded in the PSED data are roughly twice

Table 4.4. Nascent entrepreneurship prevalence rates by race/ethnicity.

	White, not minority	African American	Hispanic
A. All adults	5.7%	9.5%	7.1%
B. By gender (18–64 only)			
Male	8.6%	13.6%	10.3%
Female	5.1%	8.3%	5.1%
C. College degrees (18–54 only)			
1. Male			
Bachelor's degree	9.8%	15.2%	11.0%
Graduate/professional	11.1%	23.4%	19.9%
2. Female			
Bachelor's degree	5.6%	12.7%	*n*
Graduate/professional	7.6%	15.6%	*n*

These data measure "two criteria" nascent entrepreneurship rates: "nascents" have responded affirmatively to the question, "are you, alone or with others, now trying to start a new business?" *and* met two additional criteria — (1) they are currently active in the startup effort and (2) anticipate full or part ownership of the new venture.
Source: Panel study of entrepreneurial dynamics database, national longitudinal sample.
n, small sample size.

the rates typifying similarly educated white adults (Reynolds et al., 2004). How then does one reconcile the higher incidence of firm start-up activities among blacks, relative to whites, with their much lower rates of actual self-employment entry?

4.2 Sociologists Explain Self-Employment Entry Patterns

4.2.1 Labor-market Disadvantage, Blocked Mobility, and Status Inconsistency

Among minorities generally and immigrant minorities specifically, the decision to pursue self employment and small-firm ownership is often shaped by one's limited options for wage or salaried employment. As In-Jin Yoon notes, the desirability of self employment is "largely determined by a person's employment opportunities in the general labor market" (1995, p. 317). Commenting on the motivations of Korean immigrant owners — interviewed in his study of firms operating in Chicago — to pursue small-business ownership, Yoon observed that most of them were "middle-class and white-collar workers in South Korea prior to their migration to the United States. Seventy percent of the respondents of this study received four or more years of college education" prior to their arrival in the United States. "Despite their highly selective class backgrounds, more than half of the respondents started as manual, service, or sales workers after their arrival in the United States. Lack of competence in the English language and their poorly transferable Korean education and occupational skills were the primary causes of their inability to find white-collar wage employment, for which they had been trained" (1995, p. 328). Unable to obtain satisfactory salaried employment, they turned, instead, to small-business ownership.

Restricted access to attractive salaried employment, agrees Min Zhou, is a widespread problem afflicting many well educated Asian immigrants: "lack of English, transferable education and work skills, lack of access to employment networks in the larger society, and racial prejudice and discrimination, often block immigrant workers from entering the labor market of the mainstream economy" (2004b, p. 52). These are the barriers pushing many college-educated immigrants toward small business ownership. Elaborating on these factors, Waldinger et al. observe, "The cultural resources that Koreans bring with them into business are a high level of education, prior exposure to the American standard of living, and a commitment to permanent settlement in the United States. But as middle-aged immigrants with poor facility in English, many Koreans find it difficult to enter white-collar occupations; hence, business has emerged as an alternative path to upward mobility" (2006, p. 72). Raijman and Tienda (2003) report that less than five percent of the surveyed Korean-immigrant business owners in Chicago's Little Village (predominantly Mexican American) neighborhood rated their English fluency as highly proficient.

In his study of Korean-owned businesses in Atlanta, Min (1984) asked immigrant owners whether they felt they were discriminated against either while seeking employment or while employed, and whether this discrimination had been their primary motivation for pursuing an entrepreneurship alternative. While most indeed felt they had experienced employment discrimination, this reality was in fact not their primary reason for becoming self employed. Rather than discrimination per se, most cited limited English language fluency as their greater handicap in their struggle for managerial or professional employment. Although nearly 70 percent of the Korean business owners surveyed by Min completed four or more years of college and "more than 90 percent of those employed in Korea held white-collar occupations" (1984, p. 346), only 17 percent could find white-collar jobs in the United States. Among the few finding white-collar employment prior to becoming self employed, "two-thirds worked as clerks or managers for Korean run stores" (Min, 1984, p. 346). Frustrated by their paucity of attractive employment opportunities, these individuals were "status inconsistent," defined as a state of high education and expectations coexisting with low income or occupation. This inconsistency, in turn, was resolved by pursuing self employment. Thus, small-firm ownership emerged from situational constraints encountered by frustrated and talented recent immigrants facing exclusion from prestigious occupations in the U.S. labor market. By default, small business ownership emerged as a popular career path, not primarily because of entrepreneurial inclination but because it offered the best prospect of alleviating status inconsistency and making a living (Min, 1984).

When asked about their reasons for starting their own business, 90.6 percent of the Korean owners surveyed by Min agreed with the statement, "I think that running a business of one's own is one of the best ways an immigrant can make a living, because an immigrant has so many disadvantages in the job market"; 73.0 percent of these same owners agreed that "I decided to go into business because I could not earn enough money in other jobs" (Min, 1984, p. 345).

4.2.2 Opportunity Structures

What kinds of opportunities are available to immigrant minorities — particularly those lacking English language fluency — establishing small businesses in the United States? Opportunities were initially most readily available in the neighborhoods where co-ethnics were residentially concentrated. Popular market niches among immigrant minority entrepreneurs were low-profit, labor-intensive lines of business where entry barriers were low. The co-ethnic community itself was an obvious choice because, as Zhou notes, this community "provides a demand for goods and services that immigrant businesses are uniquely qualified to provide, because immigrant businessmen knew the tastes and buying preferences brought from their homelands" (2004a, p. 40). Intensely competitive fields that natives were tending to vacate offered additional opportunities. In Miami, at the start, most Cuban enterprises were gas stations; then came grocery stores, restaurants, and consumer service providers.

Yet co-ethnic residential areas offered only limited prospects for developing a vibrant community of immigrant-owned businesses because the ethnic target market itself quickly became an obstacle to growth. This ethnic market "can support only a restricted number of businesses because it is quantitatively small and because the ethnic population is too impoverished to provide sufficient buying power. Because exclusion from job opportunities leads many immigrants to seek out business opportunities, business conditions in the ethnic market tend toward a proliferation of small units, over competition, and a high failure rate, with surviving businesses generating scanty returns for their owners" (Waldinger et al., 2006, p. 23). The immigrant minority business limiting itself solely to the co-ethnic market is thus limiting its growth potential.

The limited potential of the co-ethnic enclave market niche is widely recognized. Kwong, for example, described New York City's Chinatown as a saturated market: "Many clothing stores, restaurants, and other businesses have hardly any business, yet they all continue to operate, forcing other firms to engage in suicidal competition and driving some out of business altogether" (1987, p. 47). Yet when ethnic firms proliferate, the size and diversity of the concentrated business community may attract customers from outside the neighborhood; agglomeration economies may develop, creating a regional ethnic shopping center and perhaps even a tourist destination (Zhou and Cho, 2010).

Nonetheless, the growing minority immigrant business community most often spilled out into surrounding neighborhoods, seeking to secure additional clients. Underserved markets in economically depressed inner-city areas were the next target. Thus, many urban African-American and Latino communities experienced rapid expansions Korean-, Chinese-, and other Asian immigrant-owned business ventures. Low-income African-American inner-city residential areas, observe Waldinger et al. (2006), are particularly underserved by major retail chains. In the Chicago neighborhood of North Lawndale, for example, only one supermarket serves a largely black population of over 60,000 residents. Thriving in this environment of minimal competition, North Lawndale has experienced an influx of immigrant merchants. Although Korean merchants often serve co-ethnic and white clients, notes Min, "they depend heavily on low-income minority customers, particularly Blacks" (1996, p. 65). Predominantly white residential areas, Min continues, "have plenty of chain supermarkets and do not need small grocery stores. Few chain grocery stores exist, however, in low-income African American neighborhoods" (1996, p. 67).

Based upon his surveys of Korean merchants in Atlanta and New York City, Min claims that most attribute their business advantages in inner-city neighborhoods to the shopping patterns of their clients: black customers "less choosy in selecting items" . . . and "less sensitive to prices than White customers" (1996, p. 69). In light of the apparent attractiveness of the underserved inner-city retail market niche, Ivan Light's issue arises: why don't black merchants have a larger presence in these inner-city retailing niches? "Few Black college graduates would be willing to establish businesses in these neighborhoods, because they would be able to find better employment in the general labor market" (Min, 1996, p. 103).

This essential, often overlooked point emphasizes the role played by the situational constraints facing highly educated Asian immigrant entrepreneurs who run mom-and-pop retail stores in inner-city areas. Blocked mobility — what economists refer to as low opportunity costs — explains both the proliferation of these immigrant-owned enterprises and the fact that they frequently exit this market niche when the applicable situational constraints ease (Bates, 1997b; Min, 2008). The same situational-constraint reasoning explains, as well, why neither immigrant entrepreneurship in general nor Korean entrepreneurship in particular have reduced entrepreneurship among African Americans (Boyd, 1990; Min, 1996).

In large U.S. cities, a process of "occupational succession" among major immigrant white ethnic groups previously dominant in the small-firm retail sector opened up business-ownership opportunities for immigrant minority entrepreneurs. "The children of Jewish and Italian merchants are now moving into higher management or the professions, and therefore, Koreans have access to ownership by replacing these older merchant groups" (Waldinger et al., 2006, p. 72). In New York, note Waldinger et al. (2006), "Korean grocery store owners have taken over from Jewish or Italian proprietors who were just too old, tired, and scared of crime to keep minding their stores" (p. 30). Among established businesses, European ethnic-group owners approaching retirement age in the latter 20th century commonly found that no family members were interested in taking over firm ownership. Particularly in inner-city minority neighborhoods, "Korean immigrants are able to buy shops from white minority shopkeepers, especially Jews, because second- or third-generation children of these older immigrants have already entered the mainstream of the American occupational structure, and so they are reluctant to take over their parents' business" (Kim, 1981, p. 111).

An important aspect of this succession pattern is captured by noting the kinds of firms older entrepreneurial groups sold to newcomers and the kinds they kept for themselves: the most competitive, least profitable fields were abandoned but the higher profit lines of business protected by higher entry barriers were often retained by traditional European ethnic entrepreneurs. Although "grocery store ownership has passed from Jews and Italians to Koreans, the wholesalers and food processors that supply these new ethnic concerns remain almost wholly dominated by older ethnic groups" (Waldinger, 1986, p. 30).

4.2.3 Mobilizing the Necessary Resources to Create Viable Firms

Not everyone can start a business. Beyond identifying product market niches in which firm creation is feasible, one must have access to startup capital and possess appropriate skills for operating a new venture. "Researchers have emphasized class and ethnic resources as two major contributing factors to immigrants' successfully establishing and operating businesses. Koreans are well represented in entrepreneurship in part because they have these advantages" (Min, 2008, p. 34). Specific challenges commonly encountered by minority entrepreneurs considering establishing small businesses include: (1) obtaining accurate information about applicable laws and permits, (2) choosing a viable product-market niche into which to set up a firm, (3) identifying reliable suppliers, (4) obtaining startup capital, (5) acquiring the specific skills needed to run a successful business, (6) recruiting, training, and managing efficient, honest, and cheap workers, (7) developing and maintaining good relationships with customers and suppliers, and (8) numerous others.

Immigrant Korean, Chinese, Cuban and other immigrant minority entrepreneurs forming businesses in the United States in recent decades have most often been highly educated and experienced managers and professionals in their countries of origin, yet most lacked hands-on experience actually running small firms prior to their decision to start a new venture. Few arrived with skills that were specific to the line of business they ultimately chose to enter. A common adoptive strategy has been to work as an employee — as a clerk or manager — in the small business of a co-ethnic after arriving in the United States, thus learning appropriate managerial and marketing techniques and myriad other details before going out on their own. "Newcomers take up work in immigrant firms, and workers who have gained skills and experience working for co-ethnic owners set up a new business of their own" (Bailey and Waldinger, 1991, p. 443).

Despite the obvious utility of this adoptive strategy, a downside was the tendency to replicate exactly the type of business where one had acquired hands-on operating experience. Thus, Chinese immigrants often opened restaurants and Koreans started food stores. Logan and Alba (1999) estimated that Koreans in New York City in 1990 were 21.8 times more likely than business owners of other groups (defined by race/ethnicity) to own food stores, while Chinese were 7.5 times more likely to own restaurants. These concentrations did not appear to be rooted in comparative advantage considerations, nor did they produce attractive returns to self employment.

Broadly stated, potential immigrant entrepreneurs surmount many of the specific challenges to new venture creation by relying upon applicable social resources made available by the supportive co-ethnic networks in which they are embedded. Indeed, they are often motivated to embed themselves deeply into these supportive networks precisely because doing so is a pragmatic strategy for overcoming the barriers they face in their attempts to create viable businesses. Yet a consequence of this commonplace de facto apprenticeship process is the pronounced concentration of firms owned by minority immigrants in certain narrow product-market niches. Work experience in the grocery business is most logically applied by opening a grocery store; immigrants experienced as managers of restaurants tend to open restaurants. Similarly, skilled construction workers adapt to American construction techniques by working in U.S. construction firms prior to launching their own construction businesses.

A predictable pattern of ethnic concentration in narrow industry niches emerges: Korean immigrants most often own grocery stores;

Chinese concentrate in the restaurant niche; Asian Indians often purchase motels; Mexican immigrants set up construction firms, and so forth. "The concentration of certain ethnic groups in particular market niches of successful pioneers may lead to the entry and successful performance of later arrivals. The referral of kin and co-ethnics for these established ethnic businesses, in turn, strengthens intangible ethnic networks and builds a wall around the ethnic labor market against the entry of outsiders" (Zhou, 2004b, p. 41). Once an ethnic market niche is in place, the further concentration of additional small-business entrants in the same narrow field grows as a self-feeding process (Bailey and Waldinger, 1991).

Raising sufficient capital to finance venture startup is another challenge to be overcome, although this task is greatly eased for entrepreneurs attached to high net-worth households. Among Asian immigrants considering small-firm ownership, this has often been the case. Sanders and Nee (1996) observe that "education is positively associated with class advantage in the home country. Immigrant groups of middle-class or elite origins have greater access to financial capital." Beyond household net worth, class advantage facilitates raising capital from parents and relatives, and it impacts one's ability to qualify for loans from co-ethnic lending institutions.

Table 4.5 statistics summarize U.S. Census Bureau CBO data describing startup capital used by four groups of Asian immigrant entrepreneurs to launch new businesses. These groups — (1) Asian Indians, (2) Chinese, (3) Korean, and (4) Vietnamese — were chosen both because of their numerical importance in the entrepreneurship universe and their diverse class backgrounds. Using college-graduate status as

Table 4.5. U.S. Firms owned by Asian immigrants: Traits of key owner subgroups (includes firms started since 1979 only).

	Asian Indian	Chinese	Korean	Vietnamese
Percent college graduates	80.4%	53.9%	52.3%	26.4%
Dollar amount of startup capital	$68,013	$61,521	$52,146	$25,626
% of startup capital funded by borrowings	50.3%	46.0%	43.6%	52.4%

Source: U.S. Census Bureau CBO database.

a proxy for class background, Asian Indians ranked highest — 80.4 percent of those establishing new firms since 1979 were college graduates — and Vietnamese ranked lowest — 26.4 percent were college graduates (Table 4.5). Average startup capital deployed by Vietnamese was \$25,626; the corresponding figure for Asian Indians was \$68,013, over 165 percent greater than the capitalization of Vietnamese startups (Bates, 1997b). Consistent with Sanders and Nee's observation (1996), a higher incidence of college graduates starting firms corresponded in every case to a higher mean initial firm capitalization.

Capital requirements for new firms vary substantially based upon the type of venture being formed. While firms established in popular services fields — professional services, personal services, and business services — often begin with small capital investments, requirements for creating viable retail firms are higher, reflecting the need for substantial investment in inventory, fixtures, and equipment (Bates, 1997b). Sociologists frequently emphasize that college-graduate immigrants lacking English fluency are limited to a few lines of business — retailing is in fact most common and personal services ranks second — while those fluent in English are most overrepresented in skill-intensive industries offering higher monetary returns. This pattern of industry concentration indeed typifies Asian-immigrant-owned startups (Bates, 1997b). Census data describing the four most numerous types of firms established by three groups — (1) higher English fluency (Asian Indian and Filipino), (2) lower English fluency (Korean and Chinese), and (3) comparison (nonminority whites) — reveal that Korean- and Chinese-owned startups are concentrated in retail (including restaurants) while Asian Indians and Filipinos are most concentrated in professional services (Table 4.6). This is important because capital requirements are particularly high in retailing: among Korean and Chinese immigrant owners, average retail startup investment nationwide was over \$70,000 (Bates, 1997b).

Relative to all small-firm startups owned by whites, Korean and Chinese immigrant startups have far larger initial investments — under \$32,000 for whites versus \$57,000+ for Korean and Chinese (Table 4.7). This high capitalization figure is skewed by the large investments required by retail startups (Bates, 1997a). Table 4.7 statistics, drawn

Table 4.6. Types of business most often started by key owner subgroups (includes firms started since 1979 only).

	Asian Indian and Filipino (%)	Korean and Chinese (%)	Nonminority white (%)
Retail	17.8	40.5	16.4
Personal services	2.7	12.4	6.8
Professional services	27.4	8.8	10.4
Business services	13.2	9.0	12.0

Source: U.S. Census Bureau CBO database.

Table 4.7. Startup capital: Dollar amounts and sources used by key owner subgroups.

	Immigrant Korean and Chinese	Nonminority white
1. Types of capital		
Equity (mean)	$31,472	$14,274
Debt (mean)	$25,719	$17,744
2. Debt sources used by borrowers (%)		
Financial institution	37.4%	65.9%
Family	41.2%	26.8%
3. Loan size by source (mean)		
Financial institution	$75,276	$56,784
Family	$34,787	$35,446
4. Leverage by source (mean)		
Financial institution	1.43	3.25
Family	1.16	2.32

Source: U.S. Census Bureau CBO database.

from census data, spell out the major sources (and dollar amounts by source) of startup capital. Relative to whites, Korean- and Chinese-owned startups rely more heavily on owner equity (as opposed to debt) capital, nearly all of which comes from household net worth. Yet the average startup also invests over $25,000 in borrowed capital (versus under $18,000 among whites) and the two major sources of this debt for Chinese and Korean owners are family and financial institutions. Whites borrowing to establish new firms rely heavily upon banks, yet over 37 percent of the Chinese/Korean borrowers also use bank loans. Particularly noteworthy is the fact that the latter group has less success leveraging its equity investment than the former: among bank borrowers specifically, the average white loan recipient gets $3.25 per dollar of equity investment while the average Chinese/Korean borrower gets \$1.43.

This lengthy digression detailing sources and dollar amounts of startup capital is necessary, in part, because the sociological scholarly literature lacks comprehensive examinations of firm financing patterns. One unfortunate result is a body of fragmented, inconsistent findings about new-venture startup financing and a misplaced emphasis upon reliance on loans from RCAs. "Obtaining loan capital poses an obstacle for all small business ventures, but the problem is especially severe for immigrant or ethnic minority entrepreneurs, who lack credit ratings, collateral, or are victims of ethno-racial discrimination. RCAs reduce the severity of this financial obstacle" (Light et al., 1990, p. 35).

There is a spectrum of borrowing sources, and RCAs are part of that spectrum: stronger borrowers rely heavily upon banks for business financing while weaker borrowers rely most often on personal credit-card balances, small loans from family and friends, as well RCAs. Absent such informal loan sources as family, friends, and RCAs, many weaker firms undoubtedly never would have come into existence.

