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QUICK READ SYNOPSIS

Advancing Research on Minority Entrepreneurship

Special Editors: TIMOTHY BATES,
Wayne State University;
WILLIAM E. JACKSON III,
University of Alabama

and

JAMES H. JOHNSON JR.,
University of North Carolina at Chapel Hill

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Latino Self-Employment and Entrepreneurship in the United States: An Overview of the Literature and Data Sources

Bárbara J. Robles, Arizona State University; and
Héctor Cordero-Guzmán, City University of New York

Background

While attention has been paid to Latino growth and its contribution to the U.S. labor market, less scholarly and popular media attention has focused on Latino self-employment, entrepreneurship, and business growth.

- A gap exists in our knowledge about the accelerated growth in Latino small business ownership across the United States.
- This article provides an overview of the current state of research on Latino entrepreneurial activities and recommends a broader research agenda that includes community based organizations as part of the entrepreneurship landscape in high-density Latino communities.
- The most recent results from the *Hispanic Owned Business Survey: 2002* indicate that 1.57 million Hispanic-owned businesses operate in the United States and are growing at a rate of 31 percent (three times the national average).
- Although both current data availability and previous policy initiatives have substantive limitations, the authors are encouraged by the debate among Latino small business scholars who have pioneered investigating Latino entrepreneurial activity in the United States.

- Research Needs* Although the data collected on Latino business owners and the self-employed have improved over time, continuing analyses of the available data creates questions arising from scholarly findings for this particular community.
- Does successful management of small businesses despite low levels of education and low family wealth relate to a family member (especially an extended family member) having owned a business?
 - For researchers seeking to understand the entrepreneurial activities of particular Latino groups, the Decennial Census and Current Population Surveys are the only large data sources that specifically capture Latino country of origin data.
 - The self-employed as described in the Public Use Microdata database is only one segment of a diverse Latino entrepreneurial landscape.

- Findings* From the overview of Latino self-employment and entrepreneurship research, a consistent set of findings emerge that help explain both the accelerated growth of Latino entrepreneurial activity while capturing the barriers to successful small-business life-cycle transitions.
- Low educational levels continue to be statistically significant and may be a driving force in the push into self-employment while contributing to the marginal existence of many Latino small businesses.
 - Lack of financial resources (personal wealth or access to capital) for operation/expansion purposes contributes to block business growth.
 - Latino entrepreneurial activity continues to be concentrated in the service sector.

NOTE: These three persistent indicators have not changed significantly for the Latino population over the past twenty-five years. Policies crafted in a one-size-fits-all mold, however well intentioned, have contributed to the unchanging nature of the Latino business community indicators.

- Conclusion* Research that continues to uncover the facets of the social and community links between the micro-entrepreneur and self-employed sector with the economic realities of community revitalization, gentrification, sustainable urbanism, transnational migration, ethnic biculturalism, and the permeable boundaries of the ethnic enclave would provide us with a deeper understanding of the role of the smallest entrepreneur in Latino communities.
- The college-educated pool of Latino entrepreneurs is becoming more visible and requires researchers to recognize the bimodal nature of policy application for different entrepreneurial stakeholders.
 - Policy prescriptions aimed at the Latino college-educated entrepreneurial population anchored in university-business partnerships and collaborative programs that bring more entrepreneurship-skills programs and business leadership mentoring into the postgraduate, university, and community college environment could prove to have more permanent and positive outcomes.
 - Policies that include a pipeline component that creates linkages to community-based Latino serving organizations engaged in micro-enterprise lending and financial education services would provide an upwardly mobile avenue for the less educated aspiring entrepreneur.

Mexican-Hispanic Self-Employment Entry: The Role of Business Start-Up Constraints

Magnus Lofstrom, University of Texas at Dallas and Institute for the Study of Labor; and Chunbei Wang, University of Texas at Dallas

Background This article contributes to the minority entrepreneurship research by analyzing self-employment among Mexican-Hispanics, an important minority group that has been relatively overlooked in the entrepreneurship literature.

