

CHANGING PROFILES: MINORITIES IN SMALL BUSINESS

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ABSTRACT

Non-white minorities make up one-fifth of the U.S. population and their numbers are rising fast in the nation's cities. American Demographics magazine reported that in 1983, Blacks, Hispanics, Asian and other minorities were a majority of the population in 25 cities with populations over 100,000, an increase from nine such cities in the 1970 census [Yankelovich, 89].

INTRODUCTION

Minorities face many problem discrimination, unequal opportunities etc. For the small business minority owner, the obstacles and risks are perhaps greater than for other entrepreneurs. It was estimated that over 1.4 million new jobs were created in 1986 [Bates, 45]. More than 50 percent of these business are expected to fail within the first two years of operation. For the minority owned business, the failure rate will be much higher, due primarily to a lack of training and experience in business management [Hornaday, 54]. The trend toward increasing minority self-employment is continuing [Hilliard, 16]. A substantial percentage of minorities have ventured into the field of small business and according to some 1984 data, sales revenue of the Hispanic firms has increased substantially. Asian-American, American Indians, Black, etc., have also ventured into small businesses [Palmer, 38].

The Problem

The objective of this study was the identification of various factors that make it difficult for the minority small business owners to survive as compared to the non-minority small business owners. The object also was to examine certain methods or aids that would help solve this problem, and the extent to which they have been successful. The evaluation of the problem would be with respect to certain factors, such as information search patterns regarding policy formulation and decision making, and the use of computers and information systems by the minority owned small businesses.

An area that needs to be investigated is information seeking behavior among minority business owners, since the success of almost any small business depends in large part on access to and intelligent use of information. Two sets of independent variables are considered important when examining the information seeking behavior of small business owners. These are psychological characteristics and the types of business problems perceived to be significant. An increasing number of minority owned businesses are employing increasing use of computers in their businesses. But a negative point is that in too many cases they do not know how to make the best use of these computers [Malone, 10].

Importance and Value of the Research

Although the situation overall has improved it is felt that a lot needs to be done in the field of minority owned businesses. The importance and value of this research would thus be to help identify the variables, and if any of these variables indicate factors which are problematic, to be able to reduce them as far as possible.

The purpose of the study was to be able to isolate certain variables in order to pinpoint the factors which influence the decision making, and the performance of minority owned businesses. The effort was to isolate these variables and analyze the effect on the overall performance (success/failure) of the businesses.

Data Collection

The data collection was all secondary. The study was mainly based on the studies previously conducted by various agencies and individuals, related to this subject. The studies included those which were related to small businesses, minority owned businesses, information systems in small business, and various other journal articles voicing their opinion on status and position of minority owned firms as compared to non-minority owned firms.

PROBLEM DISCUSSION

A pioneering study of both minority and female-owned firms conducted in 1975 by the U.S. Commission of Civil Rights showed that minority and female owners encountered problems of "staggering" proportions in obtaining the information about federal, state, and local government contracting opportunities that was necessary to submit timely bids. In addition to having trouble in obtaining the working capital necessary for effective marketing and bidding, these groups also encountered a great deal of skepticism regarding their ability to perform adequately on government contracts charges reverberated throughout the minority business community [Baker, 2].

The minority businessman say that they are facing other obstacles with which their white colleagues do not have to contend. Their complaints are rarely with corporate policies per se. Most major companies have someone responsible for ferreting out minority suppliers and helping them get into the procurement pipeline. Many go further, offering seminars and technical assistance to minority businessmen.

But off the record, corporate policies disintegrate at the buying level [DeCarlo, 25]. The real situation is small orders that do not provide economies of scale that enable the small business owner to lower their prices, and thus having little chance to win larger orders in competitive bidding. The seeds of distrust were sown in the late 1960's and early 1970's, when many corporate and government agencies deliberately threw business the way of minority owned companies. Many small minority owned companies sprang up to take advantage of this favorable treatment. Some were helped but for most it was too much too soon.

Also, quality, delivery, and intimations of crookedness as well as incompetence spread like wildfire. Government agencies now investigate them so thoroughly before conferring minority status that the wait for such certification is interminable. The result is that many minority businessmen are operating in a holding pattern [DeCarlo, 23]. Many differences were also attributed to socioeconomic, rather than racial factors [Hornaday, 143].

