AN EXPLANATION OF MINORITY/ETHNIC GROUP DIFFERENCES IN ENTREPRENEURSHIP

Frank A. Fratoe, Minority Business Development Agency
Richard L. Stevens, Minority Business Development Agency

ABSTRACT

Results obtained through studies conducted by the Research Division of the Minority Business Development Agency (MBDA) show that there are large differences in business participation rates and income of self-employed persons across minority/ethnic groups. Efforts to explain why these outcome differences exist have focused on input differences across groups, in particular the unequal distribution of financial capital, individual human capital, and social capital which are available to entrepreneurs. This paper delineates such differences chiefly through data obtained from the 1960, 1970, and 1980 Censuses of Population and the 1972, 1977, and 1982 Surveys of Minority-Owned Business Enterprises. The paper also suggests a further explanation by briefly discussing a theoretical model of minority/ethnic business development being formulated by the MBDA research staff.

INTRODUCTION

The Federal Government initiated programs for minority business development in the mid 1960s. Most of those programs treated minority business owners as a homogeneous group - assuming similar entrepreneurial characteristics and problems. The alleged "problems" were generally cast as economic in nature such as inability to access financial, management and market resources.

The first comprehensive effort to gain a better understanding of minority business problems was undertaken in 1981 by MBDA's Research Staff. This effort resulted in a conceptual model of the business formation, growth and failure process. (7) This model attempted to explain observed differences in levels of business ownership among the Black, Hispanic, Asian-American and nonminority populations. Several hypotheses were developed in order to gain a better understanding of the entrepreneurship and business development process in minority communities. Furthermore, these hypotheses considered sociological and psychological as well as economic variables.

Subsequent research studies have documented differences in formation, growth and failure rates among the three minority groups mentioned above.(20) However, analysis of the 1980 Census Public Use Samples has made it clear that substantial progress in our research strategy requires a finer delineation of minority/ethnic groups than those three. This paper discusses that delineation by analyzing entrepreneurial traits of the fifty largest ancestry groups in the United States. It also offers a first cut at an improved conceptual model for explaining the many differences in traits among minority groups. This line of research should eventually give policy-makers the type of information needed to improve the design and delivery of services necessary for minority-owned business development.

OUTCOME DIFFERENCES ACROSS GROUPS

Data presented here are derived from studies conducted or sponsored by the MBDA Research Staff.(5,12,13,22) They are the first known attempts to compare specific minority/ethnic groups on their degree of business participation, rather than looking at broad population categories such as Blacks, Hispanics, Asian/Pacific Americans, and Native Americans (the standard components of the "minority group" classification) and a large residual category ("nonminority"). The first two studies to be reviewed here examine data on single ancestry background, self-employment, and income extracted from 1980 Census results. Then research efforts based on additional data sources are analyzed to determine other outcome differences.

Business Participation Rates (BPR)

Cross tabulations of single ancestry by self-employment were produced to find the business participation rate for each group, that rate being defined as the number of self-employed persons per 1,000 population of a group. Self-employment, of course, is not identical to business ownership but is a reasonably accurate proxy for the latter characteristic, which is not specified in decennial censuses. (The terms business ownership, business participation, and entrepreneurship are used interchangeably in this paper.) Cross tabulations of single ancestry by income of persons reporting self-employed status were also produced. Results of these computations are shown in Tables 1 and 2 which rank the 50 largest U.S. ancestry (minority/ethnic) groups by national-level BPR and self-employed mean incomes, respectively.

Examination of Table 1 shows a wide variation in BPR for specific ancestry groups, with some ranging far below and others far above the national average of 48.9. Puerto Ricans (10.6) record the lowest national BPR, while Russians (117.4) record the highest figure. Further analysis shows that most groups included under the "minority" classification are clustered near the bottom of BPR rankings, but a few are near or even above the national average. Other distinctions

TABLE I

Business Participation Rates of the 50 Largest U.S. Ancestry Groups (1980)a

Ranked Highest to Lowest
United States
(Persons Reporting Single Ancestry)

