

Informing the Debate

Black Entrepreneurship in a Black Majority Environment

**The Case of Detroit and
Other Selected Central
Cities**



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EXECUTIVE SUMMARY
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DESCRIPTION OF THE PROBLEM

This report examines the problem of the under-representation of black entrepreneurs in the city of Detroit – a black majority city -- and compares it to other black majority cities and black minority cities. We measure the impact of black demographic dominance, black political power and black residential segregation on black business development. The report consists of three parts. The first part is a case study of Detroit. It examines the extent to which black racial solidarity -- in the form of black demographic and political power – can operate as a form of social capital to foster black self-employment in Detroit—the nation’s largest black-majority city. Part two extends the analysis to 38 US cities. Half of the cities had black majorities and half had black minorities at the time of the analysis. The third part of the report is a preliminary exploration of the potential policy implications of Michigan’s anti affirmative action Proposal 2 on black business development in Detroit.

THE SCOPE OF THE PROBLEM

Detroit represents the archetype of the kind of environment where African American economic autonomy is most likely to advance for at least three reasons. The vast majority of Detroit’s residents (82 percent as of 2000) are African American. Moreover, blacks control the city’s political apparatus at the state level and hold leading offices in many of the city’s public institutions.

The key research question here concerns the ability of African Americans to deploy political and demographic social capital towards the purpose of expanding self-employment. This project examines the relationship between forms of racial/ethnic social capital, social context and black self-employment in Detroit, Michigan. It also examines other selected majority black cities.

Data and Methods of Analyses

In order to examine the relationship between social capital and black business development in Detroit, we analyzed census data and other official statistics and conducted in-depth interviews with communal experts, entrepreneurs and residents.

Rate of Black Business Ownership in Detroit. The first measure that we examine is the fraction of all businesses in Detroit that are black-owned. Detroit’s score is 56% for 2002 (U.S. Bureau of the Census, 2006). This figure is the highest for any major city in the US and over 15 times the national rate of black self employment of 3.6 percent.

Business Participation Rate (BPR). While Detroit reveals impressive performance in terms of the fraction of total enterprises owned by blacks, it yields a less notable record in terms of the black business participation rate (BPR), which is calculated by dividing the number of black businesses in a city by the black population. The BPR for Detroit is 25.17, which is considerably lower than other large black majority cities, including Washington DC (35.53), Atlanta, Georgia (33), Jackson, Mississippi (30.5) and Memphis, Tennessee (29.24).

In-Depth Interviews

Nineteen open-ended interviews were completed with three groups of Detroit-based respondents: staff members of minority business development programs, black entrepreneurs, and African American youth. While respondents had diverse views, rather than blaming non-black business owners, they tended to attribute Detroit’s lack of black-owned businesses to poor economic conditions and a historical reliance on employment in the auto

industry. Nearly all also referred to a lack of in-group solidarity. In this, they believed that Detroit is not generating the amount of social capital that it can and should to support African American entrepreneurship.

Analysis of Black Business Ownership in Black Majority and Black Minority Cities

In this part of the study, we extend our analysis beyond Detroit to include 38 cities. We examined whether black business ownership is enhanced by residential segregation and black demographic dominance. This exercise enabled us to test whether Detroit is unique in its low level of black business representation or similar to other black majority cities. Adopting the framework of the Opportunity Structure Theory of black business ownership (which contends that high rates of racial segregation create a captive, co-ethnic market for black entrepreneurs), our results revealed that black residential segregation is positively related to black business ownership in central cities, but this relationship is not statistically significant. The relationship between demographic dominance and black business ownership was significantly negative. Instead of enhancing black business ownership, cities with black majorities had lower rates of black entrepreneurship than cities with black minorities. Finally, contrary to past studies, we found that black mayors had no significant positive influence on black business participation rates. Instead, cities with black mayors had lower average rates of black business ownership than cities without black mayors.