Many of the business problems minority entrepreneurs face are detailed in Table 1.

A study of 122 Black, White, Hispanic, and American Indian women entrepreneurs found that the responses of both minority and non-minority women entrepreneurs differed significantly from those of women in the general population of tests of achievement, autonomy, aggression, conformity, independence, benevolence, and leadership [Deutsch, 1].

Research on business ownership by minority groups indicated that while blacks had the lowest ownership rate, they had slightly higher growth rates than the other minority groups. Hispanics had the second highest rates of ownership among minorities along with the highest rate of increase in ownership. Asians had the highest ownership rates but the lowest rate of increase in number of businesses [Senh, 25].

TABLE 1

BUSINESS PROBLEMS IN START-UP AND CURRENT OPERATIONS

PROBLEM AREA	START-UP		CURRENT OPERATIONS	
	NUMBERS	PERCENT	NUMBERS	PERCENT
Obtaining Lines of Credit	48	43	28	25
Lack of Business Training	28	25	8	7
Lack of Management Experience	26	23	15	13
Weak Collateral Position	22	20	12	11
Lack of Exp. in Financial Planning	18	16	12	11
Lack of Guidance and Counsel	15	13	4	4
Lack of Exp. Hiring Outside Svcs.	14	13	8	7
Lack of Respect	12	11	6	5
Demands of Company Affecting Personal Relationships	11	10	8	7
Personal Problems	9	8	5	5
Lack of Involvement with Colleagues	8	7	3	3
other (Money, Employees, Planning, Discrimination, Collections)	18	16	14	13

INFORMATION SEARCH PATTERNS AMONG MINORITY ENTREPRENEURS

An important area that needs to be looked into is the information search patterns used by minority entrepreneurs. It has been noted that various types of small business entrepreneurial groups differ in their information-seeking behavior [Zurcher, 545].

An equally valid approach to explaining the information-seeking behavior of small business owners would be to focus on the motivation that arises from the need to solve a specific problem. The number and variety of problems confronting business owners may be correlated with dissatisfaction, which in turn leads to a search for information to solve problems.

The problems most often experienced by small business owners can be grouped into four categories: general management, operations, finance, and marketing. Once the problems they experience tend to determine how entrepreneurs spend their time, this approach could be used to describe how minority business owners allocate their managerial efforts.

General management problems include major recurrent problems that must be addressed by top management. Operational problems involve production activities in retail and service enterprises. Finance problems have to do with both long-and-short-term capital needs, as well as with case flow, credit, and collections. Marketing problems can arise in the areas of promotion and advertising, product development, and market research.

In a study conducted by Zurcher, it was postulated that the problems minority small business owners faced could be used as one predictor of information-seeking behavior. Zurcher found that minorities tend to emphasize personal relationships in their work more than non-

minorities do. This suggests that minority entrepreneurs may show a preference for personal information sources across problem categories. Since minorities also tend to dislike impersonal arrangement [Cooper, 14], it was predicted that no significant relationship would be found with written, institutional, and electronic information sources, or with seminars.

Only with respect to financial problems were minorities expected to seek a wide variety of information sources, cutting across both personal and impersonal categories, because of the larger financial commitments required for minorities in the United States, as compared to their home countries [Waters, 3].

FINANCIAL PERFORMANCE OF MINORITY VERSUS NON-MINORITY OWNED BUSINESSES

In 1969 President Nixon created the Office of Minority Business Enterprise, now recognized as the Minority Business Development Agency (MBDA). The creation of the MBDA represented the first major effort to direct public policy toward assisting the minority business sector. A principal focus of this effort has been the need for financing.

Minority owned firms were found to exhibit different operating and financial patterns from non-minority firms, in terms of the manner in which they develop their profitability [Bates, 67]. Studies by Bates found a weak repayment record on the part of Black entrepreneurs who receive SBA loans in selected cities. Similar results have been provided by Klein [Knight, 86].