- A major focus of the literature is on the role of access to financial capital:
 - Do capital constraints shape self-employment entry and exit?
 - The data reveal that Mexican-Hispanic males are substantially less likely to be business owners, relative to whites.
- Greater assets, measured as inheritances, lead to higher probability of business survival, suggesting that liquidity constraints are binding.
- Owner educational background is a major determinant of business survival and the financial capital structure of small business start-ups.
- Other factors linked to the self-employment entry decision include managerial ability; risk aversion; nonpecuniary benefits of owning one's business; and intergenerational links, including parental wealth.
- Another factor is differential treatment in the credit market. Credit constraints impact the types of industries that minorities seek to enter.

NOTE: Like African Americans, Hispanics are a disadvantaged minority group. There are a number of differences between the two groups, however, particularly regarding family composition, educational attainment, immigration status, and historical experiences in the United States. This article focuses on the largest Hispanic group in the United States, Mexican-Hispanics.

Self-Employment The authors address the role of differences in the industry composition of entrepreneurs in explaining the relatively low Mexican-Hispanic self-employment rate.

Potential Barriers The self-employment entry difficulties Mexican-Hispanics may face are possibly due to low endowments of human capital, as well as limited access to financial resources.

- Close to one-half of self-employed Mexican-Hispanics have not completed high school, and only 9 percent are college graduates.
- There appear to be significant differences in human capital endowment, and possibly financial resources, between Mexican-Hispanics and whites. Mean business equity is found to be lower among Hispanic-owned businesses than white-owned businesses.
- Self-employment entry by industry groups shows that the lower self-employment entry rate among Mexican-Hispanics is due to lower business start-up rates in the medium- and high-barrier industries.
- The result of limited access to capital is higher failure rates.

NOTE: Mexican-Hispanics are more likely than whites to become business owners in the low-barrier industry group, the industry group where Mexican-Hispanic business start-ups are concentrated.

Conclusion

The findings in this article are consistent with the hypothesis that the lower self-employment rate among Mexican-Hispanics, relative to whites, is at least partially due to human and financial capital start-up constraints.

- The lower educational attainment levels among Mexican-Hispanics appear to restrict business start-ups to low-barrier industries.
- Policies aimed at increasing the currently low average Mexican-Hispanic schooling levels may also succeed in increasing the Hispanic self-employment rate.
- An important issue for future research is to assess whether there are differences in the success of self-employed Mexican-Hispanics and whites within industry groups.
- The entry barriers addressed in this article may also affect the success of Mexican-Hispanic entrepreneurs, which may be one of the mechanisms that lead to the observed low Mexican-Hispanic self-employment rate.

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Access to Financial Capital among U.S. Businesses: The Case of African American Firms

Alicia M. Robb, University of California, Santa Cruz;
and Robert W. Fairlie, University of California, Santa Cruz,
and National Poverty Center, University of Michigan

Background

African Americans are found to have levels of wealth that are one-eleventh those of whites.

- The median level of net worth for black households is only \$6,166.
- Blacks are much less likely to start businesses than are whites, which results in a substantially lower rate of business ownership.
- Among black entrepreneurs successful in starting businesses, it is found that they invest much less capital at start-up on average than white entrepreneurs.
- Lower levels of start-up capital among black businesses appear to also limit their ability to grow and succeed.
- Racial disparities in start-up capital contribute to higher failure rates, lower sales and profits, and less employment among black-owned businesses.
- Evidence from the Survey of Small Business Finances suggests black-owned businesses face significant barriers to access to capital, which are possibly due to lending discrimination.
- Black businesses are less likely to have loans approved and are more likely to not apply for loans because of fear of denial.