4.3 Entry: Concluding Comments

Many social scientists observe that racial discrimination in the labor market leads to increased pursuit of entrepreneurship among minorities since self employment potentially provides an escape route from employer discrimination (Moore, 1983; Sowell, 1981; Light, 1972). Although this proposition clearly applies to well educated and skilled persons owning resources, those lacking wealth and human capital — those most vulnerable to employer discrimination — also have fewer opportunities to escape the costs imposed by discrimination by becoming self employed. Empirical studies of minority business startup most often indicate that small-business entrants are forthcoming not primarily from the weaker pool of potential entrants having the fewest employment opportunities but from the ranks of the more highly educated, skilled, affluent candidates. Absent strong educational credentials, compensating skills appropriate for certain types of self-employment, such as skilled construction trades, may suffice. Fairlie and Meyer (1996) document that the more advantaged racial/ethnic groups — not the disadvantaged — are the ones most often pursuing self employment. Establishing a viable business requires skills and resources.

Racial discrimination, furthermore, does not restrict itself to the labor market. Discriminatory barriers limit opportunities for minorities to pursue self employment in many ways. Switching from employee to entrepreneur status does not assure one of escaping racial discrimination's constraints. In construction, for example, prime contractors control access to most large-scale projects; a consequence of this is limited opportunities for minority business ventures. Frequent inability of minority-owned construction firms to penetrate entrenched old-boy networks blocks their access to attractive subcontracting jobs (Bates and Howell, 1998; Waldinger and Bailey, 1991).

Lending discrimination complicates the task of minority entrepreneurs seeking to assemble sufficient capital to launch viable ventures. The presence of multiple barriers discourages some potential entrepreneurs from actually creating new firms, while others proceed even though they are restricted to unattractive market niches and lack key resources needed to compete successfully. A common outcome is overly small, less viable firms, many of which close within a few years (Bates, 1997b). Understanding the firm creation process is only a first step toward comprehending minority entrepreneurship dynamics. The next step entails exploring the barriers limiting success of existing firms.

5

Barriers Restricting the Size and Scope of the Minority Business Community

Although a lessening of discriminatory barriers in recent decades has opened up new opportunities, the prevailing scholarly consensus is that minority access to financing, product markets, educational and training opportunities and applicable work experience continues to lag behind the access enjoyed by white small-firm owners. The expanding size and scope of the minority business community since the 1970s has nonetheless been rooted most directly in the human-capital gains — the strong educational credentials, skills, and work experience — of minority business owners. MBEs are increasing owned and operated by immigrants arriving in the United States with strong educational backgrounds and/or a variety of skills acquired elsewhere that facilitate venture success. Possession of impressive human-capital credentials, in turn, has facilitated (1) gaining access to business financing and (2) achieving entry into high-barrier lines of business where minority presence historically has been minimal. While arrivals from South Korea and Chinese population centers (mainland China, Taiwan, and elsewhere) have been most often studied, immigrants pursuing entrepreneurship after migrating from Cuba, Mexico, India, and other nations have also received attention. The literature analyzing discriminatory barriers impeding

MBE progress is, in part, an analysis of the complications immigrant entrepreneurs face as they adapt to life in the United States.

5.1 Access to Financial Capital

In 1992, the Roper Organization polled 472 black-business owners nationwide to gauge how they viewed their own firms, as well as black businesses generally. Asked why there were so few black-owned firms, 84 percent responded, "black-owned businesses are impeded by lack of access to financing" (Carlson, 1992, R 16). Recall that Professor Pierce, in his path-breaking 1944 survey asked business owners to rank the most important obstacles to progressive business operation among blacks: limited access to financial capital was cited most often (1947).

Scholars studying bank lending discrimination using the Federal Reserve's SSBF have consistently found black-business borrowers pay higher interest rates and experience a higher incidence of loan denials than white-business borrowers, and these differences persist after firm and owner traits (including measures of credit worthiness) are controlled for statistically (Cavalluzzo and Wolken, 2005; Blanchflower et al., 2003; Blanchard et al., 2008; Bostic and Lampani, 1999). The evidence of significantly higher rates of bank loan denials handicapping Hispanic business owners is somewhat weaker, perhaps because of smaller Hispanic SSBF sample sizes. Finally, both black- and Hispanic-owned business ventures needing credit often reported not applying for bank financing, fearing their loan applications would be rejected (Blanchflower et al., 2003).

The arrival of SSBF data provided a variety of advantages, relative to the data used in earlier studies investigating MBE loan approval patterns and loan terms. Comprehensive measures of loan demand forthcoming from small firms having minority owners were previously unavailable. SSBF data describing 4,570 firms operating in 1993 included 431 black-, 301 Hispanic-, and 303 Asian-owned firms. Of these, just over 2,000 sought loans, and loan application outcomes were provided both for successful and rejected applicants. The Fed's periodic SSBF surveys describe firms that sought loans over the three previous years. Despite minority oversampling, subsamples of Asian and Latino borrowers were small. The major issue addressed by studies analyzing SSBF data concerned outcomes of the loan applications of MBEs.

Firms in the SSBF database represent an older, more established, larger-scale subset of the nation's small business community: median age among the firms in the 1993 SSBF was 14.3 years; 4.1 percent had been in operation for less than three years (Cavalluzzo et al., 1999; Blanchflower et al., 2003). Among such established firms, financing comes predominantly from financial institutions. Nationwide, the median age of minority-owned firms is seven years, according to census data. Many of the minority-owned businesses most vulnerable to loan access difficulties were dead and gone before they were sufficiently mature to be likely candidates for inclusion in the SSBF database (Immergluck, 2004; Bates, 1999). The SSBF is thus not an appropriate database for investigating the credit access constraints facing young minority-owned businesses.

The fact that black-owned firms had less access to financing than whites is well established and not controversial (Pierce, 1947; Bates, 1973b, 1997b). The issue stressed most by studies using SSBF data was summarized by Cavalluzzo et al. (1999, p. 189): "Businesses owned by African Americans were two-and one-half times as likely to be denied credit on their most recent loan request than were businesses owned by white males." The key question is whether black-owned firms possessing identical firm and owner traits (other than race) and credit histories have less access to bank credit than matched white-owned firms. Studies based upon the SSBF data unanimously answered this question affirmatively (Cavalluzzo et al., 1999; Blanchflower et al., 2003; Cavalluzzo and Wolken, 2005; Bostic and Lampani, 1999; Blanchard et al., 2008; Blanchflower, 2009).

SSBF studies have also expanded our knowledge of borrowing patterns among Asian- and Hispanic-owned small firms. Cavalluzzo et al. (1999) noted the higher rejection rates experienced by Asian small-business owners, who were 12.7 percent more likely than white males to be denied credit. Yet, this racial trait was not a statistically significant determinant of loan application acceptance when firm and owner traits and risk factors were controlled for. A greater likelihood of loan denial among Hispanic small-business applicants was reported by

Cavalluzzo and Wolken (2005), and this pattern persisted when borrower risk factors were controlled for statistically. Blanchard et al. (2008) and Blanchflower (2009) similarly found that Hispanic loan applicants, after controlling for risk factors, were more likely than white males to have their loan applications turned down by banks. Fed employees Bostic and Lampani (1999), in contrast, found no pattern of higher rejection rates for Hispanic applicants. Common findings across all studies utilizing SSBF data are twofold. First, financial institutions are extraordinarily important sources of credit for small businesses, accounting for over 90 percent of the debt financing flowing to these firms, whether minority or majority owned. Second, black-owned firms have significantly less access to that debt financing than firms owned by white males.

Fairlie and Robb (2009) provide a broad overview of financing patterns impacting the 4,200 plus firms included in the 2003 round of the SSBF. Among these established, typically large-scale small businesses, mean annual sales figures for the surveyed firms indicate that minority- and nonminority-owned small firms were roughly equal in size, the former reporting sales of \$992,200, versus mean sales of \$1,043,200 for the nonminority ventures. Overall denial rates among loan applicants for these two business groups were 12.3 percent for nonminorities and 31.5 percent among minority-owned businesses. Over the three-year time frame covered by the SSBF data, 23.6 percent of the minorities and 31.9 percent of the nonminority firms were loan recipients in a typical year; amount borrowed by the average recipient was \$341,400 for nonminorities and \$197,100 among minorities.

Few received new equity investments in any given year — 5.7 percent of the nonminority firms and 5.1 percent of the minorities — and the source of this new equity was nearly always the firm owners themselves (Fairlie and Robb, 2009). Among the recipients of new equity capital in a typical year, average amounts received were \$316,000 for nonminorities and \$136,000 for MBEs. These overview data are presented not as documentation of possible discriminatory access to capital but to highlight how severely established minority-owned ventures, on average, lag behind nonminority firms of comparable size in terms of new capital actually raised over the three-year period described by the SSBF data.

Among the SSBF firms expressing a need for credit, fully half reported not applying for loans sometimes in the previous three years because they feared rejection. These "fear" rates ranged from nearly 50 percent (whites) to over 60 percent among Asians and Hispanics, and over 80 percent for blacks. After controlling statistically for firm characteristics, credit histories of firms and their owners, and credit scores, blacks were still 37 percent more likely and Hispanics were 23 percent more likely than white males to avoid applying for fear of rejection (Cavalluzzo et al., 1999). Applying different corrections to control for the presumed greater credit risks posed by MBEs needing — but not applying for — credit, Blanchflower et al. (2003), found remaining gaps of 26 and 15 percentage points, respectively, for blacks and Hispanics (relative to white males). Controlling statistically for firm and owner characteristics, including credit history, Asian businesses actually expressed the highest need for credit — higher than blacks, Hispanics, and whites — a finding that was statistically significant (Cavalluzzo et al., 1999). Yet this intense need coexisted with an apparent alienation toward banks, reflected by Asians being less likely than others to actually apply for loans. Fear of rejection, high credit needs coexisting with bank avoidance — it is against this background that one must interpret outcomes of the loan applications actually formally submitted by Asian-, Hispanic-, and black-owned businesses.

The SSBF-based studies described above are methodologically similar in the sense that all controlled statistically for differences in traits of business owners, their firms, their credit histories, and the environments in which they operated: well over 100 explanatory variables in total were utilized. In the various statistical models explaining loan denial by banks, the one constant finding was that being black, other things equal, was associated with having one's loan application rejected. From the starting point of a 65.9 percent black loan-denial rate, for example, Blanchflower et al. (2003) found that the high denial rate could be partially explained by a number of factors other than race of borrower, particularly the weaker credit histories of black firms. After including their "extensive list of control variables," Blanchflower et al. (2003) concluded that black loan applicants were still 25 percentage points more likely to be rejected than white males, an enormous differential.

SSBF data analyzed by Blanchflower et al. (2003), Cavalluzzo et al. (1999), Cavalluzzo and Wolken (2005), and others suggested an overwhelming dominance of loans from financial institutions in the realm of small business borrowing. While Table 4.3 data describing debt sources used by nonminority white, Asian immigrant, and African American firm owners nationwide are broadly consistent with this characterization, additional important debt sources for small firms — family and friends — are apparent when the focus is solely upon startups owned by minorities. Furthermore, scholars studying particularly marginal groups of MBEs frequently find that few borrow from banks; instead, a heavy reliance upon informal sources of credit — friends, family, RCA and others — typifies minority-business borrowers.

A prominent example is a group of studies examining types of financing used by small neighborhood firms operating in two low-income Chicago neighborhoods — Little Village (predominantly Hispanic) and Chatham (black). Study findings indicate "Credit from financial institutions is little used in the startup phase" (Huck et al., 1999, p. 485; see, also, Townsend, 2005; Raijman and Teinda, 2000). Personal savings of business owners and loans from informal sources — particularly family and friends — provided most of the startup capital used by these firms, most of which were minority-owned. Evidence forthcoming from numerous studies of MBE financing collectively indicates that debt financing is provided overwhelmingly by financial institutions at one extreme of the credit spectrum, and by informal sources at the other. Reconciling these diverse findings points toward the presence of a credit-access continuum. At the high end lie the business loans extended by financial institutions; lower down are consumer credit — particularly personal credit card — borrowings, loans from family, friends, and other informal sources (Bates, 2005b).

The studies of business financing in Little Village and Chatham are valuable precisely because they describe startup capitalization sources used by the kinds of firms ignored by the SSBF — marginal inner-city firms owned primarily by minorities (Huck et al., 1999; Raijman and

Tienda, 2000). These Chicago studies, however, were not representative of minority firms operating nationwide. Nor did they capture minority firms operating outside of minority neighborhoods. Relative to the nationwide minority business community, in other words, those examined in the Chicago studies — particularly the Hispanic-owned firms of little Village — were a "disadvantaged" subset of firms.

As one examines subsets of increasingly disadvantaged firms owned by minorities, the composition of borrowing sources changes predictably. Family and friends (informal credit sources) become common loan sources; business loans extended by financial institutions become less common. If loans from financial institutions are tapped at all, they are likely to be credit card balances. Townsend describes patterns of informal network reliance for fulfilling borrowing needs in Chicago's largest Hispanic community — Little Village — thusly, "The networks among Hispanics are lively and informal, with relatively small transaction costs. Yet, higher income, greater English proficiency, house ownership, and use of services outside the neighborhood are associated with increased access to the formal sector and diminished use of networks" (2005, p. 181).

Traits that sort firms along the formal/informal credit continuum include (1) startup status versus established firms, (2) nonminority- versus minority-owned firms, (3) minority firms operating in minority neighborhoods versus those doing business outside of minority neighborhoods, (4) resource-poor (renters) versus resource-rich (home owners) business owners, and (5) higher income (particularly college-graduates) versus lower income business owners. Broadly, the more advantaged firms tap mainstream borrowing sources; disadvantaged firms rely on informal sources (Bates, 2005b).

Scholars reviewing the totality of evidence regarding MBE access to debt financing — Holzer and Neumark (2000), for example — conclude that banks are engaged in discriminatory lending practices. Suggesting that existing evidence documents the presence of discriminatory lending practices among banks is met by strong objections from the Board of Governors of the Federal Reserve System and its professional staff. According to Fed economists Bostic and Lampani, although the SSBF database "is the most comprehensive data set on the demographic and financial characteristics of small businesses, there are still firm characteristics that are not collected by the survey. These missing variables may be relevant to a potential lender in assessing the expected profit and risk of a loan to small business" (1999, p. 162). The particular contribution of Bostic and Lampani to the body of findings emerging from SSBF studies of loan application outcomes is that "our results show that the economic and demographic characteristics of a firm's local geography should be considered if a more accurate quantification of these racial disparities and understanding of their underlying sources is desired" (1999, pp. 269–270).

Bostic and Lampani (1999) investigated loan denial patterns among small business borrowers, using 102 explanatory variables drawn from SSBF data, including 29 business characteristics, 15 owner traits, 20 most-recent-loan-application characteristics, and finally, 53 banking market and local geographic characteristics. They concluded that black loan applicants were rejected disproportionately, in part, because their firms were often located in economically depressed African-American residential areas: banks were averse to lending to firms located in low-income black neighborhoods. What Bostic and Lampani had done, in fact, was to conduct an empirical test of the classic Stiglitz and Weiss (1981) theoretical explanation of why banks redline minority communities, and their empirical findings — consistent with Stiglitz and Weiss — indeed documented bank aversion to lending in such geographic areas.

Bostic and Lampani, by adding measures of neighborhood racial composition and economic deprivation to their list of explanatory variables, provided little insight into actual small-business credit risk patterns for a very basic reason. The impacts of such factors had already been embedded in the balance sheets, credit histories, and income statements of the established small businesses located in inner-city minority communities. When firm location in a low-income inner-city neighborhood creates a net disadvantage for a business, that disadvantage manifests itself in the form of increased operating costs or reduced sales, or both. Lower sales and, or increased costs rooted in locational disadvantages, in turn, are reflected in the net income statement and credit history of the impacted business in two forms — low profits and a history of credit problems. Over time, reduced profits reshape the firm's balance sheet, hurting liquidity and net worth relative to firms not suffering locational disadvantages. Thus, a firm's credit history, balance sheet, and profits accurately reflect applicable locational disadvantages impacting its operations. That is why bank loan applications collect information on these traits rather than neighborhood poverty rates.

Nonetheless, Bostic and Lampani (1999) are correct to observe that conclusions of individual studies of black/white loan access do not produce decisive proof of discriminatory bank lending practices. Each relevant study of credit demand, loan application outcomes, and small-firm borrowing patterns — whether based on SSBF, CBO, CRA, or other data sources — has its own peculiarities, rooted in differing methodologies and databases that imperfectly represent the broader small business universe. Findings of these diverse studies collectively gain credibility, however, because (1) they were conducted at various points in time, (2) they analyzed databases from diverse sources, and (3) despite their methodological differences, a pattern of extremely consistent findings demonstrates large and persistent black/white gaps in access to small-business financing (Bates, 1999).

Surveys like the SSBF will never generate perfect data, nor will prevailing research methodologies permit all interested parties to reach precise agreement on the exact nature and magnitude of black/white credit disparities. Disagreement will remain but that is not important. Those choosing to ignore the large and diverse body of existing evidence consistently demonstrating major disparities in credit access for black- (as opposed to white-) owned businesses because the existence of those disparities is unproven — are choosing to ignore systematic evidence of discriminatory outcomes. Bostic and Lampani, whose 1999 study (like all other SSBF-based studies) found large, statistically significant disparities in black/white loan approvals after controlling for risk factors, neighborhood racial composition, and neighborhood characteristics, are effectively declaring that no body of evidence can demonstrate the presence of lending discrimination.

Fed chairman Greenspan's assessment of the consistent pattern of SSBF findings of black/white loan approval disparities was more conventional: "Not all of these differences are readily explained by income, balance sheet factors, or credit histories, although considerably more work needs to be done to take account of possible factors not included in the studies to date" (1999, p. 43). Subsequently, the Fed eliminated its oversampling of MBEs in the 2003 SSBF survey round; then it abolished the SSBF survey entirely and provided no substitute database capable of supporting the avenues of research made possible by SSBF data. Thus, Greenspan's suggested "considerably more work" has not been forthcoming. Absent the SSBF survey data, no other data source — Fed, U.S. Census Bureau, or otherwise — provides the data needed to investigate either inner-city business lending risks or bank lending to minority businesses. Former Fed economist Alicia Robb, who was assigned to the SSBF database project, observed that "inner-city credit availability and discrimination in business lending appear not to be priorities for the Federal Reserve" (Bates, 2010, p. 359). Predictably, "Neither the Department of Justice nor the bank regulators have been active in actually enforcing fair lending laws in the small business arena" (Immergluck, 2004, p. 198).

Prior to the Fed's decision to discontinue the SSBF survey, the U.S. Census Bureau dropped its traditional inclusion of sources and dollar amounts of debt financing used by minority (and nonminority) business owners to fund startup of their business ventures. These detailed data, describing small-firm startup debt and equity financing for large, nationally representative business samples, were last reported in the 1992 round of the CBO database.

Kauffman Firm Survey (KFS) data currently provide the only nationally representative scientifically designed database containing firm-specific information on dollar amounts and sources of debt and equity capital actually being used by minority-owned firms and a large comparison group of nonminority-owned ventures. KFS data track firms that started operations in 2004 and their particular strength is inclusion of annual follow-up information on new equity and debt capital raised by individual firms in years subsequent to startup. Fairlie and Robb (2009) provide an initial snapshot of subsequent capital raised annually over the 2005 through 2007 period for MBE and nonminority ventures started in 2004. Sample size constraints limited their ability to disaggregate MBEs into conventional subgroups — Asian, African American, and Latino — for analysis purposes.

Examining subsequent capital inflows for 2004 startups still in operation in 2007, Fairlie and Robb (2009) found that 51.8 percent of nonminorities and 48.2 percent of MBEs raised new debt capital from external sources (banks most often) in a typical year; among the actual loan recipients, average loan amounts were $48,900 for nonminority firms and $28,600 for MBEs. These loan size differentials exhibit the same patterns — larger loans for white owners, smaller loans for minorities — displayed in SSBF loan data (discussed above) describing larger, more established firms.

Community Reinvestment Act (CRA) data describing bank geographic lending patterns do still exist but these data (unlike the SSBF and the CBO) do not specifically identify either the race or ethnicity of individual business owners, nor do they identify traits of individual borrowing firms. Immergluck (1999) used CRA data to analyze bank-lending patterns in several large metropolitan areas, and he has consistently found that small firms operating in nonminority white areas had greater access to bank loans than firms doing business in minority communities.