	Ancestry Group	Business Participation Rate
1.	Russian	117.4
2.	Lebanese	106.6
3.	Rumanian	104.3
4.	Swiss	104.2
5.	Greek	94.9
6.	Armenian	94.5
7.	Danish	93.2
8.	Syrian	92.7
9.	Norwegian	88.2
10.	Austrian	85.7
11.	Czech	76.9
12.	Swedish	76.2
13.	Belgian	74.7
14.	Latvian	74.4
15.	Welsh	72.4
16.	Dutch	72.2
17.	Scottish	69.7
18.	Korean*	69.2
19.	Hungarian	68.3
20.	Lithuanian	68.1
21.	German	68.1
22.	Iranian	66.4
23.	Japanese*	64.8
24.	Chinese*	60.2
25.	Italian	59.9
26.	Ukranian	59.7
27.	English	59.6
28.	Finnish	53.3
29.	French	51.9
30.	Polish	51.6
31.	Yugoslavian	50.2
32.	Irish	49.7
33.	Canadian	49.2
	National Average =	48.9
34.	Cuban*	47.9
35.	Asian Indian*	47.1
36.	French Canadian	45.6
37.	Portuguese	42.9
38.	Slovak	35.3
39.	American Indian*	33.3
40.	Colombian*	30.1
41.	Ecuadorian*	22.7
42.	Filipino*	22.4
43.	Jamaican*	21.5
44.	Hawaiian*	20.3
45.	Mexican*	18.6
46.	Vietnamese*	16.5
47.	Haitian*	15.5
48.	Dominican*	14.6
49.	Subsaharan African*	13.6
50.	Puerto Rican*	10.6

Source: Bureau of the Census, U.S. Department of Commerce, 1980 Census of Population and Housing, Public-Use Microdata Samples, Sample "A" (tabulations performed by the MBDA research staff).

a) Business Participation Rate = $\frac{\text{no. of self-employed x 1,000}}{\text{total persons in group}}$

based on such data will allow us to clarify several assumptions detected in the research literature about minority business participation.

First, it has long been claimed that Black-Americans from the West Indies are much more likely to be engaged in business than Blacks native to the American mainland ("Subsaharan Africans" are all Black-Americans not reporting their ancestral origins in the West Indies).(10,14) Our data show that the two largest Black West Indian groups in the United States, Jamaicans and Haitians, have BPRs only somewhat above that of Subsaharan Africans. Second, among the Asian groups, Vietnamese and Filipinos are clearly the most disadvantaged in business participation. Their rates are far below those of Koreans (69.2), Japanese (64.8), Chinese (60.2), and Asian Indians (47.1), all of whom score better than the general population average except for Asian Indians. Until now, limited reports on Vietnamese who have settled in the U.S. allege that they have entered self-employment in large numbers(17), an assumption not substantiated by our data.

Third, observers have implied that Cubans are more heavily represented in business than other Hispanics.(16,18) Although the BPR recorded by Cubans (47.9) is close to the general population average, it is well above the BPRs of all other Hispanic groups found in the 50 largest categories. Thus, the literature seems fairly correct here, but probably has only begun to discern the evident differences among Hispanic groups; for example, the extreme business participation disadvantage experienced by Puerto Ricans living on the American mainland (those residing in Puerto Rico are not included in the data). Fourth, notable by their absence from the lowest ranked groups are American Indians. Although their BPR (33.3) is below average, it is not so low as to qualify them for severe disadvantage. American Indians may be making better headway in self-employment, at least relative to others on the BPR factor, than they have received credit for doing.

Income of Self-Employed

Turning to Table 2, we see there is a wide variation in group mean incomes for the self-employed, ranging from $11,260 for Subsaharan Africans to $31,370 for Iranians, a difference of over $20,000. Of the ten groups with the lowest total incomes, all can be classified as minority except one (Finnish). On the other hand, two minority groups - Asian Indians and Filipinos - are among the ten with the highest total income. Other observations from Table 2 concern traditional categories of minority groups. Among the Black self-employed, Jamaicans and Haitians do much better than Subsaharan Africans in mean income, with Haitians actually above the national average. Among Asians, Vietnamese stand alone as earners of low incomes, as all other Asian ancestry groups are near or beyond the national average. All six Hispanic groups are below that average, although Colombians and Cubans have mean incomes well above the rest.