NOTE: Given the importance of financial capital in a firm's formation and ability to survive, credit market imperfections can have profound implications for business performance and viability. Minority-owned businesses lag behind non-minority-owned businesses in terms of sales, profits, survivability, and employment; facing greater obstacles in obtaining financing for their businesses implies that an already difficult situation worsens.

The Study

This study addresses issues of low levels of black personal wealth, limiting the formation of new businesses and lower levels of start-up capital resulting in less successful black-owned businesses relative to white-owned businesses, including the following:

- *Black-white disparities in business ownership and outcomes*—White non-Latinos and Asians have the highest self-employment rates, whereas blacks have the lowest rates.
- *Wealth inequality*—Blacks are overwhelmingly more likely to have low asset levels and less likely to have high asset levels than are whites.
- *Personal wealth and business entry*—Current findings are consistent with the presence of liquidity constraints and low levels of assets, limiting opportunities for black entrepreneurs to start businesses.
- *Start-up capital*—Black entrepreneurs invest less start-up capital in their business because they have less access to capital.
- *Borrowing patterns and discrimination in lending*—Black and white entrepreneurs differ in the types of financing they use for their businesses. (Although these differences are likely to be caused by many factors, they may be partly due to differences in personal wealth and lending discrimination.)

Conclusions

Several important policy implications evolve from this research.

- Address potential discrimination in the lending market.
 - This may be accomplished through additional oversight by the lending community.
 - This could entail improved training for internal loan review practices in financial institutions.
- Technical assistance programs to assist minority-owned businesses with starting and operating a business, applying for a loan, and financial literacy and accounting training are some other types of programs that could benefit minority-owned businesses and help them access credit markets.
- Finally, programs like individual development accounts and first-time homeowner programs that help low-income people build assets and human capital could also help these individuals build the financial and human capital needed to start and succeed in entrepreneurship.

Small Firm Credit Market Discrimination, Small Business Administration Guaranteed Lending, and Local Market Economic Performance

Ben R. Craig, Federal Reserve Bank of Cleveland;
William E. Jackson III, University of Alabama; and James B. Thomson,
Federal Reserve Bank of Cleveland

Background

Minority entrepreneurs more often report that access to adequate capital is a major problem than do their majority counterparts.

- Black small business owners are three times as likely as white small business owners to face this problem.

- The likely sources of capital access constraints on minority-owned small businesses points to discrimination.
- The primary research question addressed in this article is, Does Small Business Administration (SBA) guaranteed lending lessen the negative impacts of discrimination on minority entrepreneurs and their communities?

NOTE: The authors' results suggest that high-minority markets are positively impacted by SBA guaranteed lending. Moreover, the impact for high-minority markets is three times as large as it is for low minority markets. This result has important implications for public policy in general and SBA guaranteed lending in particular.

Discrimination There are at least two reasons why discrimination against minority-owned firms might be observed in small business credit markets.

- The first is simply prejudicial-type discrimination behavior.
- The second is related to differential levels of asymmetric information and credit rationing.

NOTE: One method likely to reduce the costs of asymmetric information-based discrimination is to reduce the amount of asymmetric information, especially for minority-owned firms. One practical method is to encourage lenders to make profitable loans that they would not otherwise make via resources such as the SBA guaranteed lending program.

Information Problems

Many economists contend that private lending institutions may indeed fail to allocate loans efficiently because of fundamental information problems in the market for small-business loans.

- The lack of perfect information in loan markets may cause two effects that allow the interest rate itself to affect the riskiness of the bank's loan portfolio.
 - Adverse selection impedes the ability of markets to allocate credit using price by increasing the proportion of high-risk borrowers in the set of likely borrowers.
 - Moral hazard reduces the ability of prices to clear lending markets because it influences the ex-post actions of borrowers.
- As a result of these two effects, a bank's expected return may increase less for an additional increase in the interest rate and beyond a certain point may actually decrease as the interest rate is increased.
- And because the value of collecting information on borrowers may be less in high-minority markets (because of expectations of less aggregate per capita lending), the levels of imperfect information may be higher, in equilibrium, in high-minority markets.