His analysis of bank lending, by census tract racial composition, to firms with annual sales under $1 million in the Philadelphia metropolitan area revealed that firms in predominantly white census tracts received, on average, 11.0 loans per 100 active businesses, while those located in black census tracts received 1.2 loans per 100 active small businesses. Controlling statistically for median family income, average business credit score, and other characteristics at the tract level, he found that going from an all-white neighborhood to an all-black neighborhood resulted in a drop of 6.8 loans per 100 small businesses. One deficiency of the CRA data analyzed by Immergluck was the absence of firm borrowings in the form of credit-card balances.

More comprehensive CRA data describing geographic patterns of bank lending (including credit-card balances) to small businesses in the Chicago area were analyzed by Smith (2003) to determine if loan availability in predominantly minority neighborhoods differed from availability in the rest of the region. Black- and Hispanic-owned firms, predictably, are heavily concentrated geographically in Chicago's minority neighborhoods. Within this metro area, loans were least available in Cook county, and within this county, small-business loan availability was lowest the City of Chicago. Smith disaggregated the City of Chicago into 77 distinct neighborhoods and examined loan availability, relative to the number of small businesses in operation. Comparing, for each neighborhood, the racial composition and average household income of local residents, Smith found that loan availability in lower income and minority areas was far lower, relative to the number of businesses, than in higher income, predominantly white areas. He reported "a greater disparity in lending levels based on minority status of a geography than by income level" (2003, p. 4).

Within Chicago, the areas toward the bottom of the loan availability ranking were all low-income minority neighborhoods (Smith, 2003). The neighborhood ranking 77 in loan availability was Washington Park, a low-income, predominantly African-American residential area, and shorter term, more expensive credit-card debt was predominant among small firm borrowers. Chicago's Hispanic population is less concentrated geographically than black residents, yet, predominantly Hispanic areas do exist, and they ranked well below average regarding loan availability and size. Gage Park (79 percent Hispanic) ranked 70th in loan availability on a per business basis, and average loan size was $17,200 (versus $42,000 in all other City neighborhoods). The prevalent pattern in minority neighborhoods was consistently one of low loan availability coexisting with high levels of credit-card borrowing. These results complement the findings of Bostic and Lampani (1999) discussed above. Available evidence described throughout this monograph consistently indicates that banks are averse to lending to small businesses when these firms are located in inner-city minority neighborhoods.

This indeed is why studies of small-business borrowing in inner-city minority neighborhoods report heavy reliance on informal lending sources rather than loans from financial institutions. Various kinds of co-ethnic lenders are mentioned often in sociological studies of immigrant minority entrepreneurship as financing alternatives to mainstream banks (Waldinger et al., 2006; Light and Bonacich, 1988; Yoon, 1997). An example of the lending practices of one such source of business loans is instructive. Exim Capital, owned by Victor Chun — a Korean immigrant — is an asset-based lender actively making multi-year small-business loans in the \$50,000 to \$150,000 range to a clientele of established New York City Korean immigrant-owned firms. In reviewing loan applications, Exim Capital looks for strong business cash flow, experienced business owners, and tangible collateral: less than one loan application of every 20 submitted is approved. Exim Capital makes loans to "experienced, high net-worth borrowers. Approved loans must be secured by solid collateral so that payment will be forthcoming, whatever the viability of the small business under consideration" (Bates, 2000, p. 229). Typical loans are structured to minimize Exim Capital's default risks: "Exim is first lien holder on the borrowing business and second mortgage holder on the personal residence of its owner; thus, a \$55,000 business loan is with net collateral of \$525,000" (Bates, 2000, p. 230).

Exim's loan recipients are Korean immigrants and sociologists have often suggested that Korean business owners rely on loans from RCAs. The RCA is an informal lender consisting of acquaintances who pool their savings so that association members needing loans will have a pool of available capital from which to borrow (Light et al., 1990). Victor Chun confirmed that RCAs were active in the market he serves, but they offer no competition to Exim because the RCAs emphasize shorter term, more expensive credit: "High local demand for small-business loans creates a situation whereby business people belonging to the rotating credit associations bid against each other for the right to borrow, and this bidding often drives annual interest charges into the 30% to 40% range" (Bates, 2000, p. 230).

The expensive nature of RCA loans is noted by Portes and Sensenbrenner (1993), who describe informal loan operations (financieras) run by Dominicans in New York City: "Capital comes from profits of the drug trade but also from established ethnic firms and savings of workers who obtain higher interest rates in the ethnic finance networks than from formal savings institutions… Money circulates within community networks and is made available to business startups because recipients are fully expected to repay" (p. 1333). Lending patterns are illustrated by the case "we shall call Nicholas" who owns five shops in

New York City. "For finance, he relies exclusively on the informal system in Washington Heights ... As a borrower, he seems to enjoy ample credit. At the time of the interview, Nicholas had two active loans — one for \$125,000 and the other for \$200,000 — only one of which was accompanied by some signed papers. He was paying a monthly interest of 2.6%" (Portes and Sensenbrenner, 1993, p. 1334). At 2.6 percent a month, Nicholas is paying an annualized interest rate of 31.2 percent, within the range noted above by Exim Capital's owner, Victor Chun.

Yoon notes that borrowing from co-ethnics — including RCAs — typifies weaker Korean immigrant-owned firms in Chicago and results in reduced loan sizes (1991). Yet it is not clear that reliance on informal credit sources is necessarily a disadvantage for minority business owners. What is clear is that alternatives to loans from traditional lending institutions are widely needed and frequently utilized by Latino, African American, and Asian-immigrant owners of small businesses.

In recent years, observe Sanders and Nee (1996), "many immigrants from Korea, Taiwan, Hong Kong, and India arrive with substantial financial capital or have family members back home from whom capital can be obtained" (p. 232), and this pattern of self financing is clearly used most often by college-graduate immigrants from elite backgrounds. Yet many other would-be business owners require loans: "We found that Chinese immigrants in Los Angeles obtain high-interest loans from Chinese-owned loan companies" (Sanders and Nee, 1996, p. 232).

Portes and Sensenbrenner (2003) note the importance of character loans: "These loans were made without collateral and were based exclusively on the personal reputation of the recipient" (p. 1334). A common theme is that the kinds of informal lending done by the friends and associates of business owners require that loan recipients be embedded in appropriate supportive co-ethnic networks: "anyone defaulting on such deals would be excluded from the community ... Character loans were backed, therefore, by much more than sentiments of loyalty or a written promise to repay, but by the sanctioning capacity built into the business networks of the enclave" (Portes and Sensenbrenner, 2003, p. 1335).

An interpretation of the evidence describing impacts of informal credit sources on financing availability for Asian-immigrant-owned businesses is put forth in the writings of Ivan Light, who argues that financial-capital access is not a barrier to these businesses. Informal credit arrangements rooted in entrepreneur embeddedness in supportive networks circumvent the problem of limited bank-loan availability (Light, 1972; Light and Bonacich, 1988; Light et al., 1990; Light and Rosenstein, 1995). While there is general agreement in the minority entrepreneurship literature about the importance of informal credit arrangements, Light's position highlights a major area of disagreement. As Sanders and Nee (1996) and others have pointed out, these loans can be quite expensive. Existing studies of business lending by RCAs emphasize the problems created by reliance on informal credit sources: the cost of credit may simply replace access to credit as the borrower's most pressing financial problem.

The facts about the high costs of borrowing from RCAs are not in dispute. In their study of Korean RCAs (kye) in Los Angeles, Light and his co-authors point out the advantages kye membership offers to participants providing funds that the kye, in turn, lends to immigrant business borrowers: "Interest rates earned by kye members in the United States generally exceed 30 percent a year... " (1990, p. 41). Because lending at these rates was a violation of California's usury laws, the authors note that "kye users do not wish to identify themselves to policemen or tax authorities" (Light et al., 1990, p. 41). This reality of RCAs as very expensive sources of short-term credit certainly explains Yoon' observation (1991) that Korean-owned firms in Chicago borrowed from banks if possible and relied upon the kye as a lender of last resort.

Yet the deeper issue is whether the RCA and its lending practices represents a noteworthy demonstration of immigrant community co-ethnic solidarity promoting collective well being or, alternatively, an example of the stronger, better established community members taking advantage of the weaker newcomers. The observation, "It is our sociological bias to see good things emerging out of social embeddedness; bad things are more commonly associated with the behavior of *homo economicus"* (Portes and Sensenbrenner, 2003, p. 1338) may indeed be applicable here.

5.2 Access to Product Markets

5.2.1 Minority Markets

Selling to customers of the same race/ethnicity is a natural starting point for minority business owners targeting likely clients for a startup business venture. Thus, the numerous black-owned barbershops and beauty parlors found in every African American residential area constitute the most widespread types of black-business ventures operating in virtually every large city in the United States. Latino-owned consumer services firms and small retail establishments, likewise, are extremely common in Hispanic neighborhoods. The Asian-owned firms discussed previously (in Section 3) are well known for their propensity to cater to the product preferences and tastes of co-ethnics, particularly in residential areas where recent immigrants to the U.S. congregate. Specializing in serving customer demands arising from the problems of immigrant adjustment, similarly, provides a popular market niche. Thus, realtors, travel agencies, lawyers and various other professionals specializing in offering services sought by immigrants are numerous in most minority residential areas.

These examples notwithstanding, the reality of the limited purchasing power prevailing in most minority neighborhoods places a major constraint on the size and scope of the business community that such neighborhoods can support. MBEs in recent decades have moved quite decisively beyond their traditional market niches in their search for attractive business opportunities. The rapidly growing number of firms owned by Asian immigrants often generated intense competition for the patronage of co-ethnic clients in the 1980s and 1990s, causing many to opt, instead, to market their products to African American and Latino clients. Proliferation of small firms in consumer-product market segments became sufficiently intense in some Asian-immigrant residential neighborhoods to cause market saturation in many market niches, producing low profits and high rates of firm failure (Kwong, 1987; Waldinger et al., 2006).

Borjas and Bronars (1989) have argued that minority entrepreneurs are often forced to self-select into the minority-market segment because consumer discrimination limits the range of minority business ventures that white households are willing to patronize. While Chinese restaurants or black-owned bar-be-q joints may be accepted, minority-owned barbershops, clothing stores, and the like face resistance from many white clients. An outcome of such resistance is the heavy geographic concentration of MBEs within minority residential areas.

An important reason Korean immigrants frequently locate their businesses in inner-city African American and Latino neighborhoods, observed Yoon, is "the lower level of discrimination and hostility compared to white areas. Blacks were perceived by Koreans as easy to please, whereas whites were seen as condescending" (1997, p. 121). Min's study of businesses in Atlanta owned by Korean immigrants revealed that most operated in inner-city, predominantly African American residential areas, a locational decision shaped by the fact that they would have more difficulty competing in whites areas than in black neighborhoods (1984). The rather sparse available empirical evidence on MBE geographic location patterns does suggest that most minority-owned businesses are located in minority neighborhoods (Bates, 1993; Bates and Robb, 2008). Yet these neighborhoods are often characterized by low average household incomes, high rates of un- and under-employment, a high incidence of crime, old infrastructure, and poor public services, relative to surrounding white residential areas (Fusfeld and Bates, 1984). Scholarly depictions of the prevailing business environment in these minority communities — many of which are now dated — have been quite negative. Business profits, on balance, flowed out, supporting little reinvestment (Schaffer, 1973). Selective out-migration was often reducing population overall, while simultaneously raising the proportion of residents who were subsisting on poverty-level incomes and, or exhibiting weak attachment to the labor force. Low household incomes were exacerbated by weak internal income flows and a resultant low regional multiplier (Oakland et al., 1971).

Previous research using the Census Bureau's CBO small-firm database explored the attractiveness of urban minority communities as locations for operating small firms back in 1982. Findings indicated that these areas were high-risk sites for small business generally, whether or not they were minority owned. Analysis of small-firm viability in

28 very large metropolitan areas revealed that firms operating outside of minority communities were, on average, larger and less likely to go out of business than firms in minority neighborhoods (Bates, 1989). More recently, Aguilera (2009) found that businesses located in Mexican residential communities in California and Texas metropolitan areas generated lower earnings for their owners than similar ventures located in other sections of the same metro areas.

Importantly, the conventional wisdom on the attractiveness of investing in urban minority communities evolved in a time period (1960s to 1980s) of net out-migration of white residents and large-scale disinvestment by established enterprises. Yet these same areas often stabilized in the 1990s and many benefitted from large inflows of immigrants from Latin America and Asia. Substantial progress — population stabilization, even poverty reduction — was apparent by 2000 in many urban census tracts where concentrated poverty had been pronounced in 1990 (Berube and Frey, 2005). Hill and Brennan's (2005) analyses of employment trends in 100 U.S. major metropolitan areas from 1998 to 2001 revealed generally strengthening central-city performance; 27 percent experienced central-city job growth rates from 1998 to 2001 exceeding corresponding growth rates in their suburban peripheries.

The fact that minority communities in U.S. metropolitan areas were poor prospects for small-business creation in the 1970s and early 1980s (Bates, 1989) does not logically indicate that high risks and low returns awaited new firms venturing into these same areas in recent decades. The very disinvestment process documented by scholars like Schaffer (1973) may have reduced the capacity of local businesses to the point where the previously harsh small-business operating environment has improved. This point was forcefully made by Michael Porter in 1990s, who claimed that the inner-city marketplace was poorly served, resulting in substantial unmet local demand, particularly in the retailing and consumer services niches serving local households. Despite the low average incomes of the residents of these neighborhoods, high population density translated into "an immense market with substantial purchasing power" (Porter, 1995, p. 58). Regarding the magnitude of this untapped inner-city market, reasons why it had remained untapped, and the best methods for tapping it, Porter initially offered only anecdotal evidence and broad generalizations about informational asymmetries.

Scholars have rarely used data to investigate claims that underserved markets are commonplace in low-income minority communities. One exception, a study by Alwitt and Donley (1997), analyzed numbers and types of retail establishments in 53 Chicago communities, using individual zip codes as their "neighborhood" proxy. Comparing the retail presence in Chicago's poorest zip codes (all of which were predominantly minority) to the rest of the city, they calculated the number of retail outlets per million dollars in household purchasing power. They found a city-wide ratio of 0.413 retail outlets per million dollars in household purchasing power, with retail presence thusly measured not differing significantly in the poor zip code areas versus the rest of the city. Differences did emerge: the poor areas had 0.035 liquor stores per million dollars in purchasing power (exceeding levels in the rest of the city).

The attractiveness of the inner-city household marketplace has also been addressed in recent decades by sociologists tracking the large-scale expansion of Asian immigrant-owned firms in urban African American and Hispanic neighborhoods. According to Yoon (1997), both minimal competition and the existence of low barriers to venture creation attracted Korean merchants to black communities in Chicago: they were simply "filling a vacuum . . . " (p. 34). Yoon's observations have been echoed by scholars investigating whether minority neighborhoods offered attractive business opportunities to immigrant entrepreneurs (Waldinger et al., 2006; Zhou, 2004b; Light and Bonacich, 1988). Store rentals were lower in these neighborhoods than in adjacent white areas; new venture creation was facilitated by low capital requirements. The combination of limited competition and low entry barriers, according to Yoon, explained why "Korean immigrant businesses in Chicago and Los Angeles are concentrated in predominantly low-income black and Hispanic neighborhoods" (1997).

Frequent use of the term, "inner city," and its interchangeable use with the related term "minority neighborhoods" requires clarification. Like its predecessor — the term "ghetto" — inner cities are core urban areas characterized both by predominantly minority populations and economic distress. The Initiative for a Competitive Inner City (ICIC) defines inner cities as urban census tracts having a 20 percent or greater poverty rate, and, or half the median income, or a 50 percent greater poverty rate than the surrounding metropolitan area. Applying this definition to the largest 100 urban areas in the United States (using census of population data) yielded an aggregate inner city with 21 million residents, 82 percent of whom were minorities; unemployment was three times the level of the surrounding metropolitan areas and median household incomes were less than half the level (ICIC, 2005).

The positive attractions of doing business in inner-city minority communities — pull factors like low costs of entry and limited competition — importantly are complemented by the push factors noted by Borjas and Bronars (1989): minority entrepreneurs often self-select into the minority-market segment because consumer discrimination limits their alternatives to pursue opportunities in white residential areas. Minority entrepreneurs are thus both pushed and pulled into the urban-minority-household market segment. Whether the attraction (pull) of low entry barriers outweighs the difficulties rooted in various discriminatory barriers limiting entrepreneurial options (push) is essentially an empirical question.

Bates and Robb (2008) addressed this question by analyzing young small firms targeting neighborhood clienteles in large metropolitan areas, tracking their progress from 1992 to yearend 1996. Their data — the Census Bureau's CBO database — describe urban firms along three target-market dimensions: (1) clientele served — household versus nonhousehold, (2) clientele served — minority versus nonminority, (3) geographic scope of market served — local/neighborhood versus city/regional. Their analysis sought to isolate the effects of a firm's strategic choice of target market upon venture survival and profitability, controlling for various firm and owner traits. Their regression findings indicate that the likelihood of surviving the rigors of the early stages of small-business operation is lower in the minority neighborhood niche, relative to other market segments in urban America.

Perhaps underlying their greater tendency to close down, the minority-neighborhood-oriented ventures analyzed by Bates and Robb, on average, were smaller in terms of sales revenues and began operations

Table 5.1. Firm and owner traits: Young small businesses located in metropolitan areas (includes firms selling products to households only).

		Neighborhood Clienteles Only	
m	All urban small businesses	Minority clientele only	Nonminority clientele only
A. Owner characteristics			
1. Demographic traits:			
% minority	14.6%	57.6%	15.1%
% immigrant	14.1%	42.3%	17.4%
2. Human-capital traits:			
% college graduate	38.4%	37.6%	30.1%
B. Firm characteristics			
1992 sales revenues (mean)	\$117,681	\$76,276	\$124,199
% discontinued operations	23.2%	29.0%	21.2%
Startup capitalization (mean)	\$28,922	\$30,302	\$45,259
% serving neighborhood market	23.5%	100%	100%
% serving minority clientele	13.9%	100%	0
n	4,980	495	1,888

Source: U.S. Census Bureau 1992 CBO database.

with less owner investment of financial capital than their white-community-oriented counterparts. Annual sales averaged \$76,276 for the former and \$124,199 for the latter, while corresponding amounts of firm startup capital were \$30,302 and \$45,259, respectively (Table 5.1). The minority-neighborhood-oriented firms, furthermore, were more likely to have been in operation for two or fewer years and less likely to utilize paid employees than firms located in white neighborhoods and targeting white clients. Yet when firm capitalization, size, owner human-capital, demographic traits, and other applicable characteristics were controlled for statistically, the minority-oriented ventures were both less profitable and more likely to discontinue operations than their nonminority-oriented counterparts.

The pattern of owner demographics across these market segments was striking: 57.6 percent of the minority-neighborhood-oriented firms were owned by minorities, while 84.9 percent of the firm owners in the nonminority neighborhoods were white (Table 5.1). In terms of the demographics of urban firms serving household clients, the predominant pattern was one of minority firms operating in minority neighborhoods and white-owned firms locating in nonminority communities. Given the reality of higher closure rates and lower profits among otherwise comparable firms, the evidence suggests that entrepreneurs serving the minority neighborhood segment tend to be pushed, on balance, into this choice of target market by discriminatory barriers limiting their alternatives to pursue opportunities elsewhere in the U.S. economy.

Firms with owners possessing the strongest educational credentials — graduate/professional education — were more likely than others to remain in operation in the broad urban environment analyzed by Bates and Robb, but this pattern did *not* prevail in the minority-neighborhood-market segment. The dominance of push factors appears to explain why owners of firms serving the minority-neighborhood-market segment having wider career opportunities are not persisting. During the 1992 through late 1996 time period, finally, firm closure patterns generated a rising incidence of minority ownership as white-owned firms disproportionately exited the minority-neighborhood market by shutting down.