TABLE 2

Total Income of Self-Employed Persons in the 50 Largest U.S. Ancestry Groups (1980)a

Ranked Highest to Lowest
United States
(Persons Reporting Single Ancestry)

	Ancestry Group	Mean Income b (dollars)		Ancestry Group	Mean Income b (dollars)
1.	Iranian	31,370		National Average =	18,630
2.	Russian	30,270			
3.	Asian Indian	29,800	27.	Portuguese	18,570
4.	Filipino	27,800	28.	Korean	18,500
5.	Rumanian	26,530	29.	Dutch	18,470
6.	Austrian	26,210	30.	English	18,370
7.	Lithuanian	25,900	31.	Canadian	18,350
8.	Latvian	25,660	32.	Irish	18,290
9.	Lebanese	24,180	33.	Colombian	18,170
10.	Syrian	23,630	34.	German	18,090
11.	Hungarian	23,390	35.	Czech	17,510
12.	Ukranian	22,170	36.	French	17,320
13.	Armenian	21,430	37.	Cuban	17,310
14.	Greek	21,140	38.	Norwegian	16,760
15.	Yugoslavian	21,000	39.	French Canadian	16,730
16.	Polish	20,950	40.	Slovak	16,400
17.	Belgian	20,820	41.	Jamaican	15,320
18.	Scottish	20,520	42.	Hawaiian	14,700
19.	Welsh	20,450	43.	Finnish	14,420
20.	Italian	20,170	44.	Ecuadorian	14,160
21.	Japanese	19,680	45.	Dominican	13,870
22.	Haitian	19,100	46.	Mexican	13,850
23.	Chinese	18,980	47.	American Indian	13,110
24.	Danish	18,980	48.	Vietnamese	11,500
25.	Swiss	18,830	49.	Puerto Rican	11,490
26.	Swedish	18,660	50.	Subsaharan African	11,260

Source: Bureau of the Census, U.S. Department of Commerce, 1980 Census of Population and Housing, Public-Use Microdata Samples, Sample "A" (tabulations performed by the MBDA research staff).

a) Income reported was for 1979, by persons who designated themselves as self-employed workers or employees of their own corporation.

b) Mean Income was rounded off to the nearest ten dollars.

The next step is to determine the relation between business participation rates and self-employment income among specific ancestry groups. When Tables 1 and 2 are compared, it is clear that groups having self-employed persons with low total incomes are generally the same ones with low BPRs. For example, of the ten groups with the lowest mean incomes, eight of them are also among the bottom ten in BPR (Subsaharan African, Puerto Rican, Vietnamese, Mexican, Dominican, Ecuadorian, Hawaiian, and Jamaican). Conversely, of the ten groups with the highest mean incomes, five of them are among the top ten in BPR (Russian, Rumanian, Austrian, Lebanese, and Syrian). Using a rank-order correlation measure (Spearmen's rho) to compare the rankings in Tables 1 and 2, a correlation of .61 was obtained which is statistically significant at the .01 level, indicating a positive association between self-employed ancestry groups' mean incomes and their business participation rates.(13)

Other Outcome Differences

A full understanding of group differences in entrepreneurship requires an analysis of changes over time. Unfortunately, the minority/ethnic delineations found in the 1980 Census are not available for other time periods. Regardless, there are some important trends at the aggregate group level discernible from the 1960 through 1980 Censuses of Population and the 1972 through 1982 Surveys of Minority-Owned Business Enterprises.

The first observation is that business participation rates at the aggregate group level are increasing. This is true for three general minority groups: Black, Hispanic and Asian-American. Technical data problems prohibit comparison of relative change, but Asian-Americans continue to out-distance their minority counterparts.

Another key trend is that industrial composition is changing. In 1960, minority firms were concentrated in the personal services, retail and construction industries. That remained true in 1980, but to a lesser extent. Almost all of the growth during the twenty year period took place in industries such as business services, finance, wholesale trade, transportation, and communication. These new industries have the potential for generating higher returns to entrepreneurial pursuits and may explain why relative self-employment earnings of minorities have increased substantially since 1960. These relative gains can be found for all of the three groups with Blacks registering the largest gain compared to nonminorities. And, in some industries such as retail trade, repair services, personal services, recreation and professional services there is virtual parity in self-employment earnings with nonminority groups.(2)

INPUT DIFFERENCES ACROSS GROUPS

The outcome differences just summarized are generally confirmed by additional research studies sponsored or conducted by MBDA, though they may ascertain outcomes for broader population categories. Accumulated evidence points to the same general conclusions: clearly

there are large differences in business participation, income, and other entrepreneurial outcomes across minority/ethnic groups which have been maintained (with some fluctuations) over time. Determining that there are differences is certainly important, but we need to go beyond mere description to understand why the differences exist. Research efforts attempting this second step have looked at characteristics of high and low groups to specify which ones may be contributing factors. (1,2,3,4,5,7,11,20,22) In doing so, large disparities across groups have been discovered in entrepreneurial inputs - the key resources used for enterprise support, i.e., financial capital (financial resources), human capital (individual human resources), and social capital (social group resources). This section summarizes such findings.