The SBA

By reducing expected loss associated with a default, the SBA guarantee increases the expected return to the lender—without increasing lending rates.

- To the extent that the loan guarantees do reduce the rate of interest, external loan guarantees will help mitigate the moral hazard problem.
- Lowering the rate increases the number of low-risk borrowers applying for credit, which increases the likelihood that the average risk of firms applying for loans is representative of the pool of borrowers.
- Hence, external loan guarantees help mitigate the adverse selection problem.

Conclusion

NOTE: If SBA loan guarantees indeed reduce credit rationing in high-minority markets for small business loans, then there should be a relationship between measures of SBA guaranteed lending activities and economic performance. This study finds evidence consistent with this proposition.

The study results should be interpreted with caution because of at least five issues noted by the authors.

- We are unable to control for small business lending at the local market level—we do not know whether SBA loan guarantees are contributing to economic performance by helping to complete the market or are simply substituting for small business lending in the market.
- We are not able to test whether SBA guarantees materially increase the volume of small business lending in a market—a question that is related to who captures the subsidy associated with SBA guarantees.
- We do not have direct measures of whether SBA guaranteed lending is really reducing discrimination at the microeconomic level.
- We do not have any measures of the actual demand for credit by potential and existing minority small businesses in the local market.
- We do not include measures of the costs of SBA guaranteed lending, which would include the performance of granted SBA loans.

NOTE: All of these issues relate to a larger question: what is the optimal level of SBA guaranteed lending in U.S. small firm credit markets? Future research may seek to shed additional light on this larger question.

Traits and Performance of the Minority Venture-Capital Industry

Timothy Bates, Wayne State University;
and William Bradford, University of Washington

Background

This study analyzes the performance of investments made by venture-capital (VC) funds that specialize in financing minority business enterprises (MBEs).

- The apparent existence of a discriminatory financing environment creates an underserved market and, hence, attractive opportunities are available to firms capable of identifying and serving MBE financing needs.
- The minority VC funds are earning yields on their realized investments that are at least equivalent to those of the broader VC industry.
- This study analyzes the nature and performance of the VC funds that specialize in financing large-scale, minority-owned businesses.

New Entrepreneurs

A new African American entrepreneur has emerged, who is young, well educated, and operating increasingly in nontraditional industries.

Minority VC Investment

An important trait differentiating the minority-oriented VC sector is its broad diversification regarding industries in which the funds invest.

- Mainstream VCs are heavily concentrated in several high-tech sectors while minority VCs are widely diversified across high- and low-tech fields.

- One fact is clear: equity capital invested in MBEs has grown enormously.
- The ability of the minority-oriented VC industry to expand its MBE investments depends critically upon its ability to attract capital from institutional investors.

Conclusions

The authors conclude that the returns to the minority-focused funds are certainly no lower, and perhaps higher, than those of mainstream funds.

- Furthermore, their market risk of investments is not higher than the risk of the mainstream funds.
- Thus, one can accept the hypothesis that minority-focused funds are investing in an underserved market niche with attractive returns. This conclusion is tempered by the reality of underlying databases that are not perfectly comparable.
- The evidence, nonetheless, clearly suggests that, during the period observed, the investment performance of the minority-focused funds was at least equivalent to that of their vintage mainstream funds.

The Future

As we look to the future, we see reasons why mainstream VC funds will not exploit MBE investment opportunities.

- First, fund general partners obtain the bulk of their investment opportunities through contacts and relationships built over time.
- Second, most minority funds are not high-tech oriented and do not fit the technical focus typifying mainstream VC funds.
- Third, the existence of discrimination can result in distaste for minority persons, spilling into distaste for investing in minority businesses.

NOTE: To the extent that general partners prefer not to work with ethnic minorities and are willing to forgo economic profits to avoid transacting with minority owners, fund entrance will be (self-) restricted. We conjecture that each of these factors plays a role in creating a profitable niche for minority-focused VC funds.