5.2.2 Competing in the Broader Economy: Selling Products to Business and Government Clients

Growth of MBEs since the 1970s has been most rapid in fields like business services, transportation, and distribution, fields in which MBEs historically have had little presence (Bates, 1993). Firm formation and growth have been particularly pronounced in fields where MBEs have targeted their sales to business and government clients (Boston, 1999; Bates, 2001). Their expansion into such nontraditional industries has sometimes generated resistance as procurement gatekeepers in industry and government have questioned whether MBEs matched the competence of their existing suppliers. MBE owners have faced the dual challenge of (1) not being taken seriously by corporate and public-sector customers, *and* (2) the active opposition of entrenched old-boy networks seeking to block their access to markets in fields like construction (Bates and Howell, 1998).

When competing in mainstream markets by selling their products to public-sector clients and other businesses, small businesses generally and MBEs specifically naturally gravitate toward industry sectors where scale economies are low and labor-intensive production techniques are cost effective. MBEs are least common in lines of business where economies of scale convey important production-cost advantages to large firms. In high fixed-cost industries, economies of scale allow large business ventures to minimize their production costs by spreading their fixed costs across many units of output, thereby holding down costs per unit of output produced. Efficient large firms with high fixed costs often set their product prices at levels below the small-firm cost of production, thus closing this market segment to small businesses.

Small businesses can thrive in many of the household-product market segments — beauty parlors, repair services and many others — precisely because the low fixed cost of establishing viable firms in these product niches reflects the fact that scale economies are slight. As small firms seek customers in the broader regional economy, however, their competitiveness is often compromised by the fact that predominant firms in many of the product segments are large ventures achieving efficiency by capturing scale economies.

Small or highly differentiated product markets, unstable product demand, uncertain product demand, customers seeking quick turnaround — these are all market characteristics favoring the nimble small business venture over the large, less flexible competitor. Piore's 1980 studies of industry dualism emphasize that natural market segmentation arises when product demand exhibits stable and unstable components. Presence of segmented markets often permits small-firm entry into those sub-fields where product demand is fluctuating and unpredictable, while large businesses handle the stable segments. Examples of such product markets where MBEs have achieved significant presence include trucking, construction, printing, various business services, and garment manufacture. Conditions in these product market segments also favor the labor-intensive production techniques typically employed by small firms generally and MBEs specifically: "Where there are problems in substituting capital for labor because changes in demand might idle expensive machines, immigrant businesses with labor-intensive processes can operate close to prevailing efficiencies" (Waldinger et al., 2006).

Miami's Cuban business community — discussed above — achieved its impressive size and scope primarily by tapping clients in the nonethnic mainstream economy, producing garments, competing effectively in regional construction markets, providing small-batch printing jobs for corporate customers, and the like. The businesses of Cuban-immigrant entrepreneurs were initially concentrated in a more traditional enclave fashion, catering to the tastes and preferences of co-ethnic households residing in Miami's Cuban neighborhoods. In this pervasively ethnic milieu, Portes observed that "86 percent lived in Cuban neighborhoods, 75 percent patronized mostly stores owned by co-nationals, and 82 percent read exclusively Spanish-language newspapers" (1987, p. 351). The tier of large Cuban-owned businesses not reliant upon co-ethnic clients came later. Although many who fled to Miami arrived with considerable financial capital, few initially chose to invest in large-scale business ventures. It was only after the failure of repeated attempts to overthrow the Castro regime that Cubans began to view migration to Miami as permanent.

Growing from an initial base serving co-ethnic immigrant clients in the Miami enclave, Cuban-owned businesses effectively "exported" into the regional economy, generating, in the process, jobs and purchasing power for neighborhood residents. This purchasing power, along with venture profits reinvested in building forward and backward business linkages in related industries, generated, in turn, positive multiplier effects as enclave employment expanded, all of which directly benefitted those Cuban-owned retail and consumer services firms catering to co-ethnic household clients. Success in competing in the broader economy was thus essential to generating the vibrant economy that today makes Miami a magnet for investments from throughout Latin America.

One vitally important characteristic of the immigrant Cuban entrepreneurs who successfully built Miami's vibrant small-business sector in the 1970s and 1980s was their human-capital profile. While MBE owners nationwide in 1960 were typically poorly educated and rarely had worked as managers or professionals in the nation's cutting-edge industries (Bates, 1987), Miami's immigrant Cuban entrepreneurs represented Havana's managerial and professional elite in the 1950s. In the aftermath of the Cuban Revolution and Fidel Castro's seizure of government power in 1959, this elite departed Havana en masse and, after they came to accept that their migration situation was one of no return, many began to devote their impressive skills and work experience to the task of building Miami's renowned community of businesses owned by Cuban Americans. Thus, the number of Cuban-owned firms active in the Miami region grew from 919 in 1967 to about 8,000 in 1978, to almost 21,000 in 1982 (Portes and Bach, 1985, p. 89).

Miami's Cuban-owned businesses demonstrated what the prerequisites were for MBEs nationwide to break away from their traditional niches of small retail and personal-services firms. The important broader message here is that the minority business community in the United States began to realize the kind of "great leap forward" occurring in Miami when minority entrepreneurs possessing appropriate skills and work experience — often acquired by working in managerial and professional occupations — began in the 1980s to establish their own business ventures in large numbers. These firms, in turn, were the ones most often selling their products to corporate America and public-sector clients in later decades. Well capitalized minority-owned firms run by highly skilled and experienced owners have made great strides in recent decades, becoming in the process suppliers to major corporations and public-sector clients. The types of firms dominant in the traditional minority business community — beauty parlors, small restaurants, mom-and-pop retail stores — typically lacked these human-and financial capital resources.

By 1992, MBEs active in metropolitan areas throughout the United States quite often targeted customers in government and business, although most still focused upon serving household clients. CBO data indicate that 28.6 percent all MBEs doing business in urban America in 1992 identified other businesses as a major client group (defined as a type of client from which a MBE derived at least ten percent of its gross annual sales revenues) and 9.2 percent of them generated revenues from sales to government clients (Bates, 2001). MBEs serving business and/or government clients were, on average, nearly three times larger than MBEs deriving their sales from households, reporting mean annual sales revenues of \$309,209 and \$281,193, respectively, in 1992, while MBEs targeting household clients averaged less than \$100,000 in sales.

The National Minority Supplier Development Council (NMSDC) coordinated corporate America's efforts to develop and cultivate MBE suppliers. Indeed, the NMSDC was the single catalyst most responsible for opening up corporate procurement markets to MBE vendors in the 1980s. The NMSDC, through its 43 affiliated purchasing councils in major U.S. cities, provided a network through which corporations publicized their procurement needs and MBEs publicized the products they sought to sell to corporate clients. In 1996, Ford Motors was perhaps the most active corporate member in the NMSDC, purchasing an estimated two billion dollars in goods and services from minority suppliers. The single line of black enterprise most reliant upon mainstream business clients was business services: aggregate employee numbers of black-owned business-service providers nationwide, according to census data, rose from 10,846 in 1972 to 104,939 in 1997 (Bates, 2006b).

Entrenched supplier network participants often attribute the expanding presence of MBE suppliers in corporate- and government-procurement to the growth of affirmative-action programs granting preferential treatment to MBEs. It is important to note that increased MBE involvement in mainstream markets generally, and corporate and government procurement specifically, occurred prior to widespread corporate and government initiation of affirmative efforts to purchase products from MBE vendors. When MBEs and their advocates sought to lessen barriers retarding their penetration of mainstream markets, their progress is often interpreted as reverse discrimination unfairly harming the dominant — largely white and male — supplier firms (La Noue, 1994). Describing the plight of white-owned construction firms bidding for government contracts in an environment where goals mandating MBE participation were present, Sroka complained, "their bids, although the lowest, are being rejected in favor of higher bids . . . they are being foreclosed from competing in their market" (1985, p. 181). The rationale commonly used to justify affirmative efforts to expand MBE supplier participation in corporate and public-sector procurement is that MBEs have been unfairly excluded in the past by discriminatory barriers, foremost of which is the active resistance of the entrenched supplier networks (Boston, 1999; Bates, 2009). Which interpretation is correct — does rising MBE participation in mainstream procurement reflect reverse discrimination harming more qualified supplier firms or does it reflect declining discriminatory barriers generated in part by the affirmative efforts of corporate and government customers to increase their utilization of MBE vendors?

LaNoue's thesis of unfair preferences was logically rooted in his assertion that MBEs typically lacked the capacity to compete in mainstream procurement markets; thus, their success in reaching corporate and government clients was a product of client purchasing policies that discriminated against white-owned businesses. Empirical testing of this claim has entailed using regression analysis to delineate small firms selling products to other businesses from those not serving business clients, while controlling for measures of business capacity — size, industry of operation, firm age — and various firm and owner traits. Statistics based upon CBO data reveal that 28.6 percent of the MBEs in U.S. metropolitan areas and 40 percent of the white-owned firms sold products to business clients in 1992 (Bates, 2001). Was the proportionately smaller MBE presence in this market segment a reflection of their weaker capacity to compete effectively against white-owned firms? Alternatively, was their 28.6 percent participation rate explained by unfair preferences, as claimed by LaNoue?

Regression findings indicate that lower MBE capacity did reduce their likelihood of selling to business clients (Bates, 2001). The industry distribution of MBEs — particularly their overrepresentation in retailing and underrepresentation in wholesale and manufacturing fields — was an impediment limiting their access to business clients. Their smaller average firm size was another drawback. Yet when one controlled for these firm capacity measures, MBEs were significantly less likely than their white-owned business counterparts to sell their products to other firms. Among firms matched in terms of capacity — measured by firm size, age, and industry of operation — in other words, the minority ownership characteristic decreased the likelihood of selling products to other firms (Bates, 2001). LaNoue's thesis that unfair advantages explained MBE penetration of this highly competitive market segment is inconsistent with this finding. This one econometric test alone does not prove the existence of discriminatory barriers limiting MBE access to mainstream markets; the broad industry control variables used by Bates (2001), for starters, were imperfect measures of industry subgroups. This finding does, however, respond to LaNoue's untenable assertions. MBE penetration into corporate and government procurement has not been a smooth process and government procurement targeted to minorities, in particular, suffers from multiple deficiencies (Bates, 2009).

The fact that nearly 30 percent of the urban MBEs active in 1992 identified other businesses as a major client group is nonetheless noteworthy in light of the fact that MBEs have traditionally only been numerous in industries like retailing and personal services, fields rarely involved in selling products to other businesses. Precisely how did MBEs transition from being predominantly personal-service providers and small-scale retailers into a business community providing products to mainstream markets? The answer to this seeming paradox was suggested in the above description of Miami's Cuban business community, where sophisticated firms run by experienced, skilled, well educated owners successfully penetrated mainstream regional markets in South Florida. This kind of human-capital infusion was the essential precondition for the nationwide emergence of an industrially more diverse community of larger scale MBEs capable of serving corporate and public-sector clients.

Scholars studying barriers limiting MBE product-market access have often examined the construction industry, noteworthy for its resistance to MBE penetration. The primary mechanism limiting MBE presence in construction is the old-boy network, which has frustrated not only minority business access to large-scale construction projects, but acquisition, as well, of skills in select special trades like plumbing and sheet-metal work (Waldinger and Bailey, 1991; Bates and Howell, 1998). Even skills acquisition does not solve the problem of old-boy networks, where work is parceled out to in-group members, few of whom are minorities. Beneath the laws, regulations, and the union contracts governing construction-industry practices lies a reality of personal contacts and informal networks limiting minority participation in the skilled construction trades. "A high proportion of skilled workers report having fathers or relatives in the trades" (Waldinger and Bailey, 1991, p. 299). Construction is dominated by small firms that hire and promote through informal mechanisms.

Entrenched business networks tend to be resistant to outsiders by their very nature, according to Granovetter (1985). Granovetter and Tilly (1988) examine the "how" and "why" aspects of construction-industry practices that limit access to newcomers. Within construction-firm networks, members know each other, trust each other, and function effectively together. Within the network, uncertainty is low; outside of the network, uncertainty is apt to be high. Embedded construction networks can effectively close off whole segments of the market to groups having no foothold there. Network outsiders are resisted for many reasons; MBEs seeking to work as subcontractors on major projects often confront the preferences of prime-contractors to stay within their embedded networks of trusted subcontractors and suppliers. Working with network insiders — established white-owned firms most often — minimizes risks, which is particularly important on large and complex jobs involving many subcontractors and operating within tight time constraints. As newcomers and outsiders, MBEs seeking to work with established prime contractors are resisted precisely because they are not members of the embedded networks: their inclusion is often considered to be risky. Why should primes take the risk? Even if MBE subs are low bidders for subcontracting work, they are likely to be rejected in favor of subcontractors who are trusted network insiders (Waldinger and Bailey, 1991; Bates and Howell, 1998; Bates, 2006a).

Construction is atypical in the sense that large jobs are widespread and access to work often entails accepting subcontractor status by small firms. Industries in which markets are more widely accessible to small-business newcomers are more amenable to MBE growth. Yet, construction (absent discriminatory barriers) offers MBEs major advantages lacking in many other industries. Lack of advanced educational credentials and large financial investment are usually not a barrier to entry. Myers and Spriggs (1997) observe that entry barriers for black Americans are low: "Graduates of vocational education curricula, the persons handy in classes of mechanical drawing, carpentry, and related building skills... it is in building and construction skills where we observe the greatest potential for moving from a worker to a contractor" (p. 48).

Bates and Howell (1998) used CBO data to analyze the performance of large, representative samples of minority- versus white-owned construction firms in the New York City metro area. New York area MBEs failed at over twice the rate of nonminorities; black-and Latino-owned firms accounted for nearly all of the MBEs active in this sector and their performance, although similar, was somewhat worse for Latinos. Performance differentials describing the MBE and nonminority firm groups were greatest in the skilled trades. Not only were their failure rates twice as high; mean annual sales of the MBE firms in the special trades ($93,324) were barely half the nonminority average figure of $177,462. Regarding owner educational attainment and firm initial capitalization, the MBEs on average possessed both more capital and stronger educational credentials than their white counterparts. The single trait most strongly differentiating surviving firms from those going out of business was average owner hours worked: MBEs averaged 1,524 annual work hours versus 2,058 for white owners. Particularly among the very young firms, nonminority startups "faced less of a lag than did minorities in generating substantial revenues" (Bates and Howell, 1998, p. 98). Many MBEs did not survive this slow startup stage.

5.3 Access to Education and Training

The minority business community in the United States is profoundly different today than it was 50 years ago. The median business owner is college-educated. Declining restrictive barriers have expanded access to educational and employment opportunities, permitting to aspiring minority entrepreneurs to acquire expertise in many fields that were traditionally closed. This greater base of entrepreneurial expertise is perhaps the most important single force driving the growth of MBEs of greater size and scope in a wide range of industries.

As scope has expanded, business diversity has flourished. The types of minority enterprise today where growth of sales and employment are strongest are the firms serving a racially diverse clientele. Larger scale MBEs — those generating gross revenues exceeding $1 million annually — have grown at a substantially faster rate than the overall minority business community (Bates, 1997b, 2006b). Areas of particularly rapid growth include skill-intensive services — finance, business services, and professional services. These areas often are called "emerging" lines of minority enterprise because minority presence in these industries has been minimal historically.

What differentiates high-growth fields from others? Two interrelated traits — stronger owner human capital and penetration of emerging fields — powerfully delineate the expanding lines of business from the laggard fields where revenue growth and job creation are weaker. First, the emerging fields have attracted more highly educated, experienced, and skilled business owners than have traditional retailing and personal services firms. The emerging fields are more oriented toward serving a racially diverse clientele, including business and government clients (Bates, 2001; Boston, 1999). The transformation away from traditional fields of industry concentration and toward emerging mainstream lines of enterprise is more pronounced among black-owned businesses than among immigrant minority entrepreneur groups. Firms owned by Korean immigrants, in particular, have clung to the traditional lines of minority enterprise (Yoon, 1997; Bates, 1997b).

Gains in higher education illustrate how declining discriminatory barriers have been translated into significant progress in the minority business community. The historical era in which most black college graduates became either teachers or preachers started to wind down in the 1960s. By the 1970s, careers in government and corporate America had become popular choices among young college-graduate blacks (and Latinos and Asian-Americans). Whereas African Americans receiving bachelor's degrees nationwide in 1965 majored most often in education, education degrees began to slip in the 1970s, while interest in studying business rose substantially. Selected figures (Table 5.2) demonstrate that this transformation in the educational pursuits of black college graduates continued into the 21st century: as career options widened, teaching gave way to business and technical fields (Carter and Wilson, 1992; Carter and Winston, 1995; Ryu, 2010).

The educational gains of black college students that took place in the last decades of the 20th century are particularly relevant to

Table 5.2. Bachelor's degrees awarded nationwide to minorities.

	1976	2007	Percentage Change 1976–2007
A. African American			
Education	14,209	6,417	−54.8%
Business	9,489	36,131	+280.7%
Engineering	1,370	4,432	+223.5%
B. Asian American			
Education	776	2,096	+170.1%
Business	1,829	24,282	+1,227.6
Engineering	971	9,216	+849.1%
C. Hispanic American			
Education	4,297	5,338	+24.2%
Business	12,058	25,302	+109.8%
Engineering	3,673	5,165	+40.6%

Sources: Carter and Wilson (1992); Ryu (2010).

comprehending growth patterns in the black business community in later decades. Self-employment is rarely pursued full time by recent college graduates. Entry into self-employment is most common among people in their late 30s and 40s (Bates, 1997b). Thus, the educational gains that took place in the late 20th century are shaping patterns of MBE business creation and growth in the 21st century (Bates, 2006a,b).

College majors among Asian American recipients of bachelor's degrees broadly mirrored those of black Americans, particularly in the business area. Bachelor's degrees awarded in business nationwide to students of Asian ancestry rose from 1,829 in 1976 to 24,282 in 2007 (Carter and Wilson, 1992; Ryu, 2010). Yet quantitative measures of degrees awarded do not provide clear guidance regarding long-term trends in growth patterns and areas of industry concentration among Asian-owned firms because over 80 percent of Asian entrepreneurs in the late 20th century were immigrants (Fairlie and Robb, 2008). Although some of them undoubtedly arrived in the United States during childhood and attended college in the United States before entering into small-business ownership, most arrived as adults after completing college in their home countries. Among African American college graduates, we know that the incidence of nascent entrepreneurship is quite high (Table 4.4), yet we have no comparable nascent entrepreneurship measures for Asian American college graduates, and available evidence indicates that children of Asian entrepreneurs have not been particularly inclined toward entrepreneurship (Min, 2008; Raijman and Tienda, 2003).

For black and Asian American college graduates, business and technical degrees awarded have outdistanced overall enrollment growth. For both groups, bachelor's degrees in business are more numerous than degrees in any other field, and growth in engineering degrees, although somewhat less rapid, has been high (Table 5.2). Trends in MBA degrees awarded exhibit phenomenal growth rates (from a low base). Whereas graduate degrees in business and management fields were a rarity among black Americans in the 1960s, roughly 4,000 were being awarded annually by the mid-1990s, and this figure had grown to over 18,000 in 2007 (most were MBA degrees). Today, over 100,000 African Americans hold MBA degrees. Educational gains stand out as perhaps the most important single cause of the ongoing transformation of the African American business community: high-growth fields are those in which college-graduate small-business owners are most numerous (Bates, 2006b).

Evidence regarding long-term trends in college degrees awarded to Hispanic Americans is sparse, yet the available data indicate that bachelor's degrees in business fields have been growing rapidly relative to other popular majors (Table 5.2). Existing studies of Latino entrepreneurship to date, however, have not focused upon either industry composition or growth trends in fields where college-graduate business owners predominate. Sketchy available evidence indicates that Latinos lacking college degrees may be more inclined to pursue entrepreneurship than their college-graduate counterparts (Lofstrom and Wang, 2009).