Financial Capital

The research literature on financial capital issues surrounding minority business and entrepreneurship has only recently begun to address many complex dimensions such as capital composition of the firm, equity investment at startup and informal versus formal sources. There are, however, few references to differences among minority/ethnic groups. This situation should improve in the near future because of several projects sponsored by MBDA and the soon-to-be-released Census Bureau 1982 Characteristics of Business Owners Survey which contains several financial capital variables. (Note: Readers are encouraged to contact the authors concerning content and availability of these studies and the Census Bureau Survey.)

The study by Ando(1) is the first to empirically analyze a broad spectrum of financial capital issues with comparisons among groups. Using a sample of 1,300 business owners, of which 400 are minorities, she found some notable differences. First, Blacks contributed about the same amount of personal assets for equity seed capital as nonminorities, while Asian-Americans and Hispanics contributed more. These additional funds came from a higher percentage contribution of net worth rather than larger overall assets.

Second, in the year that the firm was started Asian-Americans had approximately the same debt ratio as nonminorities, but Blacks and Hispanics had a lower debt ratio. The same relative pattern seems to continue once the firm is established.

Another difference among groups is the percent of loan applications submitted to and accepted by commercial banks. Asian- Americans, Hispanics and nonminorities all had approximately 90 percent accepted, while the figure for Blacks was 65.7 percent. When these differences were subjected to multiple regression analysis there was some indication of racial discrimination against Blacks, but not the other minority groups. For those firms that received loans there were no significant differences among the three minority groups in loan terms or the interest rate.

Human Capital

The individual human resources that entrepreneurs bring to

their business endeavors consist chiefly of their educational background, work effort, and skills learned through business/occupational experience. First, research evidence indicates that groups most successful in business, i.e., those displaying the highest business participation rates and self-employed incomes, generally record the highest education levels (years of school completed). Among both male and female business owners in the traditional minority categories, Asian-origin groups have higher levels of education than the others; Asian Indians, Koreans, and Filipinos rank highest in educational attainment.(22) An industry by industry examination of relationships between education and earnings for minority entrepreneurs leads to several conclusions. Highly educated people are better off when they gravitate toward fields such as professional services and finance, insurance, and real estate. In many other industries, like construction and personal services, returns to advanced education are often negligible. Although self-employed minorities became better educated between 1960 and 1980, their earnings' determinants did not change much except for minority females. Minority females with college degrees have been moving rapidly into finance, business services, and other fields offering generally substantial returns to advanced educational credentials.(2,3)

Second, the self-employed in groups with the highest BPRs and incomes expend the greatest work effort, i.e., they work more hours per week and more weeks per year. Again among minorities, Asian-origin groups record the highest annual work time as measured by the mean number of hours worked per year.(22) Rates of entrepreneurial earnings are also correlated with inputs of time, since those registering higher annual hours of work tend to earn more per hour. This explains why females, both minority and nonminority, average less in self-employment earnings than their male counterparts; not only do female entrepreneurs work fewer hours per year but each hour of their work produces a smaller earnings' payoff.(2,3,5)

Third, white collar and service-type occupations, together with services' industry experience, strongly lend themselves to entrepreneurial pursuits. Thus, the predominantly blue collar occupational backgrounds of some minorities are poorly matched to emerging business opportunities. Many of these opportunities are sought by budding entrepreneurs on a part-time basis. Data show that wage or salaried employees who pursue self-employment on a part-time basis are an important source of long term upgrading for the minority entrepreneur universe. This group is younger, much better educated, and earning higher income relative to minority entrepreneurs overall.(2,4,5,22) A large proportion of part-timers are at the managerial/professional level, but there are variations across groups. Asian part-timers, both male and female, are the most highly represented at the managerial/professional level, while Black males and females have the lowest percentages in this category. Such findings support previous research indicating that Black business owners are more likely to have gained their experience and skills from blue collar origins, whereas Asian and nonminority owners are more likely to have a white collar background.(22)

Social Capital

Research offers another explanation, based on social resources, for group differences in business participation. According to this explanation, self-help support networks play a critical role in starting and maintaining a business enterprise by providing an owner with an entire range of assistance, from informal encouragement given by family members and friends to dependable sources of co-ethnic labor and clientele. Support networks are composed of primary institutions closest to the individual and include family, peer, and community/ neighborhood subgroups which together supply several major functions.