Secrets of Gazelles: The Differences between High-Growth and Low-Growth Businesses Owned by African American Entrepreneurs

Thomas D. Boston, Georgia Institute of Technology and EüQuant; and Linje R. Boston, EüQuant

Background

Until this study, no one had explored why some African American-owned businesses have achieved high rates of growth while others have not.

- Specifically, high-growth firms in the data were less likely to compete on the basis of price, but the small number of variables found to be statistically significant shows need for further study.
- David Birch labeled fast growing companies “gazelles”—defined as firms that have achieved an annual rate of growth of at least 20 percent.

*High versus
Low Growth*

- In this study, gazelles were compared to
 - low and moderately growing small businesses called growth-oriented firms and
 - firms whose annual employment growth was less than 1 percent or negative, called no-growth firms.

Kim and Mauborgne (1998) found that high-growth entrepreneurs may be distinguished from low-growth entrepreneurs along several dimensions.

- These include greater strategic intentions, entrepreneurial intensity and growth, greater willingness to incur the opportunity costs of growing, more decentralized firm structure, higher levels of financial resources, and a greater variety of funding sources.
- Their research indicated that high-growth-oriented entrepreneurs are more likely to pursue market expansion through product and service innovation and increased advertising expenditures.
- They are also more likely to pursue technological avenues, spend more time searching for financing, engage in operations planning, and devote more resources to organizational development and training.

NOTE: High-growth entrepreneurs, in contrast to small business owners, are highly motivated, have a greater propensity for risk-taking, engage in innovative activities, exhibit a psychological profile that is consistent with the goal of growth and profitability, and plan systematically.

Comparisons

In this study, the authors compared the responses of gazelle owners to the responses by owners of no-growth companies in several business categories.

- In traits and self-perceptions, the differences were not significant.
- Gazelle owners do hold slightly more positive views about the economy; however, the difference can be attributed to chance.
- While a greater proportion of gazelle owners are more satisfied with their current positions as entrepreneurs than are owners of no-growth firms, the difference is not statistically significant.
- While a slightly greater proportion of gazelle owners reported that their skills were inborn compared to the percentage of no-growth owners, the differences were not statistically significant.
- Fewer gazelle owners (80 percent vs. 87 percent for no-growth owners) rate control over their destiny as a significant motive for entering into business, and again, this difference is not statistically significant.
- The results confirmed that the pursuit of power and social status is much less important to gazelle owners.
- Gazelles were attracted to opportunities, not pushed by adverse circumstances like prior loss of a job.
- Other questions asked if owners entered business because they wanted to overcome racial barriers, to serve their communities, or if they were inspired by someone outside of their family—none of the differences were statistically significant.
- Seventy-four percent of gazelle owners considered the desire to use their experience and education as a significant factor to enter business.

<i>Owner Attributes</i>	<p>As to owner attributes, none of the group differences in responses to questions in this category were statistically significant.</p> <ul style="list-style-type: none"> • The data revealed that there was only a two-hour difference in the reported average number of hours spent weekly in the enterprise. • Eighty-three percent of gazelle owners compared to 75 percent of no-growth owners founded their business.
<i>Growth</i>	<p>More gazelle owners than no-growth owners indicated a willingness to take their company public if the opportunity arises.</p> <ul style="list-style-type: none"> • An equal percentage of both groups of owners feel the same about the impact of discrimination on the ability of their firm to grow.
<i>Competitive Strategy</i>	<p>Respondents were asked about their pricing strategy, and responses suggest that gazelles are less likely to engage in competitive pricing strategies.</p>
<i>Marketing</i>	<p>The results show that gazelles received a smaller percentage of their total revenue from African Americans.</p>
<i>Conclusion</i>	<p>The differences in rates of growth among African American–owned firms cannot be explained simply by evaluating differences in owner attributes, firm attributes, characteristics of markets, and environmental constraints.</p> <ul style="list-style-type: none"> • Firms experiencing rates of growth of 40 percent annually are very similar to firms experiencing declining rates of growth. • The real explanation of high growth remains a “black box.”