POLICY RELEVANCE OF RESULTS

The third part of our study examines in a preliminary way the potential impact that anti-affirmative action public policies may have on black business development. We begin with a discussion of *Richmond v. Croson* (1989) and end with a discussion on Michigan's anti-affirmative action law, Proposal 2. Before the *Richmond v. Croson* decision, black mayors often ensured that black businesses (as well as those owned by other minority groups and women) were provided with a fraction of city contracts through set asides. After the decision, set asides were suspended. Thus, since the *Richmond v. Croson* decision, the extent to which political influence has enhanced black owned businesses has declined. The impact of Proposal 2, approved by Michigan voters in 2006, is likely to be similar to that of *Croson*. However, while *Croson* eliminated only set asides, Proposal 2 prohibits all forms of government assistance on the basis of race, ethnicity or gender. Thus Proposal 2's impact may be more severe.

Public policy makers, academics and journalists have argued that small businesses offer a prized means of achieving upward mobility for women and minorities who are often disadvantaged in the larger economy. As a consequence, a variety of government programs have provided women and minority owned firms with forms of assistance including training, technical assistance, set aside contracts and loan funds. However, the passage of Proposal 2 prevents state and local government in Michigan from providing such benefits on the basis of race, ethnicity or gender. Accordingly, there is reason to believe that Michigan's Proposal 2 will further hinder the ability of government to assist woman and minority entrepreneurs.

Michigan is the third state in the US (after Washington and California) to pass an anti affirmative action proposition and the only state in the economically declining North Central Region to do so. The economic impact of Proposal 2 is likely to be considerable because Michigan is currently experiencing deterioration in the manufacturing sector and increasing unemployment. Since minorities and women are concentrated in the most economically troubled areas of the state, these already disadvantaged groups are likely to bear sizeable and negative economic impacts from the new law. Without these forms of assistance, the economic fate of such enterprises and with them, that of the State of Michigan as whole, may be adversely impacted.

**BLACK ENTREPRENEURSHIP IN A BLACK MAJORITY ENVIRONMENT:
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BLACK BUSINESS AND THE POTENTIAL BENEFITS OF BLACK SOCIAL CAPITAL

This report examines the problem of the under-representation of black entrepreneurs in the city of Detroit – a black majority city -- and compares it to other black majority cities and black minority cities. We measured the impact of black demographic dominance, black political power and black residential segregation on black business development. The report consists of three parts. The first part is a case study of Detroit. It considers the extent to which black racial solidarity -- in the form of black demographic and political power – can operate as a form of social capital to foster black self-employment in Detroit—the nation’s largest black-majority city. Part two extends the analysis to 38 US cities. Half of the cities had black majorities and half had black minorities at the time of the analysis. The third part of the report is a preliminary exploration of the policy implications of Michigan’s anti affirmative action Proposal 2 on black business development in Detroit.

Scholars of black economic development have long noted African Americans’ low rates of entrepreneurship, especially in contrast to the rates of self-employment associated with immigrant and ethnic groups who often serve the demands of black consumers in American cities. [According to the 2002 Economic Census of Minority- and Women-owned Businesses, African Americans’ rate of self-employment in the US was 3.6 percent. In contrast, according to the 2000 Census 5% Public Use Microdata Sample (PUMs), Koreans’ was 25.2 percent, Greeks’ was 26.5 percent, Iraqis’ (who own numerous retail businesses in Detroit) was 18.5 percent and that of the Lebanese was 22 percent (Light, 1972; Bates, 1997; Lee, 2004).]

Black activists ranging from W.E.B DuBois and Booker T. Washington to Louis Farrakhan have argued that self-employment is an especially desirable occupation for blacks because it allows them to control their own business and hence be less dependent upon others to provide jobs. In addition, business ownership has the potential for more wealth, community control and opportunities for the employment and training of coethnics than is availed under other conditions of work (Light & Gold, 2000). Finally, surveys frequently demonstrate that African Americans aspire to become business owners to an extent surpassing that of other racial and ethnic groups (Holland, 2001).