Most entrepreneurs have had parents or other relatives who were self-employed as business owners or professionals and were viewed as role models upon whom their children could pattern themselves; groups with relatively small numbers of business owners offer few role models. Potential entrepreneurs often receive informal training in a relative's business (or the enterprise of a nonfamily co-ethnic) to acquire skills, procedures, and knowledge needed to run a business. Groups deficient in these informal training sources must rely on more formal, and not always adequate or effective, educational institutions to learn entrepreneurial practices.(7,11,15,23)

Minority business owners have depended primarily on family funds and ethnic community resources for financial capital, not on commercial credit institutions; groups with weak support networks are less able to raise financial capital in this manner. Minority/ethnic entrepreneurs have found a source of labor in spouses, children, other relatives, and friends who perform their duties out of the expected fulfillment of kin or ethnic obligations. The ethnic community in which a particular enterprise is embedded sustains it by delivering a consumer market, i.e., a ready-made source of clientele to use the enterprise's goods or services. Access to both sources of labor and clientele appears to vary widely across groups.(11,15,19,21)

Informal business contacts in some groups through family, friends, co-ethnic clubs, churches, etc., give the individual owner access to business advice and other assistance to help him/her manage an enterprise; groups having weak support networks simply offer fewer informal contacts. Some minorities possess more positive attitudes/ values toward entrepreneurship than others, such that they believe a career in business ownership is a rewarding and attainable means for economic advancement. These differences in attitudes/values may be particularly important among young people. One key attitude concerns the status of entrepreneurs which is perceived to be high in some groups while low in others, indeed so low in the latter that their young people may prefer salaried employment in private corporations or government rather than self-employment as a career goal.(6,8,9,11)

Recent research has indirectly pointed to the critical nature of the family in minority/ethnic enterprise support networks. Data show that groups with substantial numbers of business owners and high incomes also have relatively stable families: they register higher rates of marriage, lower rates of divorce or separation, and are more

likely to be married only once. Groups which are characterized by stable families are better able to provide assistance for family members who are business owners in terms of psychological encouragement, role models, training, financial help, and other self-help support functions. To give a related example, Asian entrepreneurs tend to rely on more earners in the family than is the case among other minority groups.(5,22)

MODEL OF MINORITY/ETHNIC BUSINESS DEVELOPMENT

A great deal of work must be done before we can go beyond the kind of descriptive analysis just presented - which indicates that groups with higher levels of financial, human, and social capital are more successful in business than those having lower levels - to create a more comprehensive theoretical model of minority/ethnic business development. However, the MBDA research staff has begun this task by devising the outline of such a model, based on existing research, that attempts to demonstrate how minority/ethnic enterprises can be categorized into three general types: group-dependent (type I), partially group-dependent (type II), and independent (type III), according to generational residence in the United States.

The model not only takes into account enterprise support resources characteristic of each stage, but also includes ethnic enclave community attributes, external conditions, and typical emerging industries. A schematic summary of the model is presented in Figure 1, although it cannot be overstressed that this is a tentative configuration resulting from ongoing research at MBDA and subject to revision. Initial testing of hypotheses derived from the model will begin later in 1987 when appropriate data become available from the "Characteristics of Business Owners Survey" being conducted by the Census Bureau for MBDA.

But for now, we can at least determine some implications from the model in the form of the following sample hypotheses. (1)Groups dominated by the first generation in the U.S. (recently-arrived immigrants) generally display type I business enterprise characteristics with clientele made up of a high proportion of co-ethnics; employees chiefly co-ethnics, particularly unpaid family members; financing secured mainly from family and friends; owner trained in a relative's or friend's enterprise; owner possessing limited business management experience; and owner working a high number of hours per week.