Exploring Stratification and Entrepreneurship: African American Women Entrepreneurs Redefine Success in Growth Ventures

Jeffrey Robinson, New York University; Laquita Blockson, College of Charleston;
and Sammie Robinson, Illinois Wesleyan University

<i>Background</i>	<p>This article focuses on African American women in entrepreneurship as a starting point for exploring the influences of social stratification on entrepreneurship and vice versa.</p> <ul style="list-style-type: none"> • The authors note that, according to a study in which the survival rates of firms owned by women and minorities were examined, African American women–owned firms fared better than those owned by African American men. • Trends pointing to the increasing presence of women in African American entrepreneurship have implications for the U.S. economy. They provide a road map for economic development in the African American community through productive entrepreneurship.
<i>Social Stratification</i>	<p>Social stratification and entrepreneurship interact in at least three ways.</p> <ul style="list-style-type: none"> • Entrepreneurship can be a means of social mobility—it can create ventures that create wealth and allow the entrepreneur and their families to move from lower status to higher status positions.

*Lack of
Research*

- Entrepreneurship can play a role in addressing the challenges of a fractious, stratified society.
- Social stratification influences the process of entrepreneurship for those actors who hold lower status positions in society.

NOTE: For those entrepreneurs who hold disadvantaged positions in the social structure, social stratification can have profound effects on how they identify, shape, and pursue entrepreneurship.

To fully appreciate the dearth of research in this area, the authors considered Brush's (1992) review of the women in entrepreneurship literature.

- She noted that only two of the fifty-seven articles on women and entrepreneurship she analyzed from 1977 to 1991 focused on minority women.
- In addition, the authors found only seventeen research dissertations related to African American women entrepreneurs and self-employment.
- The macro-level of analysis of African American women entrepreneurs is by far the least studied area of all.

NOTE: Since 1991, there has been a marked increase in number but not necessarily in the breadth or depth of the research.

*New Research
Approach*

From the literature review, it is clear that there is much to be gained from exploring social stratification and entrepreneurship together.

- The multidimensional nature of social identity can be accounted for.
- This approach allows one to move beyond the functionalist paradigm to understand how entrepreneurship unfolds differently for these subjects.

NOTE: The authors argue that we must also acknowledge the inequality that exists in the United States and other nations and consider how that inequality interacts with the identification and the shaping of entrepreneurial opportunities by constraining some activities and providing opportunities for others.

*Definition
of Success*

While the history of American/Western business values has conditioned us to believe that economic indicators of success are predominant, entrepreneurial success is defined much more broadly in other cultures and environments.

- Werbner (1999) described it best when she noted that success may be defined as "the competitive achievement of prestige or honor, and of the symbolic goods signaling these, within a specific regime of value."
- Things that are valuable (or deemed significant) to entrepreneurs when defining success for their ventures (and/or themselves) often cannot be translated cleanly into economic terms.
- Noneconomic measures of success may be viewed as being as valuable as, if not more valuable than, economic measures of success.

NOTE: The authors' observations would validate Werbner's argument. Using solely economic indicators to determine entrepreneurial success may mask whether they are, indeed, successful. Based upon their preliminary observations, the authors argue that the context of African American women is important for this discussion and has implications for the field of entrepreneurship.

- Implications* What do we learn from studying these entrepreneurs and what are the implications of this research?
- The process of entrepreneurship may have many similarities across contexts, but the process is influenced by society's norms, values, rules, regulations, and public policies—*context matters*.
 - Studying African American women in entrepreneurship with an eye on social stratification perspectives provides an opportunity to use different research approaches in entrepreneurship research.
 - The recognition of the importance of context and relevance of research approach will lead to more informed policy making.
- Conclusion* The goal of this article was to present the usefulness of analysis that addresses the complexities of race, gender, class, wealth, and entrepreneurship.
- As a result, the implication is that further research in this area should be conducted from an interpretivist perspective. By adopting a lens that considers several important factors,
 - entrepreneurship may be defined as a process, noting the different measures of success; and
 - entrepreneurship research should take into account both the complexity within society and the multidimensional nature of social identity and its relationship to social stratification.