Numerous explanations have been offered for blacks’ low rates of self-employment. These include blacks’ uniquely harsh experience with discrimination, their cultural orientations, family patterns, the dearth of opportunities to acquire small business skills within a community marked by low rates of self-employment, and the availability of desirable jobs in the public sector for educated members of the community (Drake & Cayton, 1945; Light, 1984; Gold, 2004). In recent years, an especially influential explanation for groups’ rates of self-employment has involved their access to social capital (Portes, 1998). For example, in her comparative study of entrepreneurship among Jews, blacks and Koreans in New York and Philadelphia, sociologist Jennifer Lee (2002) argued that blacks’ lack of social capital was a major reason for their greater difficulty in running small businesses than was the case for Jews and Koreans.

Denoting the web of connections, loyalties and mutual obligations (shared fate, solidarity and communal membership) that develop among social actors as part of their regular interaction, social capital refers to the sense of commitment that induces people to extend favors, expect preferential treatment and look out for one another’s interests (Coleman, 1988; Lin, 2001). From a policy perspective, one of the most important features of social capital is that groups otherwise deficient in resources can act collectively in such a way as to provide themselves with benefits that are lacking to individual members, or in other words, to use social capital to overcome disadvantages and reduce social inequality. For example, scholars have shown how through the use of community-based organi-

zations for amassing capital, various ethnic and immigrant groups have been able to acquire funds sufficient to purchase homes, start businesses, improve educational outcomes and in other ways, foster economic mobility (Light, 1972; Light & Bonacich, 1988; Portes, 1987; Light & Gold, 2000).

Scholars that point to African Americans' limited social capital as a reason for their low rates of self-employment argue that as members of a large, diverse & US-born group that has been subject to various forms of social dislocation, African Americans have fewer resources that foster self-employment than do entrepreneurial immigrant groups, who are bonded by family ties, common language, culture & occupational orientations as well as home country experiences & outlooks (Light, 1984; Wilson, 1996). Such ties endow immigrants with forms of trust & notions of shared fate that facilitate their cooperative action, such as providing coethnics with employment, job training, advice & loans to establish small businesses. Lacking these forms of social capital, African Americans find it much more difficult to acquire the financial & informational resources required for self-employment.

Limitations of Previous Research

It is important to note that nearly all of the research that documents immigrants' entrepreneurial advantages over native-born blacks has been conducted in ethnically diverse gateway cities like New York, Los Angeles, Chicago & Miami. Unlike Detroit, blacks do not account for a majority of the local population in these cities. Hence, they have limited demographic & political power.

Scholars examining environments with fewer immigrants, such as urban communities in the Midwest & South, where white flight, coupled with relatively low rates of in-migration, have made African Americans a significant majority, find a different picture. In such settings, they observe that blacks do possess significant resources of social capital, albeit in a different form (demographic/political) than the entrepreneurial resources mobilized by migrant groups.

The Scope of the Problem

Detroit represents the archetype of the kind of environment where African American economic autonomy is most likely to advance. The vast majority of Detroit's residents (82 percent as of 2000) are African American. Moreover, blacks control the city's political apparatus & hold leading offices in many of the city's public institutions (Darden et al., 1987, p. 202-218). They are also the ministers and parishioners in the majority of Detroit's churches. Newspapers, radio stations, unions and schools are often run by blacks and serve an African American constituency. A politically conscious black population generally endorses community solidarity (Darden et al., 1987, p. 258-260). Accordingly, while the city has encountered significant social and economic problems and continues to do so, it also features a sizable African American middle class who remains strongly committed to the city and its residents (Farley, Danziger & Holzer, 2000).

Application of Social Capital from Politics to Entrepreneurship

While such findings are highly suggestive, we still know very little about the extent to which social capital that is derived from one realm of social life can be used to achieve goals that require skills and resources very different from those associated with the contexts upon which the source of social capital is based. As such, the key research question here concerns the ability of African Americans to deploy political and demographic social capital towards the purpose of expanding self-employment. This project examines the relationship between forms of racial/ethnic social capital, social context and black self-employment in Detroit, Michigan.