Human capital acquired by small-business owners through means other than formal education has not been a popular topic among scholars studying entrepreneurship among minorities, but there is one exception. In the construction field, owner expertise is most often acquired through either apprenticeship programs, on-the-job work experience, or a combination of these methods. Self employment in construction has grown rapidly among Latinos generally, and Mexican American immigrants in particular, and several recent studies of construction-skills acquisition practices are noteworthy. Skilled worker shortages in many booming regional construction markets provided openings for minorities in the 1990s, and immigrant workers from Mexico particularly capitalized on these opportunities in the Chicago area (Bates, 2006a). Latino presence in North Carolina construction has expanded rapidly and their penetration has been especially visible in masonry, wood framing, and drywall skilled trades, where they made up 70 percent of the state's urban workforce in 2005 (Craver, 2006, cited in Lowe et al., 2010).

Latino immigrants working in North Carolina's skilled trades arrived with considerable construction knowledge and work experience acquired in their home countries, yet they faced barriers both in demonstrating their skills and adopting to differing industry practices in the United States Many skilled tasks done in Mexico with simple tools were, in the United States, either highly mechanized or performed with considerably more sophisticated tools. How did workers lacking English fluency (and lacking documentation) penetrate the skilled construction trades? Early pioneers in this sector in the 1980s and 1990s started at the bottom as unskilled laborers, acquired some English fluency, and worked their way to skilled positions. This process worked particularly effectively in North Carolina, note Lowe et al., because that state "ranks last among fifty states for construction union density" (2010, p. 211).

When skilled worker bottlenecks became severe in the late 1990s, those pioneers moved up to become foremen in established construction companies. The Latino immigrant construction pioneers effectively became intermediaries, using their Spanish fluency and their industry knowledge to identify those among the new immigrant arrivals who could most easily make the skills transitions required to move into skilled trade jobs, thus alleviating the widespread bottlenecks in North Carolina's construction industry. Employers relied upon these intermediaries to screen immigrants and to teach them the necessary specialized construction skills through on-the-job training and mentoring. A pattern quickly developed whereby employers relied increasingly upon work crews consisting entirely of immigrant Latinos to perform specific tasks such as wood framing or masonry work; these crews were directed by foremen who were the established Latino intermediaries described above.

Mainstream construction firm managers found themselves unable to identify, much less utilize, the skills immigrants were bringing to their worksites, but their reliance upon experienced Latino employees serving as skills intermediaries allowed them to incorporate immigrant new arrivals quickly into their workforces. It was a simple step for these same intermediaries to establish their own firms, many of which then worked as subcontractors for the large construction firms. Indeed, established firms often helped the intermediaries make the transition from work-crew leader to independent subcontractor (Lowe et al., 2010). These skilled Latino construction foremen not only possessed the specific skills needed to operate viable construction firms. They were also experienced managers quite capable of identifying and supervizing appropriately skilled co-ethnic employees, and their embeddedness in networks of prime contractors provided direct access to subcontracts. Working as subcontractors for major construction firms, these Latino-owned ventures thus penetrated mainstream commercial construction markets in North Carolina.

In Philadelphia, in contrast, Latinos were restricted almost entirely to the small-scale residential renovation end of the construction market. While immigrants might work as unskilled laborers for mainstream firms, they could not advance to skilled positions. Why were the gains realized in North Carolina not obtainable in Philadelphia? "Industry training and credentialing processes," observe Iskander and Lowe, "are tightly controlled by labor unions but closed to immigrant workers" (2010, p. 132). A key determinant of the vibrancy of the Latino construction sector is found within the differing institutional arrangements prevailing in local labor markets which determine whether a particular market offers primarily obstacles or opportunities. Thus, the skills intermediaries who flourished in North Carolina were absent in Philadelphia, and the path many followed to construction firm creation and expansion was unavailable. In Philadelphia's high-end residential and commercial construction sectors, furthermore, the unions monitored even the nonunion construction sites for the use of immigrant skilled workers.

Even in the home renovation sector, entrepreneurship was typically not an option for undocumented immigrants because "it was impossible for them to obtain even the most basic permits necessary to run a construction business" (Iskander and Lowe, 2010, p. 139).

6

Measuring Success Among Minority Entrepreneurs

The immigrant experience is often put forth as a parable of economic opportunity in the United States. For successive waves of immigrants arriving in this country, small-business creation and operation have played prominent roles in the efforts of immigrant groups to achieve upward mobility. In-Jin Yoon states the conventional wisdom succinctly: “Small business has been a persistent avenue for upward mobility for some immigrant and ethnic groups in the United States, including Jewish, Greek, Italian, Chinese, and Japanese Americans. The first generation of each of these groups faced limited opportunities in the labor market, and many individuals turned to small businesses. In the typical pattern, immigrants earned modest incomes by virtue of hard work and thrift to educate their children, who in turn often became professionals or white-collar workers” (1997, p. 11). Among immigrant groups today, note Raijman and Tienda, “business ownership is universally considered a source of economic mobility in the United States” (2000, p. 687). The terms “economic mobility” and “success” in business tend to be used interchangeably in studies of small businesses owned by immigrants generally and Asian and Latino immigrants specifically.

Defining success in entrepreneurship is rather straightforward at a high level of generality, but pinning down specific success metrics is fraught with difficulty. Asking business owners to report firm profits on survey forms elicits high item nonresponse rates, and even those who do respond provide information that is hard to interpret: are profits under-reported? Does the owner response reflect profits reported on an income-tax return or profits calculated according to generally accepted accounting standards? These and many other issues complicate interpretation of reported profit figures. Asking owners to report their individual earnings from self employment elicits higher response rates and responses are generally thought to be more reliable than data on firm profits. Yet, owner success is hard to infer from reported self-employment earnings, absent information on what the owner would have earned if salaried employment, instead of entrepreneurship, had been pursued.

Fairlie and Robb (2008) measured firm success for representative samples of black-, Asian-, and white-owned small businesses in four different ways: their interpretation of success was based on assumptions that (1) firm survival through time is preferred to firm closure, (2) being a larger firm — measured by annual sales — is better than being a smaller firm, (3) being an employer firm is better than being a nonemployer, and (4) generating profits of $10,000 or more is better than profits under $10,000. By all four of these measures, Asian-owned firms were performing better, on average, than small firms owned by whites and blacks, leading them to conclude that the former were more successful, on balance, than the latter groups. Importantly, owners having stronger human-capital characteristics and making larger financial investments in their ventures were consistently performing better than those with weaker human capital who made smaller investments. These human- and financial characteristics, rather than owner race/ethnicity, were in fact the predominant determinants of venture success. Among black-owned businesses, however, the owner racial trait nonetheless negatively predicted firm profits, sales, and employer status after other factors were controlled for, reinforcing their conclusion that

Asian-owned ventures were outperforming their black-business counterparts (Fairlie and Robb, 2008).

Regarding firm profitability and survival patterns, findings by Bates (1997b) are broadly consistent with those of Fairlie and Robb (2008): four binary variables reflecting owner racial groupings — Asian immigrant, Asian U.S. native born, African American, and non-Hispanic white — had no explanatory power for predicting firm survival, once owner human-capital characteristics and financial investment in the firm were controlled for. Controlling statistically for class resources and owner ethnicity, furthermore, venture reliance upon a non-Hispanic white customer base was found to be positively related to enhanced survival prospects (this relationship was statistically significant) but reliance upon a white labor force was not a significant factor (Bates, 1997b). Employing a co-ethnic labor force, in other words, neither increased nor lessened the likelihood of venture survival among Asian-immigrant owned firms.

Owner ethnicity, in summary, mattered little; class resources were highly significant; reliance upon a minority clientele, finally, heightened prospects of firm failure. Among Asian-immigrant-owned ventures only, however, those with Korean owners were less likely to survive than Chinese-, Asian Indian-, Filipino-, and Vietnamese-owned firms, other factors constant. Analysis of firm profitability revealed the same basic pattern: the more profitable ventures were the ones employing abundant class resources and drawing clients and resources from mainstream markets (Bates, 1997b).

An important distinction emphasized in the detailed analysis of venture success contained in Fairlie and Robb's book (2008) reminds researchers of the necessity of differentiating business outcomes stemming directly from owner race/ethnicity as opposed to outcomes most directly rooted in the human- and financial-capital investments different groups make in their small business ventures. These topics are of course related, but the importance of clarifying whether owner race/ethnicity contributes to business outcomes independently of owner human- and financial-capital investments is nonetheless large. The policy implications of attributing business success to substantial owner investments of human- and financial-capital resources are profoundly

Table 6.1. Selected traits of firms and their owners, by race (firms formed 1979–1987 only).

	Asian immigrant	African American	NonHispanic White
Firm traits: (mean values)			
Sales revenues, 1987 ($ 000)	$121.6	$64.5	$154.3
Startup financial capital:	$53,550	$14,226	$31,939
Percent started with zero capital	16.2%	28.9%	23.7%
Owner traits:			
Percent college graduates	57.8%	30.2%	37.7%
Annual owner hour worked (mean)	2,064	1,803	1,960

Source: U.S. Census Bureau, 1987 Characteristics of Business Owners database.

different from the implications of attributing success to the fact that one is an immigrant Korean or Chinese — as opposed to a Latino or African American — entrepreneur.

Table 6.1 statistics describe financial-and human-capital characteristics of nationwide representative samples of young firms formed by (1) Asian immigrants, (2) African Americans, and (3) non-Hispanic whites. Regarding startup capitalization, Asian immigrant owned firms begin, on average, with nearly four times more financial capital ($53,550) than black-owned ventures ($14,226) and two-thirds more than white-owned businesses. The Asian-immigrant-owner advantage regarding educational background is similarly huge.

These substantially larger owner investments of human- and financial-capital by Asian immigrant owners (relative to whites) reflect, in part, the fact that Asian American adults as a group are highly educated and prosperous. Fairlie and Robb (2008) note that nearly half of all Asian adults in the United States have at least a college degree; this compares with less than 30 percent of whites. Their relative household wealth advantage, however, is minor: Asian American households have slightly higher mean wealth ($129,300 in 2000 dollars) than whites, but slightly lower median wealth. Separate estimates by immigrant status indicate that Asian immigrants and United States-born Asian adults have similar household net worth holdings (Hao, 2007).

Relative to white-owned small firms nationwide, those owned by Asian Americans are larger, more likely to employ paid workers, more likely to be profitable, and less likely to go out of business (Fairlie and Robb, 2008). The question is why? Is it their greater capitalization, stronger owner human-capital profiles, the nature of their industry distribution, or none of these factors? Fairlie and Robb decompose Asian/white gaps in small business outcomes to identify underlying sources of the stronger outcomes typifying Asian-owned firms. High financial capitalization levels emerge as key: "Group differences in startup capital explain 57 percent of the gap in the log sales equation, 65 percent of the closure equation, 71 percent of the gap in the profit equation and 100 percent of the gap in the employer equation" (2008, p. 170). Adding owner education, Fairlie and Robb's decomposition exercise explains 92 percent of the Asian/white closure gap, 81 percent of the profit gap, and 126 percent of the employer gap.

Note that Fairlie and Robb's Asian/white gap decomposition exercise did not delineate Asian immigrant small business owners from the native born; this differentiation, they argued, was unnecessary since about 80 percent of the Asian owner group was made up of immigrants, and business outcomes reported by the immigrant owners and the native born were quite similar. Nor did they consider the longer work hours typifying Asian owners in their decomposition of Asian/white outcome differences, although they did note that 36 percent of the Asians — as opposed to 25 percent of the whites — reported working 50 or more hours per week in their small-business ventures (Fairlie and Robb, 2008). Their strong conclusion was that Asian small-business outcome advantages were most directly explained by the larger owner financial investments and stronger human-capital traits of Asian small-business owners, relative to whites.

6.1 Entrepreneurship Versus Wage-and-Salary Work: Relative Payoffs

Owning a business is widely viewed as yielding higher monetary remuneration, on average, than wage and salaried alternatives. Downsides to business ownership are certainly noted: long hours of toil by both the business owner and family members is often required. Yet, this is not always seen as a negative: "Entrepreneurs may be less constrained than are salaried workers in their choice of work hours and, given a satisfactory return, are willing to put in the extra work effort" (Portes and Zhou, 1996, p. 221). Given the widely shared scholarly sentiment about the superiority of the entrepreneurial alternative, it is perhaps surprising that this stylized fact rests on such fragile empirical underpinnings.

Attaching precision to meanings of "success" in the context of small-business ownership clarifies numerous issues. Are firms owned by Korean immigrants more successful, on average, than small businesses owned by African Americans? Can some minority groups be accurately labeled as laggards in the entrepreneurship realm, while others are clearly more successful? One measure used in the sociology literature to judge whether a specific racial/ethnic group is successful in entrepreneurship entails comparing the earnings of the self employed to those of co-ethnics pursuing wage/salary work. Importantly, entrepreneurial success among minorities is widely viewed by scholars as having multiple dimensions and rightly so: we must consider not only the relative payoff of business ownership versus wage or salary work, but the implications of more — as opposed to less — entrepreneurship and business development for the co-ethnic communities in which MBEs are embedded.

"The data indicate that self-employed workers of all racial/ethnic groups show an absolute advantage over their salaried co-ethnics" (Zhou, 2004b, p. 52). Professor Zhou offers summary statistics drawn from nationwide 1990 PUMS data describing earnings (and median household incomes) of self-employed — as opposed to — salaried workers, comparing Chinese immigrants, U.S. born Chinese, non-Hispanic whites, and African Americans (as well as others): in every case, average earnings of the self employed exceed those of their co-ethnic wage-and-salary counterparts (Table 6.2). "It is generally conceded that the self-employed earn higher returns on their human capital than do their peers who work for wages and salaries in the general labor market" (Light et al., 1994). Perhaps reflecting the predominant view linking self employment and high earnings, there is a pronounced tendency among sociologists studying entrepreneurship to equate high rates of self employment in specific immigrant ethnic groups as evidence of greater economic success, relative to ethnic groups having low self-employment rates (Min and Bozorgmehr, 2000).

Table 6.2. Mean earnings and median household incomes among self-employed and salaried workers by nativity and race/ethnicity — selected groups: 1990.

Race/ethnicity	Mean earnings ($)	Median household income ($)
Foreign-born Chinese:		
Workers	$24,945	$47,751
Self employed	$36,132	$51,900
U.S.-born Chinese:		
Workers	$33,268	$61,000
Self employed	$47,765	$69,360
U.S.-born non-Hispanic white:		
Workers	$25,946	$41,500
Self employed	$34,354	$44,300
U.S.-born black:		
Workers	$19,185	$32,820
Self employed	$22,167	$32,590

Source: 1990 PUMS.

The reality of higher earnings among the self employed is indeed factually correct and not controversial, although the observation of Light et al. (1994) attributing higher returns on their human capital to the self employed is controversial. Nonetheless, Table 6.2's comparisons have no obvious value. For starters, the self-employed are disproportionately older and more highly educated, relative to wage workers, and the self employed groups are considerably more male-dominated than the wage-worker groups. Self-employed immigrant men, notes George Borjas, earn roughly 48 percent more, on average, than their salaried counterparts, but this fact does not indicate that self-employed immigrants are particularly successful: "Self-employment incomes reflect not only the returns to entrepreneurial human capital, but also the returns to a perhaps sizable investment in equipment and inventory. The incomes of salaried workers, in contrast, only reflect the returns to a worker's human capital" (1990, p. 164). Direct comparisons of the earnings of salaried and self-employed workers are therefore not really meaningful. There is really no evidence, Borjas concludes, that immigrant entrepreneurs are particularly successful. "The presumption that many immigrant entrepreneurs begin with small shops, and through their ability and hard work accumulate substantial wealth, is therefore a myth" (1990, pp. 163–164).

A recasting of the issue of the relative payoff of entrepreneurship and salaried work is in order. Controlling for human capital, financial capital, and demographic traits, is entrepreneurship a pragmatic choice in the sense of generating earnings at least comparable to those available to similar persons choosing to work as employees? Do mean statistics on self-employment earnings, furthermore, mask greater variance of returns to entrepreneurs as opposed to employees? Although summary statistics alone are not necessarily an ideal tool for answering these questions precisely, they are a good starting point.

Table 6.3 data, drawn from Lofstrom and Bates (2009), compare the earnings of self-employed and salaried Hispanic women nationwide who worked at least 25 hours per week. The overall mean and median incomes reported by these women, as well as means within the top and bottom income quartiles, reveal substantial variance in earnings among the self employed; looking solely at the bottom quartile, for example, their annual earnings — $6,402 — are a mere 56 percent of the corresponding $11,340 earnings of wage/salary workers. Adjusted for owner

Table 6.3. Selected earnings quartiles, medians, and means, percentiles by sector, *Hispanic Women* (those working 25 or more hours per week only).

Earnings quartiles and top decile	25%	Median	Mean	75%	90%
A. Total annual earnings					
Self-employed	$6,402	$12,410	$20,853	$20,402	$41,040
Wage/salary	$11,340	$17,190	$21,133	$25,876	$39,389
Difference					
$ Level	−4,940	−4,780	−280	−5,474	1,651
Percent (of Wage/salary)	56	72	99	79	104
B. Total annual earnings, business equity adjusted					
Self-employed	$4,725	$11,100	$16,547	$18,500	$38,000
Wage/salary	$11,340	$17,190	$21,133	$25,876	$39,389
Difference					
$ Level	−6,615	−6,090	−4,586	−7,376	−1,389
Percent (of Wage/salary)	42	65	78	71	96

Source: 1996 and 2001 panels of the Survey of Income and Program Participation (SIPP); cited in Lofstrom and Bates (2009).

equity investment in the business venture, returns to owner labor inputs in the bottom quartile of the self-employed drop to $4,725 annually for Hispanic women. Mean annual earnings reported by the self employed ($20,853) and the salaried workers ($21,133) overall, in contrast, are quite similar, yet adjusting these figures to reflect owner equity-capital investments in the applicable businesses reduces the mean for the self employed from $20,853 to $16,547 (Table 6.3). This calculation was based on the assumption that owner equity investment earned an average real rate of return of five percent (Lofstrom and Bates, 2009). Although self-employed Hispanic women overall were earning, on average, 99 percent as much as their wage-and-salary counterparts, the adjustment netting out owner return on financial investment in the business venture reduced their relative earnings to 78 percent.

Wage/salary versus self-employment earnings comparisons across groups defined by race, ethnicity, owner gender and the like reveal certain noteworthy predictable patterns: business owners at the top of the earnings distribution commonly outperform their salaried counterparts, while those in the bottom quartile lag severely behind. After adjusting for owner financial investment in the business, high-end self-employed males still earn more than their salaried counterparts, but women typically earn less. The distribution of earnings among the self employed is consistently highly skewed, much more so than the wage/salary earnings distribution. Thus, those choosing to enter self employment commonly confront greater earnings uncertainty than salaried workers, and this is particularly true during their early years of business ownership (Bates, 1997b; Lofstrom, 2011).

Meaningful comparisons of entrepreneurial returns to small-business ownership among minorities require consideration of areas of industry concentration typifying specific racial/ethnic groups. Some lines of business can be entered with little or no financial investment. Thus, construction self employment, the field in which male immigrants from Mexico are most heavily over represented, can often be entered with zero capital, particularly if the entrant already owns his tools of the trade and has access to a pickup truck. Among immigrant Chinese and Korean owners, in contrast, concentration in retailing places them in a field where efficient operation necessitates significant investment in

Table 6.4. Startup capitalization of selected businesses (young firms only).

	Immigrant Korean and Chinese	All Asian American	Nonminority White
Retailing:			
Total startup capital (mean)	\$70,014	\$68,885	\$51,828
Percent borrowing to finance startup	66.1%	58.1%	48.0%
Percent in this industry group	40.5%	20.9%	16.4%
Skilled-service fields:			
Total startup capital (mean)	\$33,783	\$30,542	\$24,952
Percent borrowing to finance startup	30.5%	22.4%	24.3%
Percent in this industry group	24.7%	36.4%	31.5%

Source: U.S. Bureau of the Census CBO database. Includes firms in operation for no more than eight years. Skilled-service fields include professional and business services plus finance, insurance, and real estate.

equipment and inventory. Analysis of representative samples of immigrant Chinese and Korean firms in retailing indicated that an average startup investment exceeding \$70,000 was used to launch business operations; 54 percent of this amount was equity capital (drawn largely from household net worth) and the remainder was borrowed (Bates, 1997b).