Building Ventures through Civic Capitalism

Candida Brush, Babson College; and Daniel Monti, Andrea Ryan,
and Amy M. Gannon, Boston University

- Background* An exploratory study of urban entrepreneurs participating in a technical assistance program finds that they focus both on the bottom line and an explicit wish to improve their community.
- This integrated combination of economic and social values, a kind of civic-minded capitalism, guides their positioning for growth and yields a business that can best be called a “civic enterprise.”
 - Entrepreneurship and business development are vehicles for accelerating the revitalization of urban areas.
 - Many depressed urban neighborhoods have mostly minority populations whose rate of population growth vastly outstrips their ability to develop their own businesses.
 - Even though minority business development is growing at a rate of 10 percent annually, it is lower than the national average for all businesses.
 - The prevalence of entrepreneurial behavior among black men and women is 50 percent greater than for whites—for Hispanic men, 20 percent greater—though business survival rates are low.
 - There is an unfortunate gap in our knowledge of how smaller urban and minority businesses position for growth that calls for a more organizational approach to studying minority businesses.

Three Ms

Key factors influencing business growth and success are money, market access, and management capability—the three Ms.

- The relative lack of access of minority businesses to the three Ms has been crucial to their lack of success and slow business growth.
- Markets are important to all businesses, but may be even more so for minority businesses who are located in predominantly minority communities and/or inner cities. It is also important to extend the market beyond the local community to enable growth beyond what might be expected.

NOTE: Given the relative lack of success of minority businesses, we must ask both what helps to foster their growth and what barriers sit in the way.

The ICE Study

The subjects of this study participated in a technical assistance program, Inner City Entrepreneurs (ICE), which was launched in Boston.

- The sample of entrepreneurs was 55 percent minority and 45 percent white, 65 percent male and 35 percent female, with nearly 80 percent of the sample having four years of college.
- Most of the entrepreneurs (62 percent) started their ventures from scratch, and 25 percent of them have owned two or more ventures.
- Personal values and goals were related to the decision to start a business.
- The overwhelming majority of the ventures are small, with 70 percent having fewer than ten employees.
- They were more likely to say their goals were to provide jobs than to make a profit or create personal wealth. The more popular ways of “giving back” to the community include providing jobs to local people; offering in-kind contributions, free services, and donations; making referrals for people looking for assistance; letting their business be used for meetings and as a site for public announcements; and participating in neighborhood initiatives and celebrations. What may be unique to this sample is that nearly 20 percent believe that having a broader social mission or “social consciousness” is what distinguishes them from the competition.

Conclusions

Based on the qualitative and quantitative results in this exploratory study, the authors conclude that to understand the processes of growing ventures in urban neighborhoods, we must understand the interactions of people and place and how these interactions affect the economic and social missions of these ventures.

- The dual mission of these *civic capitalists* influences many decisions the entrepreneurs make and can sometimes create special challenges.
- Ethnicity and culture also play a role in creating both advantages and disadvantages.
- If they wish to grow, particularly in communities with relatively weaker institutional infrastructures and more unstable economic situations, they encounter a variety of challenges:
 - For *civic capitalists*, a poor balance of social and economic missions can put the business at risk.
 - As a business grows, the entrepreneur becomes less involved in every decision, perhaps making it more difficult to manage both missions well.
- Given all the challenges, how does a venture ensure that the dual social and economic missions are held by the organization itself and not simply part of the owner’s approach?