Detroit is the largest predominantly black city in the United States. Detroit's African American population is marked by many of the entrepreneurial disadvantages typical of the African American population, as noted above. In addition, its development of a black ethnic-owned economy is hindered by the presence of highly competitive entrepreneurial minority groups that are well endowed with entrepreneurial skills, resources and networks (Sengstock, 1982; David, 2000).

At the same time, some evidence suggests that black Detroiters are in the position to mobilize political, organizational and demographic social capital in such a way as to provide community members with jobs and wealth via self-employment. These benefits are related in several ways, including reductions in anti-black prejudice, customer preferences, advantageous commute distances, access to business networks, and the maintenance of zoning, code enforcement and other practices that favor black-owned businesses. Resources provided by state and local government – including set-asides for women and minority-owned firms, the provision of loan funds, technical assistance and training programs -- have been prohibited by the passage of Anti Affirmative Action Proposal 2 in November 2006 (Bates, 1997; Woodard, 1997; Gold & Light, 2000; Cohn & Fossett, 1996; Sonenshein, 1996; City of Detroit, Office of the Mayor, 2003).

Data and Methods of Analyses

In order to examine the relationship between social capital and black business development in Detroit, we analyzed census data and other official statistics and conducted in-depth interviews with communal experts, entrepreneurs and residents.

Census Data

Drawing from the US Census 2002 Survey of Business Owners (U.S. Bureau of the Census, 2006), we generated two measures of black entrepreneurship in Detroit. The first involves the fraction of black-owned businesses in the city. The second considers the Business Participation Rate (BPR) which is the number black businesses in a city in relation to its total black population.

Our approach to examining black self-employment in Detroit relies on a unique strategy. While nearly all studies of minority business ownership examine rates of business ownership within the MSA (Metropolitan Statistical Areas), this study addresses entrepreneurship at the city level. We do this because as a political unit, the city is the location wherein black demographic and political power is most strongly felt and hence most able to influence patterns of black entrepreneurship.

Rate of Black Business Ownership in Detroit. The first measure that we examine is the fraction of all businesses in Detroit that are black-owned. Detroit's score is 56% for 2002 (U.S. Bureau of the Census, 2006). This figure is the highest for any major city in the US and over 15 times the national rate of black self employment of 3.6 percent. Moreover, Detroit's black-owned businesses create more jobs and have higher wages per employee than is the case in other major US cities. A greater fraction of black-owned businesses in Detroit have employees (14.17%) than in other major US cities; Detroit's black businesses also exceed those of other cities in sales and receipts, fraction of all employees, and fraction of entire payroll (U. S. Bureau of the Census, 2006).

One might infer the impact of black social capital from this finding. It would appear that Detroit residents do support black-owned businesses, resulting in the nation's highest rate of black business ownership. In fact, Detroit has the second largest number of black businesses in the US, exceeded only by New York, which has both a much larger population and a much more dynamic economy (Ryley, 2006).

Business Participation Rate (BPR). While Detroit reveals impressive performance in terms of the fraction of total enterprises owned by blacks, it yields a less notable record in terms of the black business participation rate (BPR), which is calculated by dividing the number of black businesses in a city by the black population. The BPR for Detroit is 25.17, which is considerably lower than other large black majority cities, including Washington DC (35.53), Atlanta, Georgia (33), Jackson, Mississippi (30.5) and Memphis, Tennessee (29.24). Moreover, while many cities reveal an elevated black BPR among businesses with employees, Detroit's black-owned businesses with employees have an even lower BPR than those without employees. In sum, when comparing these two measures of black self-employment, we see that while blacks own a large fraction of all of Detroit's businesses, the total number of black-owned businesses in relation to the city's black population is relatively small.

Detroit's poor economic status may explain the contradictory results. In recent years, Detroit has ranked among the nation's poorest large cities. While there has been recent revitalization of the downtown, Detroit remains characterized by weak economic performance, including high levels of unemployment, loss of jobs and population, high crime rates, high taxes, poor services and declining infrastructure. In addition, Detroit has amongst the highest fractions of its population below the poverty rate, reliant on public assistance and unemployed of all major cities in the US (U.S. Bureau of the Census, 2006). These factors work to discourage business start ups and hinder successful business operation. Finally, while it is the largest black majority city in the US, Detroit has far fewer firms in total than many other major black majority municipalities, including those with fewer residents.