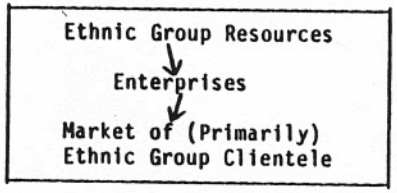
The group-dependent enterprises portrayed under Type I would be like those established by early European and Asian immigrant groups that came to the United States. They faced a labor market with considerable entry barriers because of failure to meet educational or language requirements, lack of job skills, or extensive prejudice/discrimination directed against them in hiring. The same barriers limited these groups' entrepreneurial opportunities, but at least "niches" for small enterprises existed in the local community where

FIGURE 1. Model of Minority/Ethnic Business Development

TYPE I.
"Group-Dependent Enterprises"

(1) External Conditions:
- -Labor Market (Many Barriers)
- -Business Structure (Some Opportunities)
- -Residential Concentration (High)

(2) Ethnic Enclave (Strong Solidarity with Extensive Support Network):



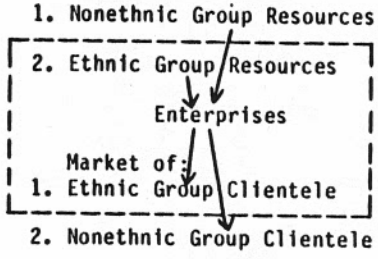
(3) Resources for Enterprise Support:
- -Financial Capital (More Equity than Debt)
- -Human Capital (Low Educational Levels, Little Business Experience, High Work Effort)
- -Social Capital (Much Support from Family, Friends, & Community)

(4) Typical Emerging Industries:
- -Retail Trade
- -Personal Services

TYPE II.
"Partially Group-Dependent Enterprises"

(1) External Conditions:
- -Labor Market (Fewer Barriers)
- -Business Structure (More Openings)
- -Residential Concentration (Reduced)

(2) Ethnic Enclave (More Tenuous with Less Extensive Support Network):



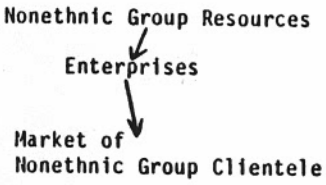
(3) Resources for Enterprise Support:
- -Financial Capital (Equity & Debt about Equal)
- -Human Capital (Intermediate Educational Levels, More Business Experience, Still High Work Effort)
- -Social Capital (Less Support from Subgroups but Still Important)

(4) Typical Emerging Industries:
- -Wholesale Trade
- -Construction

TYPE III.
"Independent Enterprises"

(1) External Conditions:
- -Labor Market (No Barriers)
- -Business Structure (Unlimited)
- -Residential Concentration (Diffuse)

(2) Ethnic Enclave (Disappears-Support Network not Visible):



(3) Resources for Enterprise Support:
- -Financial Capital (More Debt than Equity)
- -Human Capital (High Educational Levels, Much Business Experience, Less Work Effort)
- -Social Capital (Little Support, but Family May Still be a Factor)

(4) Typical Emerging Industries:
- -Finance, Insurance, Real Estate
- -Business & Professional Services

business owners could count on a strongly cohesive ethnic enclave to provide support networks with financial, human and social resources, as well as a ready-made consumer market composed of co-ethnics to whom goods/services could be sold. This restricted market, however, meant that the firms established were heavily concentrated in retail trade and other lines of business primarily serving ethnic needs.

(2)Groups dominated by the second generation in the U.S. generally display type II business enterprise characteristics with mixed clientele including a moderate proportion of co-ethnics; employees originating from inside and outside the ethnic group; mostly paid; financing secured from both informal and formal (commercial) sources; owner trained in a co-ethnic's enterprise, with some formal training; owner having some business management experience; and owner working a high number of hours per week.

Type II enterprises are partially-group dependent and represent a mixed mode whereby ethnic firms use both the resources of a weaker enclave community marked by reduced population centralization and resources outside that community to create business opportunities. These firms also develop products/services which are marketed to both ethnic and nonethnic group clientele. Labor market barriers come down somewhat but enough blockage remains to supply a large pool of loyal workers for co-ethnic business owners to exploit. At this point, expansion beyond traditional lines of business occurs and new industries emerge in such fields as wholesale trade, construction, and light manufacturing. Entire networks of ethnic-owned businesses may evolve, furnishing each other's needs, from manufacturers or wholesalers to retailers. Examples of Type II enterprises can be found historically among second generation European groups in the early to mid twentieth century or, more currently, among Cubans residing in south Florida.

