

# ENTREPRENEURIAL CHARACTERISTICS OF SUCCESSFUL INTER-CITY BLACK SMALL BUSINESS OWNERS

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## ABSTRACT

This study examines the business performance of Black entrepreneurs within an inter-city economic development area. It was designed to add dimension to the widely held belief that Black business failures can be attributed mainly to lack of capital as opposed to ineffective managerial practices.

The managerial behavior of successful versus unsuccessful Black small business owners was investigated by measuring objective-centered management skills as a condition of effectiveness. Study participants completed an extensive Managerial Assessment Profile. Scores were divided into management function subcategories for analysis comparing and contrasting, as well as, determining the similarities between the two groups.

Study findings suggest a number of recommendations for correcting the deficiencies between the test groups and to improve the success rates of Black capitalists in America's Inter-Cities.

## INTRODUCTION

As the United States recovers from the worst economic period since the 1930's Black entrepreneurs face the challenge of participating in the ensuing economic prosperity. Failure to do so could threaten the long term prospect of Black economic development (3, p. 37). For the business sector to assist Blacks in achieving "economic prosperity" and "economic independence," it is critical that Black-owned businesses perform well (6; 1, pp. 477-479).

As the foundation of economic activities in the Black communities of the United States, independently owned Black entrepreneurial businesses have become recognized as very important factors in the social and economic development of Black America, particularly in terms of employment and the provision of goods and services (1, pp. 477-479). However, many of these businesses are gradually beginning to disappear from the neighborhood scenes, primarily due to business closeouts and outright business failures (16).

As a result, Black economic plans are disrupted and many people whose livelihoods depend on failed businesses become unemployed or destitute. The problem was first brought into sharp focus in a study conducted for the Minority Business Development Agency, an agency of the Commerce Department, by Steven in 1981. Steven confirmed that the failure of business enterprises had a greater negative effect on Blacks than on any other ethnic minority. The number of business failures among Black-owned firms is about twice that of other minority groups, while the rate of formation of Black-owned firms is comparatively lower. By contrast, the failure rate of White-owned firms was less than half that of Black-owned firms.

There has been a strong belief among business operatives that relates success in business to the amount of financial resources available to the firm. However, several recent studies on the subject suggest that the performance of small businesses depends greatly on the quality of management provided by entrepreneurs (9).

The question then is, why do so many Black-owned businesses fail? What can be done to help correct the situation? The argument that lack of access to capital sources contributes to Black business failures (11, 13) may no longer be fully sustained. The Board of Economists of Black Enterprise Magazine has warned that "Black America is in a state of crisis, and business-as-usual was no longer acceptable" (2, p. 119).

To help redirect the efforts of Black entrepreneurs to a successful performance, the type of management system most useful for the successful operation of Black businesses must be identified. This research effort proposes to examine the most effective management system used by successful Black-owned businesses located within an inter-city economic development area, based on the personal accounts provided by successful as well as unsuccessful Black entrepreneurs

themselves.

## RESEARCH SCOPE AND STUDY METHODOLOGY

### Basic Study Criteria

The entrepreneurs chosen for the study were selected from among current and previous business owners whose businesses were located within the "inner city" area (ICA) of metropolitan Kansas City, Missouri; an area chosen for the study for the following specific reasons:

1. It was one of 21 blighted areas in cities across the United States in the early 1980's targeted for special economic enhancements by the Office of Economic Development, of the U.S. Commerce Department.
2. The "inner city area" like its counterparts in other metropolitan cities, is an area of the city predominantly inhabited by a large majority of urban Blacks and in which the greatest number of Black-owned businesses are located.
3. The inner city area of Kansas City, Missouri is economically and demographically similar to other metropolitan Black communities in the United States (Community Services Administration, U.S. Office of Economic Development, Title VII: Impact Program Act, 1979).

An extensive records search was carried out to gather the required background information for this study. In general, only the following criteria were considered eligible for inclusion in the relevant population of ICA firms:

1. Must have been fully operational and had no less than 5 employees and no more than 100 employees, by December 31, 1986.
2. Must be privately owned and personally managed by its owner(s).
3. Must have been in continuous operation for at least 10 years.
4. Must not be a franchise or a not-for-profit or a professional consulting business.

These criteria were imposed because it is believed that jointly they formed a strong basis for establishing the independence of the business-owners' right to make private and independent decisions about their businesses.

The minimum number of employees was established at five because it is believed that five employees were capable of raising a variety of managerial problems to test the entrepreneur's managerial skills.

Ten years was established as the minimum number of years for the on-going firms to have been in business because studies conducted by the U.S. Small Business Administration have suggested that most new businesses fail within their first eight years of existence and only mature companies existed beyond their tenth year.

Not-for-profit organizations, franchised businesses, and professional consulting firms were excluded from the study because by their very nature, effective management of these organizations was generally assured through contractual arrangements, funding requirements, and professional training.

### Sample Characteristics

A total of 561 ICA firms whose businesses are or had been located in the study area were identified. Random sampling from this pool of entrepreneurs produced a combined list of two hundred sixty-two firms from which 122 successful firm interviews and 58 failed Black businesses were completely studied.

The subjects which included owners of surviving (successful) businesses and failed businesses were engaged in a variety of business activities and were found in the areas of general services, retail trades, wholesale trades, manufacturing, construction and contracting, and finance insurance and real-estate.

## Survey Instrument

A five-page survey instrument was constructed from two existing instruments: the "Management Style Questionnaire" (8), and "Effective Planning and Control Questionnaire" (15). Both instruments have been extensively tested and proven to be accurate, valid, and reliable through a wide range of studies and application.