Table 6.4 data compare the mean startup capitalization levels of firms owned by (1) immigrant Chinese and Koreans, (2) all Asian Americans, and (3) non-Hispanic whites in two predominant industry groups, retailing and skilled services. Over 65 percent of Chinese- and Korean-owned ventures operated in these two fields, as did over 57 percent of all Asian American-owned firms and 48 percent of white-owned businesses. The skilled services fields typically did not require the large startup investments commonly needed in retailing (Table 6.4), and it is in these less capital-intensive fields that the comparison groups — the firms of all whites and Asian Americans — were most overrepresented.

The immigrant Korean and Chinese, of course, were heavily overrepresented (over 40 percent of all firms) in retailing, while less than one sixth of nonminority-white-owned ventures were in retailing. The higher average startup capitalization typifying Korean- and Chinese-owned ventures generally is heavily rooted in their peculiar industry orientation (Bates, 1997b). Calculations of self-employment earnings are thus highly sensitive to inclusion or exclusion of returns to owner financial investment in their business ventures.

Another aspect of small-firm ownership that shapes earnings of owners is the length of time the owner has been running the business: very young firms in particular are much less profitable than older, established ventures. Simply dividing nationwide samples of college-educated immigrant Korean and Chinese owners who work full time in their business ventures into older and younger subsets illustrates this point: among firms in operation for at most eight years, mean annual before-tax profits were $22,422, while businesses operating for more than eight years reported average profits of $34,350 (Bates, 1997b). The profitability contrast between older and younger firms owned by college-educated immigrant Asian-Indian and Filipino owners working full time in their firms was even sharper: the older subset generated mean profits of $48,690, versus $20,351 for the younger small-business group. Interestingly, census data indicate that Korean and Chinese immigrant owners of retail stores who were not college educated earned $3.82 per hour worked on average, after adjustment for returns to owner capital investment in the business, versus $4.89 and $4.00 an hour, respectively, for their nonminority white and African American counterparts; these figures reflect hourly returns solely among firms in operation and under current ownership for no more than eight years (Bates, 1997a).

In response to criticisms from economists challenging the sociological conventional wisdom that minority immigrant entrepreneurs earned more than their salaried worker counterparts, Portes and Zhou (1996) estimated earnings equations for various minority immigrant groups of the self employed and salaried workers, and comparison groups of whites and minorities born in the United States. Using 1980 PUMS data, they selected all men in the civilian labor force aged 25 to 64 who worked at least 160 hours in 1979, and proceeded to isolate net effects of self-employment status on annual and hourly earnings. Their control variables — education level, English fluency, marital status, occupation, and region — were rather uncontroversial, expect for their exclusion of owner financial investment in the firm. Regression equations predicting logged *annual* earnings indicated that the immigrant groups — Chinese, Korean, and Cuban — earned significantly more from self employment, in comparison to salaried work; the native-born comparison groups — whites and blacks — both earned significantly less. Equations predicting logged *hourly* earnings, in contrast, indicated that the self employed, in all cases, earned less than their salaried counterparts, although the difference among Cubans was slight (Portes and Zhou, 1996).

These comparisons, in every case, were between self-employed and salaried co-ethnics. Thus, the higher returns attributed to the immigrant self-employed groups indicated nothing about returns generated by immigrant as opposed to nonimmigrant groups. Portes and Zhou proceeded to reject their regression findings based on logged dependent variables because "the log linear form achieves its better fit mainly by pulling in positive outliers" (1996, p. 225). They then estimated equations predicting "raw" (unlogged) total and hourly earnings, and concluded that the self employed topped the salaried workers in all groups, whether the metric was annual or hourly earnings. Because the positive outliers were largely high self-employed earners, the regression findings explaining logged earnings were judged inferior: "Many economists and other analysts have opted for the log linear form because of its convenient statistical properties, but in the process they obscure a sizable group of success stories among entrepreneurs in each ethnic category" (Portes and Zhou, 1996).

The highest earners were seen as worthy of special emphasis because they were the owners of the large successful firms most likely to impact positively the broader co-ethnic community. "If the question concerns the *average* return for entrepreneurship, then results favor Borjas, Bates, and others. If the question concerns the absolute economic gain from self employment, then results favor the position advocated by Portes, Zhou, Waldinger, and others" (Portes and Zhou, 1996). In fact, Borjas and I would have been more impressed if the authors had simply controlled for owner financial investment in their analysis of earnings from self employment.

For the potential entrepreneur contemplating new venture creation, another aspect of the relative returns of self employment versus salaried work is the reality of the initial low earnings commonly associated with firm ownership. Cross-sectional data from PUMS aggregates owners of younger and older ventures alike, yet many of today's startups will shut down after a year or two or three of operation: Portes and Zhou (1996) were, for that reason, necessarily analyzing a survivor group of the self employed in the sense that many entering self employment between the time of the 1970 and 1980 rounds of the decennial census were long gone by 1980.

An alternative is to analyze time-series data and to track owner relative earnings across the life cycle of new ventures. Only then can payoffs of salaried versus self employed alternatives be accurately compared. Using the National Longitudinal Survey of Youth (NLSY) data for 1982 through 1996 to analyze earnings patterns of less educated business owners as opposed to wage workers, Fairlie (2004) found that "For self-employed Hispanic men, the relative self-employment earnings coefficients suggest that the self employed start at much lower earnings levels than do wage/salary workers, but experience faster growth rates. In fact, the self employed earn slightly more than wage/salary workers after 9 years" (p. 16). For black men, earnings regression findings indicated that the self employed caught up to the wage workers after 13 years on the entrepreneurial path.

Hamilton (2000), using SIPP data, constructed life-cycle wage and self-employment earnings profiles using several alternative measures of self-employment income and found that the earnings of the median self employed person, culminating after ten years, were 35 percent lower than those of a comparable salaried worker. On balance, the evidence suggests that salaried work commonly yields more than self employment, but the latter alternative is attractive in the sense that very high earnings are somewhat more likely to be achieved by pursuing the entrepreneurship route. This conclusion certainly does not deny the possibility that self-employment earnings may be systematically underreported not only on income-tax returns but in confidential surveys as well. We nonetheless lack clear-cut evidence indicating the superiority of the entrepreneurial alternative.

6.2 Impacts of Employment Opportunities Generated by Minority-owned Businesses

Job creation is widely viewed as a vitally important aspect of minority business success, particularly when MBEs employ co-ethnics and other minorities who might otherwise be unemployed. Whether or not the resulting jobs are filled by those living in minority neighborhoods, the employment opportunities created by MBEs are often captured by those who possess few attractive options in the labor market. MBEs can be effective agents for generating local economic development in areas of the United States where such development is clearly needed. Studies of employment impacts consistently find that minority-owned businesses hire a predominantly minority workforce. In urban areas of the United States in particular, most of the workers employed by non-Hispanic white-owned businesses are white and most of the workers employed by MBEs are minorities (Bates, 2006b).

Using very different databases generated in differing time periods, three studies have demonstrated that African-American-owned businesses employ a predominantly minority work force (Boston and Ross, 1997; Bates, 1994b; Simms and Allen, 1997). Black-owned ventures, furthermore, were disproportionately concentrated in urban minority neighborhoods, more so than white-owned firms, and they actively recruited and hired workers in low-income communities (Boston and Ross, 1997), much more often than did nonminority firms of similar size (Simms and Allen, 1997). "Survey results indicate that 82 percent of the employees in Black-owned businesses located within the City of Atlanta are black. Additionally, 25 percent reside in low-income inner-city neighborhoods" (Boston, 1999, p. 50).

Nationwide census data indicate that not every black-owned business employed a predominantly minority work force, yet employment patterns were nonetheless profoundly different than those of white-owned firms. Among the latter, 9.9 percent employed a workforce than was 90 percent or more minority, while 67.9 percent of black firms relied on a work force that was at least 90 percent minority (Bates, 1994b). At the other end of the employee racial spectrum, 77.1 percent of white-owned small business employers nationwide employed a work force made up of 25 percent or fewer minorities, while the corresponding percentage of black employer firms was 14.4 percent.

In 1993, the Joint Center for Political and Economic Studies (JCPES) in Washington D.C. surveyed 3,100 large MBEs (over-sampling black-owned firms within the MBE sample) and a comparison group of 2,000 nonminority-owned firms. Their objective was to identify types of firms likely to employ minorities residing in low-income inner-city areas. The JCPES researchers found that few of the surveyed firms — whether minority or nonminority owned — were actually located in poor inner-city areas. The former but not the latter group nonetheless actively hired employees in these neighborhoods. MBEs in construction, manufacture, and business services were most active: 74.6 percent of MBE construction firms hired employees residing in low-income minority residential areas, along with 66.7 percent of the business-services firms, and 62.8 percent of the MBE manufacturers (Simms and Allen, 1997). Business-services providers producing building maintenance and protective services were particularly active recruiters of inner-city minority job seekers.

Small firms often draw employees from family-and-friends-based networks and the impacts of these social networks on job access contribute heavily to the pronounced differences in the racial compositions typifying small-business work forces. Networks of family and friends among white Americans are most often made up of whites, while the networks of African American business owners are commonly black. In a world where network-hiring propensities shape work force racial composition and most small-business employer firms are white owned, employment access consequences are predictable. When employers prefer to hire family members, relatives, friends, and friends of friends, the race of the owner heavily shapes the racial composition of the employee pool (Bates, 2006b).

Nationwide, well over half of the white-owned employer small businesses located in large metropolitan areas have no minority employees: "Even among the businesses physically located within minority communities, the majority of workers in the nonminority small firms are white. Black-owned businesses, in contrast, rely largely on minority workers, even when their firms are located outside of minority neighborhoods" (Bates, 1994b, p. 113). Specifically, among black firms operating in urban zip codes where most residents are white, 86.7 percent employed a predominantly minority work force. Business owner race consistently trumps firm geographic location as an explanation of the work force racial composition.

The median MBE is not a high-wage employer. Particularly among the smaller firms with paid employees, average wages are low. Census data indicate that among black-business employers grossing under \$100,000 in annual sales, mean payroll per worker in 1997 was \$8,901. Average reported payroll size rose steadily with employer firm size. Among black-owned firms nationwide grossing over \$100,000 in 1997 sales, mean payroll per employee was \$20,884. Firms in this larger size grouping dominated the employment picture in the sense of producing 92.1 percent of all jobs reported by black firms with payroll, as well as 96.5 percent of the aggregate payroll (Bates, 2006b).

Waldinger (1986) analyzed another key aspect of minority business employment practices — employer, employee relations — and concluded that reliance upon employees from the entrepreneur's own ethnic group helped to explain why self employment was advantageous for immigrants. Drawing upon his field work studying New York City garment manufacturing firms owned by Chinese and Dominican immigrants, he observed that recent arrivals to the United States often sought employment in businesses owned by co-ethnic immigrants, where they could work in a familiar environment with others who spoke their language. Light and Bonacich (1988) found that Korean-immigrant-owned businesses in Los Angeles were effective at generating jobs for co-ethnics: "about 62 percent of Koreans found employment in the ethnic economy" (p. 6). Immigrant business owners frequently recruit workers through network hiring practices, drawing upon their multiple connections to family, friends and associates, and the broader co-ethnic community.

The internal social structure of the immigrant-owned firm, observe Waldinger et al. (2006), helps to stabilize employer/employee relationships: "authority can be secured on the basis of personal loyalties and ethnic allegiance rather than on the basis of harsh discipline, driving, and direct control techniques" (p. 38). Immigrant workers who are new arrivals can anticipate that standards of conduct prevailing in the broader ethnic community extend to the workplace as well, resulting in a less alien environment, in comparison to the workplace environment likely to prevail in firms outside of the community. Thus, workers may be sheltered from many of the seemingly oppressive rules and regulations prevalent in the broader economy. Wages may be paid in cash and under the table.

The employment relationship in the co-ethnic firm can be interpreted as reciprocal in the sense that employee work effort may be rewarded by favors ranging from owner assistance in securing housing, help with finding employment for newly arriving relatives, even assistance with financial problems. In a variety of ways, employment in a firm owned by a co-ethnic may provide guidance and valuable assistance, easing the transition newcomers face as they struggle to adjust to life in a new environment. Employers and employees, in this context, start out with a basis for trusting each other, and the outcome for employers offering a supportive environment to their workers may be the securing of a loyal, low-cost co-ethnic work force. Employer access to cheap and productive co-ethnic labor, notes Zhou, provides immigrant minority entrepreneurs a clear competitive edge (2004b). "Newcomers' dependence on their bosses/patrons makes them likely to accept conditions that may fall below standard: it is also the case that owners will be more likely to place trust in workers who depend on them" (Waldinger et al., 2006, p. 38).

Interpreting "below standard" more harshly, Bonacich views co-ethnic employers as trapped by broader economic forces: "even if they exploit their workers, they themselves are workers of a sort who are exploited" (1987, p. 462). Ethnic immigrant entrepreneurs, Bonacich continues, are a form of "cheap labor," working excessively long hours while exploiting the unpaid labor of spouses, other relatives, even their children. "The rat race they are running is part of a larger system of power and privilege and their running lanes have been narrowly defined for them" (Bonacich, 1987, p. 452). Offering low wages and nonexistent benefits, they not only exploit their own workers but also tend to undercut local labor standards more broadly, lowering prevailing wage standards and participating in union busting.

In their multiple analyses of employer firms active in Miami's Cuban enclave, Portes and his various co authors claimed that Cuban employees working for immigrant Cuban-owned firms earned higher wages, on average, than their counterparts employed outside of the enclave (see, for example, Portes and Bach, 1985). Indeed, the superior job opportunities enclave firms provided to immigrant co-ethnic workers were put forth as perhaps the single most important positive feature of Miami's immigrant Cuban business community. Yet, the actual empirical tests for positive enclave effects on employee wages were based upon decennial census of population PUMS data, which contained no useful information for delineating Cuban employees working in firms owned by co-ethnics, as opposed to Cuban employees working for other nonCuban employers. The employee and employer data were simply not linked.

Lacking real data on actual wages indeed paid by Cuban employers to their co-ethnic workers and being unable to link employer and employee ethnicity in the data, actual tests of enclave-employer wage effects relied on data where Cuban employers were aggregated into a larger group of employer firms. For this combined group, most of the actual jobs in the Miami geographic area under consideration were provided by firms not owned by Cubans. Wages paid by this broad employer group were then used to proxy the wages immigrant Cuban employers actually paid to their employees. Use of proxy variables is common in empirical research but there is nonetheless a limit beyond which it is quite difficult to know what the proxy is actually measuring. One is thus tempted to label the whole exercise an absurdity.

In response to blistering criticism of their underlying research methodology forthcoming from Sanders and Nee (1987a,b, 1992) and others, however, Portes' claim of higher wages accruing to Cubans employed by co-ethnics was eventually retracted. Wage comparisons of Cubans working for co-ethnic and other employers are tricky for many reasons, including the fact that enclave workers, however defined, report lower earnings, less education, a lower incidence of United States citizenship, less English fluency, and more recent immigration than Cubans working in the broader mainstream economy. Additionally, endless disputes about proper definitions of "enclave" — rooted in the reality of data constraints limiting researchers to crude enclave proxy measures — also undermined the credibility of the empirical methods used by Portes et al. for comparing worker outcomes in different work environments. "The findings, including those of JP (Jensen and Portes) suggest the existence of a negative enclave effect on earnings of men"

(Sanders and Nee, 1989, p. 417). Portes and Jensen (1989) offered a rather different interpretation of the evidence, yet conceded that their analysis provided no conclusive evidence of a positive or negative net effect of ethnic enterprise on employee earnings.

The broader significance of this extended debate on the relative advantages of enclave residents working for co-ethnic or mainstream employers concerns the implications of the findings of Portes and his co-authors and their critics regarding the validity of assimilationist views of immigrant progress in the host society. Working in the mainstream economy rather than the ethnic enclave, as assimilist theorists have long suggested, continues to be a pragmatic strategy for recent immigrant employees seeking to achieve socio-economic upward mobility in U.S. society.

Immigrant minority employers no doubt pursue widely varying labor-relations practices, ranging from paternalistic to exploitive. The conventional wisdom among sociologists, nonetheless, is that ethnic employers, particularly those located in immigrant enclaves, are paternalistic on balance and that recent immigrant employees are relied upon heavily because they provide a productive, loyal, and inexpensive worker pool. Family members are another source of cheap, reliable labor.

It is noteworthy that the consensus view of harmonious labor relations in the firms of immigrant minority business owners described above is not universally shared by sociologists actively conducting research in the field. There appears to be near universal acceptance, however, of the fact that immigrant minority-owned businesses routinely engage in massive violation of laws regulating treatment of employees. "My interview with the Korean Apparel Contractors Association revealed that many Korean owners of garment factories in New York do not pay employees overtime and often pay their employees off the books" (Min, 1996, p. 188). Other widely cited types of violations of applicable laws regulating employer behavior included minimum wage standards, requirements to pay wages on a timely basis for work performed, minimum safety standards regarding working conditions, child labor laws, health and sanitary standards, and the like (Min, 1996; Hum, 2000, 2003; Light and Bonacich, 1988).

Tarry Hum's analysis of Asian- and Latino-owned garment manufacturers operating in Brooklyn typifies common criticisms of labor practices among immigrant minority-owned firms. Prevailing intensely competitive market conditions in the industry and the continued influx of unskilled immigrants create for employers "a primary competitive advantage embedded in 'low-road' strategies evident in the prevalence of sweatshop conditions" (2003, p. 294). The nearly 400 garment manufacturers in Brooklyn's Sunset Park neighborhood, according to Hum, employ thousands of often undocumented workers, largely Chinese, Dominican, and Mexican immigrant women having little English language fluency: "the key competitive advantage of the immigrant contractors is access to cheap ethnic labor" (Hum, 2003, p. 297).

Most of firms in this enclave economy, Hum claims, violate standard wage and hour laws, and the practice of withholding or simply not paying wages is common. In contrast to the view of labor relations rooted in immigrant social ties and ethnic solidarity serving to neutralize class divisions to attain collective and shared interests, Hum's analysis suggests that relations are better described as employer exploitation emerging from a system where immigrant minority industry sectors are positioned at the very bottom of the host society's economic hierarchy.

There are clearly downsides facing recent immigrants choosing to work in the co-ethnic economy. The relatively lower wages received by workers in enclave economy, argues Borjas, retard the group's economic progress in the United States (1990). Beyond the ease of adjustment offered by working in a familiar environment with co-workers speaking the same language, enclave employment can impede worker adjustment to life in the United States. The trauma of learning to speak English with greater fluency and adjusting to a new culture can be traded for access to a wider set of employment opportunities in the vastly larger mainstream labor market functioning outside of the ethnic enclave. For all of these reasons, notes Borjas, "it is not at all clear whether this hiring of immigrants by their compatriots is a 'good' thing for the typical immigrant living and working in the enclave" (1990, p. 172). These conclusions align completely with the assimilation sociological mainstream tradition, which views enclave employment as a net disadvantage for immigrants adjusting to life in modern-day America.

In a similar vein, Zhou observes that Chinese entrepreneurs often slow their assimilation into the American mainstream. "Because of their intense involvement in their own businesses and their businesses largely depend on bounded solidarity, they may be seen as having no desire to hire nonethnic workers and no desire to incorporate into the mainstream economy despite the fact that their lives and livelihoods become inseparable from the new land" (2004b, p. 57).