(3)Older groups in the U.S. (three generations or more) generally display type III business enterprise characteristics with mostly non-ethnic group (general population) clientele; mostly non-ethnic group paid employees; financing secured primarily from formal sources; owner with formal training (some family role models available, however); owner possessing moderate to high business management experience; and owner working a moderate number of hours per week.

Little need be said about Type III firms except that they represent the common notion of what the normal enterprise "is like" as depicted in business-oriented and popular literature. Resources are supplied usually by formal institutions rather than informal support networks which, by this time, are no longer visible because the ethnic enclave has disappeared. Entrepreneurs sell their goods/services with no particular ethnic appeal to a consumer market of general clientele. Some emerging industries in this stage (e.g., finance, communications, business and professional services) require much higher levels of human resources, although other lines of business continue to require only moderate levels.

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ABSTRACT

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"AN EXPLANATION OF MINORITY/ETHNIC GROUP DIFFERENCES IN ENTREPRENEURSHIP"

by Frank A. Fratoe and Richard L. Stevens

Results obtained through studies conducted by the Research Division of the Minority Business Development Agency (MBDA) show that there are large proportional differences in business participation rates (BPR) and income of self-employed persons across minority/ethnic groups. With only a few exceptions, groups recording the highest BPR rates also have the highest average self-employed incomes, while those recording the lowest rates have the lowest incomes. Efforts to explain why these outcome differences exist have focused on input differences across groups, in particular the differential distribution of financial capital (financial resources), human capital (individual human resources such as education and experience), and social capital (social group resources like self-help networks) which support business enterprises. This paper delineates such differences chiefly through data obtained from the 1960, 1970 and 1980 Census of Population and the 1972, 1977, and 1982 Survey of Minority-Owned Business Enterprises.

But the paper goes beyond descriptive analysis to offer a theoretical model of minority/ethnic business development to explain differences across groups. This model, based on existing research, attempts to demonstrate how minority/ethnic enterprises can be categorized into three general types - group-dependent, partially group-dependent, and independent - according to generational residence in the United States. The model takes into account enterprise support resources characteristic of each stage, along with ethnic enclave attributes, external conditions, and typical emerging industries. Hypotheses are derived from the model with implications for data analysis at both cross-sectional and longitudinal levels. However, initial data analysis and testing of hypotheses must wait until Spring 1987 when appropriate data will be made available from the "Characteristics of Business Owners Survey" being conducted by the Census Bureau for MBDA.

SUMMARY

Names

Frank A. Fratoe
Richard L. Stevens

Address

Research Division
Minority Business Development Agency (MBDA)
U.S. Department of Commerce
Washington, D.C. 20230

Telephone

(202) 377-4671

Title

An Explanation of Minority/Ethnic Group Differences in Entrepreneurship

Principal Topics

This paper examines differences across specific U.S. minority/ethnic groups in entrepreneurial outcomes, i.e., business participation rates, self-employed incomes, etc. It then offers some possible explanations for these differences by focusing on the unequal distribution of entrepreneurial inputs, i.e., financial capital, individual human capital, and social capital.

The paper also suggests a further explanation by briefly discussing a theoretical model of minority/ethnic business development being formulated by the MBDA Research Staff.

Method and Data Base

Data are derived from studies conducted or sponsored by the MBDA Research Staff. They are based on results, pertaining to self-employment and business ownership from the 1960-1980 Censuses of Population and the 1972-1982 Surveys of Minority-Owned Business Enterprises, supplemented by additional information from reviews of the research literature. Data were analyzed in the original studies using cross-tabulations and multiple regressions, although only two summary tables utilizing the former are presented here.

Major Findings

There is a wide variation in business participation rates across U.S. minority/ethnic groups, ranging from a low of 10.6 for Puerto Ricans to a high of 117.4 for Russians. Similarly, there is great variation in group mean incomes for the self-employed, ranging from $11,260 for Subsaharan Africans to $31,370 for Iranians. These and other outcome differences are at least partially determined by input differences

across groups: financial resources (equity and debt capital, commercial loans), individual human resources (educational level, work effort, occupational experience), and social group resources (family background, self-help support networks).

Major Implications

Policy planning devoted to assisting the process of minority business development should take into account the uneven distribution of financial, human and social resources available to entrepreneurs as well as the length of residence and stage of business development of the groups to which the entrepreneurs belong. The MBDA staff is undertaking further research to clarify these issues.