In-Depth Interviews

Nineteen open-ended interviews were completed with staff members of minority business development programs, black entrepreneurs and African American youth. Interviews focused upon the challenges faced by Detroit-based black entrepreneurs, opportunities provided within this underserved, black majority city, and young residents' perspective on black businesses in Detroit. (See appendix 1 for a list of interview questions).

While respondents had diverse views, rather than blaming non-black business owners, they tended to attribute Detroit's lack of black-owned businesses to poor economic conditions, and a historical reliance on employment in the auto industry. Nearly all also referred to a lack of in-group solidarity. In this, they believed that Detroit is not generating the amount of social capital that it can and should to support African American entrepreneurship. However, it is their hope that training programs and a new level of commitment to business ownership among Detroit's African American population will help black entrepreneurship expand.

In conclusion, Detroit is the largest black-majority city in the US. Accordingly, demographic and political conditions there offer potential for the growth of black businesses. Here, these issues are examined at the level of the city, which is a politically meaningful unit, rather than the MSA. The MSA is not politically meaningful, since its boundaries do not constitute a single governmental entity. We capture this potential in a manner that has been disregarded by other scholars.

In general, we find that Detroit does have significant co-ethnic resources that facilitate the existence of a black ethnic economy. Detroit sustains a higher fraction of black-owned businesses than any other major city in the US. However, Detroit is also a very poor city in a region of the US that is struggling economically. Accordingly, the number of jobs and the amount of income generated by Detroit's black businesses still lags behind the amount of jobs and income created in other cities. At this time, African Americans' political and demographic dominance of Detroit does not appear to be a resource of overwhelming value to Detroit's African American entrepreneurs.

AN ANALYSIS OF BLACK BUSINESS OWNERSHIP IN BLACK MAJORITY AND BLACK MINORITY CITIES

In this part of the report, we extend our analysis beyond Detroit to include 38 cities. We examine whether black business ownership is enhanced by residential segregation and black demographic dominance. This extended analysis enabled us to test whether Detroit is unique in its low level of black business representation or similar to other black majority cities.

Based on previous research, two variables seem to be most important in explaining black business ownership. These variables are racial residential segregation and the percentage black population in the area. Historically, segregation enabled blacks to build an economic infrastructure in black neighborhoods that, according to Walker (1998), was paralleled to that of white neighborhoods. In the 1920s, black businesses were common in the United States. By 1930, an estimated 70,000 black-owned businesses were operating (Bates, 1993). These businesses, however, had a limited market. They were established to provide services to blacks who were usually denied services by whites. More recent research has shown that black-owned firms still suffer from limited market size. In other words, most black-owned firms continue to rely on black consumers to remain in business (Wilson, 1975;

Collins, 1983). Such racially restrictive markets are due in part to persistent high levels of racial residential segregation (Iceland, Weinberg, & Steinmetz, 2002) and discrimination in housing (Turner, Ross, Galster, & Yinger, 2002) despite the Fair Housing Act of 1968 which outlawed discrimination. As Bates (1993) notes, white merchants have continued to open stores in black neighborhoods, but black merchants have historically been kept out of white areas. Not only whites but other ethnic groups, such as Asians and Middle Easterners, have also opened businesses in black neighborhoods. Such businesses have led to interracial conflict (Korean–black and Arab–black) in some cities (Yoon, 1997; Min, 1996; David, 2000). In many cities, the typical black business has been characterized as a small retail and /or service business concentrated in the center of black neighborhoods where the customers were also poorer than customers in other neighborhoods (Young & Harding, 1971).

Fischer and Massey (2000) have argued that some geographic concentration (residential segregation) is probably beneficial for certain types of businesses, i.e. enterprises catering to the tastes of the minority groups. However, the authors suggest that higher levels of residential segregation are likely to be detrimental to business ownership because of the tendency for residential segregation to concentrate poverty. This is especially true in the case of blacks (Massey & Denton, 1993).