Given the predominant content of the literature analyzing small businesses owned by Asian and Latino immigrants, one might conclude that these firms largely employ co-ethnics. Census data indicate that the practice of hiring minority employees varies substantially among different employer groups. Among Asian owners, minority worker hiring is most widespread among Vietnamese-owned firms, followed by Korean firms, then Chinese-owned ventures, while small businesses owned by Asian Indians are least likely to employ minorities. Among the latter, 42.0 percent of the employer firms hire a predominantly nonminority white work force, while 46.2 percent of them rely on minorities for at least 75 percent of their paid employees (Bates, 1997b).

Pyong Gap Min (1996) pursues the theme of employer exploitation of immigrant employees, noting that Chinese workers are quite conscious "of their class interests as wage workers. The vast majority of Chinese workers employed in Chinese-owned garment factories in New York are unionized" (1996, p. 214). Joining the International Ladies, Garment Workers Union (ILGWU) in large numbers is hardly the behavior one would expect of loyal workers grateful for the paternalistic labor relations policies of their employers. Yet, the popularity of unionization emphasizes the reality of labor relations in firms owned by co-ethnics, which vary widely from one business to the next. Min attributes the large-scale preference for hiring of immigrant Latino workers — rather than co-ethnics — by Korean employers to fact that Koreans employed in Korean-owned firms are less vulnerable to exploitation. "Korean owners of garment businesses, like other immigrant owners, hire many illegal residents to save labor costs. A large proportion of workers employed in Korean garment factories in New York and Los Angeles are illegal Latino residents" (Min, 1996, p. 188).

Even when Korean businesses are located in African American residential areas and rely on a primarily black clientele, Latino employees are usually preferred, rather than blacks (or Koreans): "Korean businesses in New York City's Black neighborhoods employ more Latinos (42%) than Blacks (31%) or Koreans (23%)" (Min, 1996, p. 114). Surveying Korean small-business owners in Los Angeles who hired Latinos but not black employees, Min asked the owners why they preferred Latino employees: "Most respondents viewed the Mexican workers as cheap, docile, and hard working and believed that African American workers exhibit more or less opposite characteristics" (1996, p. 114). Thus, Latinos were widely employed as stockers and laborers in Korean grocery and produce stores, as cooks and waiters in Korean restaurants, and as laborers in garment factories. Thusly employing "highly disadvantaged Latino workers who are willing to take any kind of work" (Min, 1996, p. 215), Korean owners in New York and Los Angeles hired Korean workers to take managerial and cashiers' positions in their businesses.

Explaining why Korean business owners often prefer Latinos over co-ethnic Korean employees, Yoon observes that "Korean employers — whose actions are governed by the principle of profit maximization — seek to replace Korean workers with more docile and less expensive Mexican workers" (1997, p. 169). The writings of Yoon and Min may seem inconsistent with the observations of Waldinger, Zhou, and other sociologists regarding immigrant employer preferences for loyal and productive co-ethnic workers. Among employers, however, diverse strategies are used to secure a productive, low-cost work force; many and perhaps most appear to be willing to exploit ethnicity as a tool for building trust and solidarity between owners and their employees, but only up to a point. When a cheaper, more docile alternative source of workers becomes available, an increasingly heterogeneous employee pool emerges, and "formal and bureaucratic relations gradually replace informal and personal relations between previously benevolent employers and loyal workers" (Yoon, 1997, p. 169).

This explanation of evolving labor relations within the firms of Asian immigrant owners would certainly explain why Chinese garment workers in New York City often join the ILGWU. In Los Angeles, according to Min, Mexican and Korean workers have joined together, forming an independent organization — the Restaurant Workers Association — in Koreatown "to resist owner abuses more effectively" (2008, p. 113). This joint effort emerged from the Korean Immigrant Workers Advocates (KIWA), which was initially created to protect Korean workers from their Korean employers. Rising reliance on Latino workers in Korean-owned firms caused the KIWA to expand its scope and involve Latinos in its collective actions, resulting in emergence of a bilingual and bicultural KIWA employing both Latino and Korean staff. The outcome in Los Angeles is the emergence of broad-based grassroots labor organizations striving to protect worker interests; this new reality certainly represents a reconfiguration in labor relations in the workplace, traditionally portrayed as paternalistic and benevolent.

Given the totality of evidence regarding labor relations within the firms owned by Asian immigrants, we can safely conclude only that worker relations vary from business to business, covering a spectrum ranging from paternalistic to harsh. Small firms practicing network recruiting and relying upon a work force composed heavily of family, friends, and friends of friends often engage in paternalistic labor-relations policies. In terms of employing such policies and practices, whether a particular subgroup of minority-owned ventures — Chinese immigrant, African American, Cuban immigrant or other — engages in paternalistic employment practices more so than other owner groups is unknown and probably unknowable.

6.3 Inferring Business Success by Analyzing its Converse: Business Closure Patterns

In 1990, PUMS census data indicated that 4,943 self-employed Korean immigrant owners working full-time in retail businesses were active in the New York, New Jersey area, a large increase from the 1,820 retail firm owners reported in 1980. These retail ventures made up 44 percent of the estimated 11,373 Korean-immigrant-owned full-time businesses active in the area in 1990 (Min, 2008). By year 2000, in contrast, PUMS data documented the presence of 4,176 active full-time Korean retail firm owners in the region, accounting for 31 percent of all Korean-immigrant-owned full-time business ventures. Why is a sharp decline in retailing firm numbers underway? Min (2008) suggests that this decline is most pronounced in inner-city low-income minority neighborhoods. Findings of Bates and Robb (2008) — discussed in Section 5.2 (access to product markets) above — indicated that urban businesses serving neighborhood markets made up of household clients were more likely to close down when these firms served minority as opposed to nonHispanic white clients.

In the context of inner-city retailing, the business experiences of Do Sup Kwack illuminate business dynamics in low-income minority communities that partially account for the declining numbers of small immigrant-Korean-owned retail ventures. Do Sup Kwack, a pioneer in the retail fresh produce business in Brooklyn, described his success in retailing in the early 1970s as follows: "a competing store was ten or 15 blocks away from my store. So I could make lots of money . . . Now there are Korean-owned produce stores in almost every block there. Now most supermarket owners in Brooklyn are Koreans. Taking advantage of their previous skills of running produce stores, they sell fresh fruits and vegetables, cleaning them and arranging them nicely. Therefore, small produce stores cannot compete with them . . . Koreans have changed everything" (Min, 2008, p. 53).

Several predictable developments explain the declining numbers of retail ventures noted above. First, migration to the United States from South Korea rose rapidly in the 1970s and early 1980s, reached a peak in 1987, and has gradually declined ever since (Min, 2008). As economic opportunities improved in Korea, the attractiveness of the migration option lessened. Second, pioneers like Do Sup Kwack entered into market niches in small-scale retailing in the 1970s at a point in history when earlier generations of European immigrants were abandoning the least attractive of these niches. In low-income minority communities of major cities like New York and Los Angeles, elderly European owners often could not interest family members in assuming ownership of marginally attractive stores, so Koreans were able to purchase established businesses at reasonable prices (Yoon, 1997; Waldinger et al., 2006; Min, 1996). Success achieved by the pioneers of the 1970s encouraged other Koreans to establish firms in these same environs.

Portes (2010) observed that "middleman" minority businesses — those Korean- and Chinese-owned retail stores operating in impoverished African American inner-city neighborhoods — are highly successful because they "operate without competition" (p. 181). Their high profits "derive from their quasi-monopolistic position" (Portes, 2010, p. 182). This interpretation is dated. Over time, those neighborhood markets became saturated: "in Chicago, the sense of threat from fellow Koreans is much stronger among business owners in black areas than among those in Koreatown because of the limited range of business lines in the former" (Yoon, 1997, p. 160). Among Korean business owners surveyed by Yoon, 80 percent regarded fellow Koreans as their primary competitors. Marginally attractive markets and increasing competition have, over the decades, increasingly placed Korean owners in the same position as the elderly European immigrant owners pioneers they purchased stores from back in the 1970s.

Among second-generation Korean Americans (those born in the United States), full-time self-employment was pursued by only 5.1 percent in 1999 in the New York-New Jersey area (Min, 2008). Their self-employment incidence was less than half the corresponding rate among U.S.-born whites (10.9 percent) and less than one fifth the rate of their parent's generation (27.7 percent). As Koreans have begun to exit retail niches in minority neighborhoods, their replacements have been most often found among non-Korean new immigrant arrivals. "The increasing presence of businesses owned by South Asian and Arab immigrants in black neighborhoods is largely attributable to the escalation of Koreans leaving these areas in recent years" (Min, 2008, p. 94).

The nature of "success" in the context of minority immigrant business ownership is clarified by viewing ventures over their life cycle. "Elderly Korean merchants complain that they cannot compete with young South Asian and Arab merchants who operate businesses with exceptionally low margins. In the late 1960s and early 1970s, Jewish and other white merchants made similar complaints when new Korean immigrants were opening stores" (Min, 2008, p. 95). Operating small businesses in the economic sectors United States society relegates to the very bottom of the economic hierarchy has been the task in recent decades of well educated, hard working first generation immigrants who face limited access to managerial and professional jobs.

Less than ten percent of the immigrant Korean firm owners surveyed by Raijman and Tienda in their study of small businesses in Chicago's Little Village neighborhood reported a longstanding desire to own their own business, compared to 34 percent of Hispanic and 25 percent of Middle eastern/South Asian business owners (2000). "Koreans see business ownership as a way to overcome blocked mobility but virtually all desire their children to acquire 'good' jobs in the open labor market" (Raijman and Tienda, 2000, p. 682). Owning a small business in a minority neighborhood was seen by the surveyed owners as "hard work that does not get you anywhere."

Over the Korean small-business life cycle, the least attractive market niches have been the first to be exited. Over time, the composition of the Korean small-business community has moved upstream; traditional fields (small-scale retailing and personal services) were easiest to enter, intensely competitive, and these sectors now make up a declining share of the Korean immigrant business community. Among all Korean- and Chinese-immigrant-owned firms active in the United States, a division of the industry distribution into subgroups of younger-versus-older firms is instructive. Census data indicate that, among the younger firms having college-educated owners (those in operation for eight or fewer years), 50 percent were in retail and personal services lines of business; among older businesses owned by the college educated, in contrast, only 26.6 percent operated in retail and personal services fields (Bates, 1997b).

The most common industry grouping among the older subset of firms having highly educated Korean and Chinese owners is skill-intensive services — finance, insurance, real estate, business, and professional services. Business ownership persists disproportionately in these fields because they offer higher average earnings, in comparison with the traditional personal service and retail fields. For many of the most educated owners, owning a small retail venture was a form of underemployment necessitated by blocked mobility considerations. When the applicable obstacles were overcome, the firm was exited and the owner pursued alternatives offering fuller utilization of his/her human capital, along with higher remuneration.

The fact that an entrepreneur has chosen to close down operations of his/her small business is widely interpreted as evidence the venture was unsuccessful, yet this need not be the case. Closure of an existing business is a logical step for an owner to contemplate whenever more attractive career alternatives present themselves. In his study of small business discontinuance, Bates (2005a) analyzed CBO data describing 1,425 closures of existing businesses; owners were asked to describe how their business was doing at the time the decision was made to cease operations: 37.7 percent described their firm as "successful" at the time of the closure decision, while 62.3 percent felt their firm was unsuccessful. Controlling statistically for owner and business characteristics, minority owners were in fact more likely than nonminorities to identify their discontinued firm as unsuccessful. Furthermore, discontinued retail businesses were more likely to be labeled unsuccessful by their owners than other lines of business and firms in skilled service fields were more likely to be judged successful, controlling for other factors (Bates, 2005a). These findings indeed suggest that most of the Korean-owned stores closing down in minority neighborhoods are properly viewed as unsuccessful.

6.4 Concluding Comments

In light of the unavoidable element of subjectivity and the inherent difficulties involved in empirically establishing any sort of standard or continuum for judging whether any racially-defined group of small businesses is more or less successful than either wage/salary workers of the same group, or, alternatively, the self employed of any other racially defined group, a reasonable approach is to apply multiple criteria. If one group consistently lags behind (or exceeds) others, inferences of greater success (or underperformance) can perhaps then be made with somewhat more confidence. Immigrant Chinese and Korean small business owners have been most often studied by sociologists and these owner groups have been repeatedly judged to be successful (see, for example, Light and Bonacich, 1988; Yoon, 1997; Zhou, 2004b; Waldinger, 1986).

When considering possible criteria for measuring success, I have (below) emphasized criteria — and contexts in which these criteria are applied — that enjoy wide acceptance among scholars studying minority entrepreneurship, sociologists as well as economists. This approach allows me both to summarize what we know about the nature of minority entrepreneurship success and to identify areas of agreement. The existing literature is rife with examples of scholars portraying interpretations of entrepreneurial success offered by researchers in other disciplines as fundamentally off base or incorrect; in many of these cases, the actual underlying disagreements are slight. In may be impolite to name names in this context, but the works of Ivan Light immediately come to mind. Much is to be gained in the search for cross-disciplinary insights by accurately identifying consensus and restricting disagreements to topics where actual disagreement prevails.

The role of opportunity costs in shaping entrepreneurial behavior appears to enjoy complete consensus across disciplines. Sociological studies of immigrant minority entrepreneurship discussed throughout this review monograph commonly refer to blocked mobility as an explanation of the choice of entrepreneurship over wage work: citing blocked mobility thusly is equivalent to observing that the choice to become self employed is shaped by opportunity cost considerations. Despite one's choice of terms, potential entrepreneurs are viewed as choosing between self employment versus wage/salary work on the basis of which of these alternatives is most attractive. Thus, the fact that college-graduate Koreans contemplating entrepreneurship have almost no access to attractive managerial or professional jobs (their opportunity costs of self employment are low) strongly inclines them to choose the entrepreneurial alternative. Conversely, the fact that college-graduate Asian Indian immigrants have wide access to attractive white-collar employment (their opportunity costs of self employment are high) encourages most to choose salaried work.

A reality of poor prospects for salaried work tends to *push* highly educated Koreans toward small-firm ownership (Raijman and Tienda, 2000). Even an alternative widely seen as unattractive by the broader society — owning a small food store in a low-income neighborhood — may be chosen because it is viewed as a better opportunity than low-wage manual labor (Min, 1984). For the college-graduate potential minority entrepreneur who is highly fluent in English — including most Asian Indians — the reality of good prospects for salaried work suggests that one must be *pulled* toward small-business ownership by attractive opportunities, making self employment in professional services a popular choice. It is universally recognized in the scholarly literature that relatively low rates of self employment typify immigrant Asian Indians and Filipinos, particularly in comparison with Koreans and Chinese (see, for example, Waldinger et al., 2006; Min and Bozorgmehr, 2000). This pattern is simply a manifestation of the differing opportunity costs of self employment confronting these groups. Predictable consequences of self employment in the context of low opportunity costs extend far beyond choosing small-business ownership over wage work: the Korean immigrant pushed into entrepreneurship is likely to work longer hours in his/her business, in comparison to the Asian Indian entrepreneur professional who often faces attractive options to pursue salaried employment *and* part-time firm ownership simultaneously.

This theoretical discussion suggests that college-educated Korean firm owners are not only more likely than their Asian Indian counterparts to pursue self employment; they are also more likely than the latter to (1) pursue it on a full-time basis; (2) they are more likely to generate low household incomes, and (3) less likely to generate high household incomes. The latter two outcomes derive from the lower concentration of Koreans (a low-opportunity-cost group) in professional services (the field of self employment offering the highest average earnings) and their higher concentration in traditional fields — retailing and personal services — providing low average earnings (Bates, 1997b). The three predicted outcomes described above are tested below (and empirically confirmed) using census bureau small-business data.

Annual household income statistics (Table 6.5) describe representative, nationwide samples of four groups of college-educated owners of young firms: (1) immigrant Chinese and Korean, (2) immigrant Asian Indian and Filipino, (3) nonimmigrant Asian American, and (4) nonimmigrant non-Hispanic white. The first of these four owner

Table 6.5. Traits of young firms whose owners are college educated: Comparisons across groups defined by ethnicity and immigrant status.

	Immigrants only:		Nonimmigrants only:	
	High English fluency: Asian Indian and Filipino (%)	Low English fluency: Chinese and Korean (%)	Asian Americans (%)	Non-Hispanic white (%)
% with annual household income under $15,000	11.9	21.5	12.7	12.3
% with annual household income over $75,000	25.5	11.5	15.9	17.9
% deriving 75% or more of household income from self employment	35.6	46.2	32.4	36.7

Source: Census Bureau CBO data.

groups — Chinese and Korean — are those most often experiencing low opportunity costs of self employment (blocked mobility). Their household income traits are contrasted with the corresponding income characteristics of three comparison groups, all of which are dominated by owners confronting high opportunity costs of self employment. Rows one and two of Table 6.5 capture the tails of the income distribution: the low-income tail includes those reporting annual household incomes from all sources of under $15,000, while the high-income tail includes firm owners reporting household incomes exceeding $75,000. By these criteria, Chinese and Korean owners are most heavily concentrated in the low-income tail (21.5 percent are in this group), and most underrepresented in the high-income tail (11.5 percent of owners), relative to all three comparison groups. Asian Indian and Filipino immigrant owners, according to Table 6.5's criteria, rank highest of the four groups: 25.5 percent of these small-firm owners were in the high-income tail, while only 11.9 percent were in the low-income tail.

The group of highly educated Chinese and Korean owners, finally, relies more heavily upon self-employment earnings as their dominant source of household income, relative to the three comparison groups, reflecting the fact that they more often pursue self employment on a full-time basis than Asian Indian immigrants and native-born whites and Asian Americans (Table 6.5). All of the above outcomes are fundamentally rooted in the reality of the low opportunity costs of self employment confronting most college-educated immigrant Chinese and Koreans.

Table 6.5's income comparisons indicate not the lower level of success prevalent among Korean and Chinese immigrant owners of small businesses, relative to these comparison groups, but the fact that they pursue self employment in the face of fundamentally different constraints and opportunities. The lesson here is that comparisons of success across groups defined by race/ethnicity are fraught with risk; such comparisons are most meaningful when the groups being compared face essentially identical constraints and opportunities. Indeed, such comparisons should perhaps be avoided entirely, because the different MBE groups of interest to scholars invariably do face very different constraints and opportunities, both in broader labor market and within the entrepreneurship realm.

Comparisons may nonetheless be useful and insightful in two contexts. First, comparisons of success measures involving entrepreneurs of differing racial, ethnic groups can highlight more clearly how the differing constraints and opportunities they confront in fact differ. Consider the example of self-employed Hispanic women: they report, on average, lower earnings than nonminority white women pursuing self employment. Yet, when differences in entrepreneur human-capital characteristics, financial capital invested in one's business venture, age, and other traits are controlled for statistically, the Hispanic trait, other factors being the same, is associated with higher self-employment earnings (Lofstrom and Bates, 2009). A breakdown of earnings determinants indicates that the lower earnings of female Hispanic entrepreneurs are rooted largely in their lower levels of educational attainment. Thus, a comparison of similarly educated Latino and white women — high school graduates versus high school graduates, for example — indicates that the former earn more, on average, from self employment than otherwise similar white women. The applicable constraint most directly depressing the earnings of self-employed Latinas is educational background. Properly interpreted, this suggests low self-employment earnings are rooted most directly not in Hispanic ethnicity per se but, rather, in weak educational attainment.

The above example illustrates the second context in which comparisons of entrepreneurship success among groups of differing race/ethnicity may be insightful. Comparing business owners of differing race/ethnicity having otherwise highly similar characteristics can potentially allow researchers to judge the relative success and to identify relevant constraints and opportunities. A comparison of business owners pursuing self employment full time, when restricted to those operating in similar industries and having comparable educational backgrounds may be useful. Returns to self-employment broken out as profits per dollar of invested capital or earnings per hour worked may highlight circumstances in which firms owned by entrepreneurs of different race/ethnicity may be more or less successful (Bates, 1997a). The residual impact of race/ethnicity on firm success measures, if any, can be best identified by isolating the racial characteristic from influences rooted in differences in education background, skills, capitalization, choice of target market, and other considerations shaping business venture viability (Fairlie and Robb, 2008).