However, according to another study, in 1978, the U.S. Department of Commerce entered into a contract with Dun and Bradstreet, Inc. (D&B), in which D&B agreed to provide financial data for: 1) minority owned business firms which are not assisted by MBDA (Minority Business Development Agency), 2) minority owned business firms which are assisted by MBDA, and 3) non-minority firms which form a basis of comparison to minority firms.

The study sought to test for comparative differences among non-MBDA assisted minority firms and comparable non-minority firms. Performance was evaluated in terms of profitability, indebtedness, and liquidity. The basic research model was a simple one-way analysis of variance (ANOVA), which was utilized to test the null hypothesis of equal performance across the two categories of firms. Further, multiple regression analysis was employed in cases where performance differences occurred in order to determine whether they were attributed to differential firm size/or age, rather than minority or non-minority status. The ANOVA results are shown in Tables 2 through 4:

It seems that the results of this research are more applicable to firms that borrow from private lenders. Minority owned firms which do not receive assistance from the MBDA were found to have virtually the same performance characteristics as non-minority firms with regard to, profitability, indebtedness, and liquidity.

These findings have some important implications for minority owned firms. First, the minority firms which deem themselves creditworthy must make themselves known to lenders. Minority firms must also ensure that ethnic status is not equated with economic non-viability. Second, banks and other private lenders should recognize that compliance with terms of the Community Reinvestment Act does not require financial institutions to make loans having a high degree of risk. From this research there are indicators that there is a sizeable population of viable minority owned firms. These findings seem to be contradictory to the otherwise

popularly held belief that minority owned firms do not perform as well as the non-minority firms.

AIDS TO MINORITY OWNED SMALL BUSINESSES

Over the years, efforts have been made in all fields to increase the assistance that can be offered to minority owned small business. Efforts have been made on the part of the government, as well as private individuals to help such businesses.

The Commerce Department's MBDA has certain programs which it offers to the minority owned business. One such program is the Export Development Program. Under this program, nine private consulting firms are funded by the MBDA to operate export development centers around the U.S. and to assist minority entrepreneurs interested in exporting.

The Small Business Administration offers many programs, such as the Small Business Institute to offer counselling services to small business firms [Betts, 10]. In addition SBA's 8(a) set-aside program, which has for 21 years has funneled government contracts to "Small and disadvantaged" companies.

In 1988, Congress ordered the Department of Defense to allocate five percent of its procurement budget to minority suppliers. In the private sector, General Motors alone did more than \$1 billion of business with minority suppliers in 1986.

More than a quarter of RJR-Nabisco's company-paid employee life insurance handled by black insurance companies. Similarly, the Polaroid Corporation is establishing a network of minority dealers to sell Polaroid products to other companies. Ford Motor Company says it is serious about attracting minority owned business.

TABLE 2 RETURN ON ASSETS

MINORITY NON-MINORITY F. PROB.

Manufacturing	13.11	11.89	.569
Construction	18.36	11.81	.006
Services	18.60	15.63	.368
Transportation	11.16	7.70	.338
Retail Trade	16.88	15.89	.764
Wholesale Trade	14.22	18.29	.458

TABLE 3 CURRENT RATIO

Manufacturing	3.52	5.14	.308
Construction	3.64	3.35	.637
Services	5.03	5.86	.739
Transportation	2.38	3.56	.519
Retail Trade	6.32	5.64	.662
Wholesale Trade	3.32	3.87	.326

TABLE 4 DEBT TO NET WORTH

Manufacturing	170.8	139.6	.216
Construction	176.9	159.8	.512
Services	168.0	164.5	.915
Transportation	319.7	185.0	.015
Retail Trade	170.7	145.8	.224
Wholesale Trade	185.1	138.4	.049

CONCLUSIONS

But despite all these efforts, dissatisfaction still exists among minority owned firms. What has or can help these entrepreneurs to overcome their problems? Three factors can be cited here: a support system, further education, and perseverance. The first factor is a strong moral support system of family and friends, clients, and business associates. A support system needs to be established by every entrepreneur to provide the guidance and encouragement to continue even when the chips are down. In addition, returning to college, seminars, conferences, continuing education programs, etc., are the educational methods which can compensate for weak business skills. Last, is the factor of perseverance. While continuing education is helpful, there is no substitute for perseverance, preparation, and hard work for success.

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