The modification was basically a combination of the two tests in which only those factors which were considered to have direct relevance to the current study were utilized.

The survey instrument, Managerial Assessment Profile asked the respondents to rate themselves on a scale of 1-5 according to their perceived individual managerial behaviors. The management issues explored, included:

A. goal setting and task performance B. planning and budgeting C. organizing D. evaluating E. motivating F. conflict resolution and goal commitment G. reviews and appraisals H. rewarding I. staffing

By applying the test instrument together with a personal interview of each responding subject, data on the managerial attitudes of the entrepreneurs were collected.

The modified test instrument- Managerial Assessment Profile was administered to a group of entrepreneurs and non-entrepreneurs, and the test data analyzed using the Student's t-test model, Scheffe's multiple comparison test, and the ANOVA. The results at the 0.05 level showed the managerial characteristic traits to be significantly different between the entrepreneur group and the non-entrepreneur group.

The new test instrument, which consists of 52 questions, was divided into two parts. Part I contained 46 direct and specific questions dealing with nine management functions. Part II contained four open-ended questions and two ranking order questions. With the exception of the four open-ended questions in Part II, all the questions were developed on the basis of Likert's (10) 5-points opinion survey scales to measure changes in the attitudes of subjects towards the number of statements surveyed. The responses were measured on the 5-points scale with the value of 1 signifying a very unfavorable attitude and 5 a very favorable attitude.

## Statistical Analysis Procedure

The statistical level of 0.05 was established for this study within which to accept or reject the hypothesis being tested. The statistical tests used in the analysis of data in this study were based on the assumption that the values of the distribution will be discrete enough to highlight the variances in the pooled variance estimates of the samples.

## FINDINGS

The study hypothesis postulated that in a sample of Black entrepreneurs there will be no significant difference between the managerial styles of successful Black entrepreneurs and failed Black entrepreneurs. The assumption here was that successful Black entrepreneurs became successful because they were better managers than the unsuccessful Black entrepreneurs.

To test this hypothesis a one-tailed test was employed. Details of this test are shown on Table 1.

## TABLE 1

### COMPARATIVE ANALYSIS OF BLACK ENTREPRENEURS

#### SUCCESSFUL VS. FAILED

-----	Managerial Variables	Group	Mean	t	df	p	0.05	Result	-----
-----	Goals	1	3.21	2.15	16.58	0.023	SG 2	2.73	Planning 1 3.91 2.61 15.16 0.01
SG 2	2.82	Organizing	1 3.71	2.27	10.60	0.022	SG 2	2.93	Evaluating 1 3.73 1.57 5.79 0.036 SG 2 3.02

Table 1 Con't



Thus, within the limitations of the study as they related to the sample size and geographical location, the following conclusions can be drawn from the findings of the study:

1. Successful Black entrepreneurs manage their businesses through effective planning and control.
2. The management styles of successful Black entrepreneurs are more goal directed than those of the unsuccessful Black entrepreneurs.
3. The management styles of unsuccessful Black entrepreneurs differ significantly from the management styles of successful Black entrepreneurs.
4. Good education is necessary for successful Black entrepreneurship.
5. Successful Black entrepreneurs are generally not any better at motivating, gaining commitment and staffing than unsuccessful Black entrepreneurs.
6. Though lack of capital may contribute to business failure, it is not wholly responsible for the high rates of Black business failures.
7. For Blacks to improve their prospects for success in business, they must first acquire good business training through formal and informal (on-the-job) sources.

The above conclusions lead to the fact that within the economic, social, and psychological aspects of business ownership, an important limiting factor for success unique to Black entrepreneurs has been identified. The results of this study suggest a need for better preparation of Blacks, through training, to better develop their business aptitudes.

A number of questions raised in this study still remain for future research effort. The impact of variables such as sex, socioeconomic standing, and personality traits must still be determined along with education to establish more complete causes of Black business failures.

## APPENDIX

### DEMOGRAPHIC DISTRIBUTION OF RESPONDENTS

----- Black Entrepreneurs Category Successful Failed -----  
 ----- No. of Sample (122) (58)

#### AGE: AT BUSINESS START UP

Under 25 Years 67% 100% 26-30 17% 0% 31-35 0% 0% 36-40 0% 0% 41-45 16% 0% 46-50 0% 0% Over 50 Years 0% 0%

#### PRIOR BUSINESS EXPERIENCE

None 86% 67% One 0% 0% Two or More 14% 33%

#### FAMILY OR PERSONAL INFLUENCE

Yes 71% 0% No 29% 100%

#### TYPE OF BUSINESS ACQUISITION

Founder 67% 67% Heir 0% 0% Purchaser 33% 33% Employee 0% 0% Other 0% 0%

#### FORMAL EDUCATION LEVEL COMPLETED

Grade School 0% 0% High School 33% 34% Technical School 0% 0% Some College/Associated Degree 17% 0%  
College Degree 0% 33% Graduate Degree 50% 0% None 0% 33%

## APPENDIX (CONT.)

----- Black Entrepreneurs Category Successful Failed -----  
----- BUSINESS EDUCATION -----

High School 0% 0% Technical School 14% 25% Some College/Associated Degree 14% 0% College Degree 0% 0%  
Graduate Degree 43% 0% None 29% 75%

## REASONS FOR BUSINESS START-UP

Don't want other people to boss me around 25% 25% Believe I can do a better job than anyone else 0% 25% Want to  
be in charge of my own life 50% 50% Want to be in control 25% 0%

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