NOTE: Their ability to survive and their motivation to succeed puts these businesses in a better position to positively impact the economic and social environment of urban communities—to create jobs, serve the community, and become entrepreneurial leaders.

Tax Refunds and Micro-Businesses: Expanding Family and Community Wealth Building in the Borderlands

Bárbara J. Robles, Arizona State University

Background

The Earned Income Tax Credit (EITC) is the largest antipoverty fiscal policy program for working, low-income families administered by the IRS.

- Unemployment plays a profound role in the ability of families in the Borderlands to secure a financially stable future for their children.
- The high concentration of Latinos in the region corresponds to a greater incidence of seasonal jobs, low-wage service sector jobs, and a larger labor pool with lower educational attainment characteristics.
- As public assistance income declines, more families are engaging in self-employment and micro-business activities.
- Informal economic activity is also related to stagnant job creation, high unemployment rates, and chronically depressed wages.
- A large portion of the micro-business and self-employment activities along the Southwest border are highly correlated with economic survival strategies and are often a “second or third” job.
- Formalizing informal economic activities can be used to leverage asset and wealth-building opportunities for low-resourced Latino families. The challenge lies in educating workers and families on their tax rights and documenting income streams from services provided.

Economic Choices

Financial and economic choices are fundamentally intertwined with consumer skills that are usually learned through intergenerational transfer of knowledge and frequent exposure to mainstream markets.

- For non-native-born working poor families arriving from countries with class-oriented financial institutions (limited to serving wealthy customers) and severely underdeveloped credit systems, these concepts and activities are skills they need to master.
- Moreover, for native-born families residing in isolated communities in the United States that rely on cash and informal barter systems, familiarity with mainstream financial services and products is difficult to acquire since mainstream financial institutions are often absent.
- Understanding income tax responsibilities and rights are also asset- and wealth-building skills and are often overlooked as a component in financial education curricula and outreach.
- Although the EITC has been successful in providing substantial economic relief to a growing segment of the U.S. population and although Latinos are eligible for the EITC, Hispanics are least likely to be aware of this refunded tax credit and less likely to claim it compared to whites and blacks.

- Tax Refunds* Three relevant findings provide a deeper understanding of how tax refunds are leveraged into asset- and wealth-building activities:
- Micro-business owners expend tax refunds on schooling for themselves or their children to a higher degree.
 - They expend their tax refund on property taxes to a higher degree.
 - Micro-business owners allocated their tax refunds to a greater degree upon acquiring a home of their own.
- Studies* The findings from two study models provides insight into the role that education and tax refund expenditures play in the economic resiliency behaviors of low-resourced tax filers.
- Tax refund recipients who expend on education increase their capacity to engage in wealth-enhancing activities.
 - Continuing education and engaging in wealth-leveraging activities create opportunities for asset building and economic stability for income-constrained entrepreneurial aspirants.
- Conclusion* The slow growth of low- to medium-skilled wage employment plays a decisive role in economic resiliency and entrepreneurial behaviors in both the rural and metropolitan areas of Southwest border counties.
- The economic conditions that create challenges are also opportunities for micro-business and entrepreneurial initiatives.
 - Continued growth of tax revenues at local and regional levels—which realizes community productive capacity—requires policies that encourage formalizing informal entrepreneurial activities.
 - Promoting education and skills-building benefits two groups:
 - those with a college education, who can leverage their human capital into growing enterprises; and
 - those with limited education, requiring policies focused on entrepreneurial skills and the basics of formal market entry.
- Future* Through tax- and asset-building outreach programs connected to skills-building community-based support services, many of the hard-to-reach entrepreneur aspirants can be connected to formal business operations and mainstream financial institutions.
- Education is a crucial factor in asset building for families and, consequently, for communities.
 - New data sources and ongoing data collection efforts help create new research findings and policy directions.
 - Data collection that creates an intersection between financial behaviors, economic resiliency choices, and wealth-building opportunities brings with it more understanding of the needs.