Another key topic on which economists and sociologists studying minority entrepreneurship appear to agree upon entirely is the necessity of owner possession of specific resources — human and financial — as basic requirements enabling creation and successful operation of viable small businesses. Absent appropriate owner skills and expertise, viable businesses are unlikely to emerge. Absent possession of — or access to — financing, businesses cannot achieve efficient operating scale or take advantage of opportunities. "Business opportunities have little relevance to an individual who does not possess resources to take advantage of available business opportunities" (Yoon, 1995, p. 317). "Only among groups not resource disadvantaged does labor market disadvantage encourage entrepreneurship" (Light and Rosenstein, 1995, p. 160).

Even when the discussion is extended to the topic of ethnic enclaves, the same fundamental agreement across disciplines prevails regarding the basic prerequisites of enterprise success. The emergence of areas of concentrated immigrant minority entrepreneurship known as ethnic enclaves, notes Portes, "has depended on three conditions: first, the presence of a number of immigrants with substantial business expertise acquired in their home countries; second, access to sources of capital;

third, access to labor. The requisite labor is not difficult to obtain ... " (2010, p. 163). Immigrant communities composed of poorly educated manual workers, Portes continues, may generate the bounded solidarity prerequisites for social capital to emerge, but they lack the internal human capital necessary to transform these social mechanisms into viable business ventures.

Many ventures lacking the human- and financial prerequisites for enterprise success are nonetheless started, and much can be learned by tracking their outcomes. Undercapitalized MBE startup ventures, in particular, are quite common, and most generate very low sales revenues. Since many fail to generate sufficient revenues to pay the bills and provide their owners with decent livelihoods, these small, poorly capitalized firms often close after a year or two in operation. Analysis of mean startup capitalization among young firms owned by Asian immigrants revealed that those subsequently closing and discontinuing operations had roughly one third the annual sales revenues ($46,294) and one quarter the startup capitalization ($15,914) of surviving firms ($138,996 sales, $62,246 startup capital) (Bates, 1997b). The survivors, furthermore, were more likely than the closed firms to use borrowed funds at startup, and they were more highly leveraged than their counterparts that had gone out of business.

While American Dream folklore may suggest that impoverished minorities lacking expertise can start tiny businesses and, by virtue of relentless toil, achieve great financial success, the facts indicate otherwise. Bates (1997b) used census data to analyze a nationally representative sample of MBEs formed between 1979 and 1987 by minorities lacking high school degrees; only those owners investing less than $5,000 into their firms at startup were included. Indeed, nearly 47 percent of these firms were started with zero capital (Table 6.6). Gross median sales for these low human- and financial-capital MBEs in 1987 were under $20,000: fully 61.6 percent of the firms grossed under $20,000. A significant subset of these firms, however, did well — 9.7 percent of them reported net profits of $25,000 or more in 1987. Examination of this MBE subset revealed a heavy concentration of immigrant Hispanic males self employed in construction, and the basis for their success was their possession of specialized skills in construction skilled trades fields.

Table 6.6. Traits of minority-owned businesses nationwide starting with minimal human capital and financial capital investments.

1. Business traits	
1987 gross sales (mean)	$33,054
Total financial capital (mean)	$1,354
Percent of firms started with zero financial capital	46.9%
2. Owner traits	
Percent reliant upon business for 50%+ of household income	46.7%
Black	30.0%
Hispanic	57.4%
Asian	12.6%
Male	77.9%

Source: Characteristics of Business Owners database.

Thus, the underlying skill base was present, but the proxy measure — educational attainment level — had failed to measure applicable owner skills.

Reliance upon forms of social capital as an effective strategy for achieving successful business outcomes is certainly an area of contention among entrepreneurship scholars, but the degree of disagreement is overstated. The fact that MBEs often use startup capital raised from co-ethnics — whether family, friends, or associates — is not an area of contention. Fairlie and Robb (2008), Bates (1997b) and other economists using econometric techniques to analyze minority business outcomes do not distinguish between bank loans and loans from friends or associates when they relate higher firm capitalization levels to increased venture profitability, enhanced survival prospects, and the like. The fact that certain loan types — including credit card balances and loans from RCAs — are more expensive credit sources than bank loans is certainly noted, and indeed it would be productive to investigate whether reliance on expensive credit sources hampers the likelihood of positive venture outcomes, but this is not an area of substantive disagreement. As Yoon observes, "the kye has a higher interest rate than a commercial bank loan" (1997, p. 144). The broader point is that the theoretical toolkits of economists and sociologists are complements to one another, rather than substitutes, and our understanding of minority entrepreneurship dynamics is most effectively achieved through creative application of all of these tools.

7

Directions for Future Research

Our present understanding is that viable minority-owned businesses are those run by skilled, experienced, often highly educated owners. Although financial capital requirements vary in different lines of business, success in most fields requires both sufficient investment to operate at an efficient scale and access to capital to exploit opportunities for further venture development. Being overly small and poorly capitalized is a formula for business marginality and high risk of failure. Being embedded in supportive networks is widely viewed as a positive, but precisely how the social capital arising from one's network connections translates into greater business viability is not well established in a causal sense.

Social network explanations of minority entrepreneurship dynamics have been the centerpiece in perhaps the majority of all academic studies of minority entrepreneurship over the past four decades and these explanations are destined, I believe, to play continuing major roles in MBE-related research efforts in coming decades. Although the theories put forth are quite interesting, it is unclear how much has been learned to date from these exercises. I have several concrete suggestions for moving forward the contributions of social-capital theoretical concepts and perspectives as useful tools for expanding our understanding of minority enterprise creation and venture operation.

Sociological studies of entrepreneurship among minorities often blur two fundamentally different questions: studies most often focus upon new firm formation, although a fair number analyze, as well, business operations after startup. These are two distinctly different topics and they should be treated as such. The dominant social-capital hypothesis regarding venture startup appears to be identical to the hypothesis regarding ongoing businesses: in either case, sociologists analyzing minority entrepreneurship are hypothesizing that entrepreneurs who actively tap the resources of broad networks and who receive strong support from these networks are more successful than those attached to narrower networks and, or receive few resources in response to their efforts.

If positive relationships indeed exist between co-ethnic network support and firm success, then it is necessary to demonstrate empirically the explicit linkages between that support and subsequent venture outcomes. At least four mechanisms for exploiting network support to increase the odds of (1) actual firm creation and (2) successful venture operation are strong candidates for analysis and empirical testing. First, network contacts are important sources of information for entrepreneurs seeking to evaluate business opportunities and various strategic options. Second, network contacts facilitate access to customers and reliable suppliers. Third, networks help to broaden firm access to financial capital, including debt sources, trade credit, and even equity capital sources. Fourth, network resources help firms to hire reliable workers at wage levels attractive to the entrepreneur. This is a partial list. The more important point is that these are discrete strategies and they should be evaluated as separate and distinct processes, each of which may or may not contribute to the objectives the entrepreneur seeks to achieve. Pursuing this research strategy will ideally enable scholars to differentiate those types of network assistance more likely to aid firm creation and operation from those less likely to achieve these outcomes.

The theoretical concepts of social resources and social capital arising among immigrant co-ethnic networks, furthermore, require re-examination and elaboration if they are to illuminate minority entrepreneurship dynamics. Impacts of network structure, for starters, could certainly benefit from clarification and elaboration. Defining social resources in such broad terms as the resources embedded in one's social networks, including the inclinations, social values, and preferences of co-ethnics, and the like raises a very obvious question. While emerging forms of social capital are undoubtedly shaped by situational constraints facing immigrants, they are shaped as well by class differences within the community of co-ethnics. Regarding Latino immigrants in particular, those class differences are often rooted, as well, in racial differences within immigrant groups.

Development of Miami's Cuban enclave economy offers a clear example of ethnicity being shaped by class and racial differences among immigrants. The first influx of Cubans fleeing Fidel Castro's revolution in the early 1960s were largely Havana's managerial and professional elite, many of whom were white, and from within this group came the entrepreneurs who created the impressive community of businesses that eventually rose to dominate key sectors of Miami's regional economy. A second major influx — the Mariel exodus of 1980 — of immigrants who were less often white and rarely college-graduate managers and professionals arrived after the Miami business enclave was established, and, as Portes notes, "Mariel and post-Mariel refugees reaped few of the benefits from the Cuban enclave and its internal ties of solidarity and mutual business support. No 'character' loans were available to them" (2010, p. 191).

The web of social networks from which co-ethnic resources arise are often rooted in school ties, friendships, church membership, and similar shared interests (Yoon, 1997) and all of these connections are commonly class based as well as co-ethnic in nature. Does the intersection of privileged class background and co-ethnicity generate forms of social capital more apt to benefit potential and actual entrepreneurs than social resources forthcoming from class-diverse networks? The suggestion that entrepreneurs may sometimes resort to exploitive labor-relations practices in their interactions with co-ethnic employees (Hum, 2003; Min, 2008) points toward situations where co-ethnics of differing class backgrounds may be interacting in ways unlikely to benefit business viability. The obvious point is that co-ethnicity alone is only a partial explanation of the origins — or lack thereof — of social-capital forms entrepreneurs might successfully exploit to enhance venture viability.

The Kauffman Index of Entrepreneurial Activity, which uses CPS data to new business owners in their first month of significant business activity, is a leading indicator of new business creation trends in the U.S. economy (Fairlie, 2011). According to this index, minority owners made up 24 percent of all new entrepreneurs in the United States in 1996, but the minority share by 2010 had risen to 40 percent. "The Latino share of all new owners," notes Fairlie, "rose from a little more than 10 percent in 1996 to 23.4 percent in 2010" (2011, p. 9). African Americans, Asians, and Latinos accounted for rising shares of new entrepreneurs over this period, and their growing relative numbers overlapped with and partially explained the rapidly rising share of immigrants — from 14 percent in 1996 to 29 percent — of all new business owners in 2010 (Table 7.1).

Researchers to date have emphasized the importance of MBEs as creators of jobs in minority communities, an important point. Going forward, however, MBEs must be seen as vitally important creators of economic growth and new employment opportunities not simply for minority communities but for the nation as a whole. Consider, for example, the emergence of India, China, and other Asian nations as increasingly dominant players in the global economy. Immigrant entrepreneurs

Table 7.1. Nationwide shares of all new entrepreneurs by race/ethnicity and nativity, 1996 and 2010.

Owner race/ethnicity	1996 (%)	2010 (%)
White	76	60
Black	8	9
Latino	11	23
Asian	4	6
Other	1	2
Nativity		
Native born	86	71
Immigrant	14	29

Source: U.S. Department of Labor Current Population Survey data, cited in Fairlie (2011).

from these nations possess the contacts as well as the linguistic and cultural knowhow to manage complex business relationships between these rising powers and the United States. A key resource in the emerging global economic environment is the entrepreneurial talent capable of promoting trans-national business ventures, trade, and investment flows (Saxenian, 1994, 2002).

Rather than studying minority immigrant business concentrations in fields like neighborhood food stores or restaurants, future studies should focus upon entrepreneurial ventures in cutting-edge industries competing globally. The traditional portrayal of the immigrant entrepreneurial economy as an ethnic enclave isolated from the economic mainstream is a 20th century view of minority entrepreneurship. Explaining concentrations of Chinese immigrant entrepreneurs in the restaurant field is ultimately less important than understanding their role in creating and expanding transnational ventures competing globally. Silicone Valley's immigrant entrepreneurs, notes Saxenian, are "building professional and social networks that span national boundaries and facilitate flows of capital, skill, and technology" (2002, p. 28).

In the 1980–1984 period, 1,349 hi-tech Silicone Valley startups were launched, and the founders of 168 of these ventures were Asian Indian or Chinese. During 1995–1998, in contrast, Asian Indian and Chinese founders launched 1,194 hi-tech ventures in Silicone Valley, accounting for 29 percent of all startups (Saxenian, 2002). As Silicone Valley outsiders in the mainstream high-technology community, Asian immigrant entrepreneurs created their own professional networks based on their shared culture, language, and professional experiences. "These organizations are among the most vibrant and active professional associations in the region, with memberships ranging from several hundred in the newer associations to more than 1,000 in the established organizations" (Saxenian, 2002, p. 25).

These networks have spawned a tradition whereby older successful immigrant entrepreneurs actively mentor and invest in the younger generation of co-ethnic entrepreneurs. Venture capital funds have been established as an extension of these networking activities. Draper International Fund specializes in funding Asian Indian-owned ventures and Alpine Technology focuses on Chinese-owned companies. In these ways, the social capital forthcoming from these Silicone valley networks is sustaining increasing regional economic development directly by fostering development of a large agglomeration of hi-tech companies creating jobs and capital to support further business expansion.

Entrepreneurship is increasingly recognized as a major force shaping local and regional economic development, both in the United States and throughout the world. In light of the high levels of poverty and un- and under-employment and low average household incomes commonplace in inner-city minority communities throughout the United States, it is really quite logical that scholars studying minority entrepreneurship have emphasized most heavily to date the contributions of MBEs to enhancing local economic development — particularly job creation — in these communities (Boston and Ross, 1997; Zhou, 2004b; Bates, 2006b). After all, most minority-owned businesses are found in or near inner-city residential areas, and available evidence, while imperfect, does consistently indicate that MBE employer firms are linking job growth to inner-city residential patterns. Simply stated, they hire minority workers predominantly. Successful small businesses owned by minorities benefit the broader urban minority community by generating jobs, helping to reverse urban decline, and stabilizing neighborhoods. In some instances, they have successfully revitalized economically laggard sections of urban America, leading them toward a brighter future.

A priority for future research is to identify and understand the types of minority businesses and the strategic choices of their owners that most effectively contribute positively to job creation and local economic development. Recent studies of Min (2008) and Bates and Robb (2008) identify household-oriented neighborhood small firms serving minority clients as the ones most prone to closure and discontinuance of business operations, outcomes that certainly do not enhance positive economic development impacts. Is targeting inner-city minority household clients a poor strategic choice for minority entrepreneurs?

We certainly know that this choice of clientele has been hugely popular among MBEs for decades. The balance of evidence, fragile though it may be, does suggest that this target market segment is popular in part because barriers limiting entrepreneur alternatives tend to push minority business owners toward operating retail and consumer services firms in inner-city minority neighborhoods. It is worthwhile to explore with more precision whether choosing to sell products in mainstream markets, despite the difficulties limiting entrepreneurs' options to do so, might not be the superior choice of target market for most MBEs. By better understanding the forces limiting small business potential within the minority market segment, it may be possible to lessen these barriers and expand the economic development potential of minority entrepreneurship.

Many of the disadvantages of choosing to operate one's business in inner-city neighborhoods are already well understood. Minority communities in inner-city areas are typically underdeveloped enclaves within prosperous and dynamic regional economies (Bates, 1993). Central cities in U.S. metropolitan areas often face fiscal crises, to which they adopt by pursuing policies that accelerate the pace of inner-city decline. Many local governments operate in an environment of outright declining fiscal capacity, causing scare public-sector resources to be allocated to central business districts, affluent neighborhoods, and other priority areas. Public services are therefore often substandard in inner-city neighborhoods and local public infrastructure is rarely updated. Lacking adequate resources for maintenance and repair of aging infrastructure, local governments often permit public facilities in these neighborhoods to deteriorate. Streets, schools, parks, sanitation, police and fire stations simply depreciate. Repairs focus upon crisis management rather than normal maintenance; resulting deterioration and disinvestment is the process whereby physical capital in the form of public infrastructure literally drains out of these areas.

The resources that might enable low-income inner-city minority neighborhoods to break out of their economic stagnation are typically the resources most prone to drain away. Politicians allocate public resources to political strength, which inner cities rarely possess; bankers allocate loan funds seeking secure returns, and their consensus view is that inner-city lending is risky; mobile residents seeking attractive career opportunities often depart. The human capital of its residents is the inner city's single most important resource. Residents doing well economically often move out, preferring instead to reside in distant neighborhoods offering superior amenities and more pleasant surroundings. Drawn by outside opportunities, many intelligent, capable and upwardly mobile young adults depart from the inner city, seeking wider opportunities elsewhere (Bates, 1993). Advanced educational credentials acquired at colleges and universities are common tickets out for bright young people.

This selective drain of human resources leaves inner cities without many of their best products. Economic underdevelopment is thusly preserved by the resource drains that keep these areas depressed. The capital, talent, and infrastructure needed to maintain sustained economic revitalization tend to depart. All of these processes are part of the normal functioning of the U.S. economy, which is why depressed inner-city areas are normal features of dynamic regional economies throughout the United States.

The push-versus-pull dynamic shaping minority venture behavior is widely recognized, yet this concept is nonetheless underutilized as an analytical tool. Scholars often observe that firm orientation toward serving minority clients reflects in part the greater barriers encountered by minority entrepreneurs attempting to penetrate mainstream markets (Borjas and Bronars, 1989; Yoon, 1997; Bates and Robb, 2008). Yet available evidence indicates that serving racially diverse mainstream markets ultimately offers higher payoffs, notwithstanding the greater obstacles one must overcome to compete effectively in the economic mainstream (Bates and Robb, 2008).

It is instructive to divide inner-city businesses into groups of (1) those serving predominantly inner-city minority clients (including most retail and services industries), and (2) firms serving regional or national mainstream markets (most construction, manufacture, transportation, wholesale, and business services firms). Development prospects of the former are limited by the low income levels of inner-city residents; prospects of the latter are limited only by their degree of global competitiveness (Bates, 1993). Through the jobs and income they generate, the former may help to slow resource drains, but only the firms serving broader markets have the power to reverse them.

Local businesses competing successfully in regional, national, even global markets actually shape income flows, bringing net positive inflows into the inner-city economy; local firms serving neighborhood clients, in contrast, merely re-circulate local purchasing power and are thus fundamentally reactive to income flows shaped by outside forces. Analysis of firm performance in various market niches is needed to illuminate whether, and in what circumstances, minority entrepreneurs are better off resisting the forces pushing them into minority markets: in what market segments can the mainstream marketplace be targeted and entered into most successfully and when do the higher risks of competing in the mainstream justify the higher potential rewards of mainstream market orientation?

Inner-city retail and service firms would often benefit by reaching outside of their neighborhoods to attract nonresident clients. Zhou and Cho (2010) provide excellent illustrative examples of enclave retail and service firms in Los Angeles successfully drawing in co-ethnic clients who reside in distant suburbs. Through such strategic targeting of a broader customer base, selling products and services attractive to nonresidents can potentially expand significantly the otherwise limited development potential of enclave retail and consumer services firms.

My broader point is that our empirical understanding of precisely how minority entrepreneurship contributes to local economic development is not well developed. The task of pinning down cause-and-effect relationships between business presence and their economic impacts is tricky; simplistic linking of more (or fewer) MBEs to more (or less) job creation is not productive because it risks confusing correlations with causal relationships. It is hard to measure exogenous variation in business behavior with respect to local variations in such economic development measures as job creation. While many observe that greater numbers of local business generate more job growth (Henderson and Weiler, 2010), causality in the economic growth/entrepreneurship relationship might in fact run in the other direction (Parker, 2009).

Everyone agrees that the economic development/employment generation potential of minority entrepreneurship is a vitally important part of why MBE firm creation and growth is interesting. Oddly, little effort has been devoted to delineating business subsets that have above-average potential for creating jobs and broadly stimulating local and regional economic development. Those particular combinations of (1) owner human-and financial capital, (2) line of business, and

(3) strategic choice of market segment in which to operate that most often result in strong, successful, growing firms need to be identified more precisely.

An often overlooked but relevant fact is that the majority of all children in the United States under the age of four in 2010 are minorities, which certainly clarifies why the United States approximately three decades from now will be a nation where nonHispanic whites make up under half of the total population. The potential of the minority business community will be realized only when the higher barriers facing minority ventures are overcome and entrepreneurs, regardless of owner race/ethnicity, are fully allowed to compete based upon their skills, ingenuity, and resourcefulness. "Unless we unleash the potential of the minority population" note Greenhalgh and Lowrey, "the past success of the U.S . . . cannot be sustained in the coming decades" (2011, p. 16).

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