Because of the intended location of many black-owned businesses in segregated black neighborhoods, potential black business owners have a higher loan denial rate than potential white owners even after controlling for differences in credit worthiness and other factors (Cavalluzzo, Cavalluzzo, & Wolken, 2002). Black business owners in these areas are also required to pay higher interest and insurance rates or put down more collateral than white business owners who locate outside of black segregated areas (Fairlie, 1999; Fairlie & Robb, 2007; Meier, 2006). This led Boyd (1991) to hypothesize that residential segregation lowers the rate of black business ownership. Boyd tested his hypothesis using 1980 Public Use Microdata Samples (PUMS) on 52 metropolitan areas (U.S. Bureau of the Census, 1983) and found support for the hypothesis that there was a negative relationship between the black business participation rate and the level of black residential segregation from whites.

Boyd's (1991) findings are consistent with the conclusions of Fischer and Massey (2000). They used 1990 Public Use Microdata Sample (PUMS) and chose a 20% sample of PUMS households in 244 Primary Metropolitan Areas (PMSAs) where heads of households were not employed in agriculture. Their results revealed that beyond moderate levels, residential segregation actually works to lower the odds of entrepreneurship.

Contrary to the enclave theory advanced by Portes and Shafer (2007) which argued that positive business benefits occurred from the population size of Cubans in Miami, Lieberman (1980) argued that as a minority group's population size increases, it becomes more difficult for group members to enter self employment especially when the group's business niche is concentrated in a few specialized industries such as the black entrepreneurs' concentration in personal services. This led Boyd (1991) to hypothesize that the rate of black self-employment will be highest in metropolitan areas where the size of the black population is small. Boyd found support for the hypothesis that a negative relationship existed between the percentage black population in SMSA's and the black business participation rate.

Limitation of Previous Research

Although the works of previous authors have contributed to a better understanding of the importance of residential segregation and the percentage black on black business ownership, there are questions that remain. Would the same outcome occur if residential segregation is measured at the scale of the central city instead of the metropolitan area? What is the significance of a majority black city (demographic dominance)? Finally, what is the importance of demographic dominance combined with political control (e.g. a black mayor)?

There is some evidence that suggests that demographic dominance can be a substitute for social capital, creating economic benefits to the black majority including self-employment. Citing the historical case of the Great Migration north, several scholars contend that the demographic growth coupled with racial solidarity did indeed lead to an increase in rates of black self-employment from the turn of the century to the Great Depression (Marable, 1983; Butler, 1991; Kusmer, 1976; Walker, 1998).

Studies have also shown that black mayors (a product of black demographic dominance and political solidarity) were responsible for the initial opening of the government-procurement market to black-owned businesses (Bates, 1997; Woodward, 1997). For example, in cities with black majorities, policies were passed that increased financial support for black business expansion. Such policies included loans, technical assistance, set-aside programs, and training (Bates, 1997). Black business participation has also been enhanced by some black mayors who advocated policies and practices that insured the inclusion of minorities and women in the bidding process for city contracts. This practice was quite common before the *Richmond v. Croson* (1989) United States Supreme Court decision which prohibited such actions. Because blacks usually have limited financial and/or social capital compared to immigrant groups (Light & Gold, 2000), black demographic dominance and black political control may serve as an effective alternative to traditional social capital, thus influencing the rate of black business ownership.

Conceptual Framework

Social scientists have advanced at least five theories to explain minority business ownership. One is the Cultural Theory, which argues that there exists a cultural element within the minority group that predisposes its members to engage in entrepreneurial activities (Light, 1980). A second theory is the Middleman Theory, which states that minority groups, especially immigrants, are often constrained by the elites and forced to occupy the position of middleman by playing the role of conduits to the masses for the delivery of goods and services usually controlled by the elites (Bonacich, 1973; Fischer & Massey, 2000). A third perspective, the Disadvantage plus Resources Theory, argues that self-employment is a survival strategy that evolves when minorities who possess entrepreneurial resources encounter impenetrable barriers in formal labor markets (Light & Gold, 2000). A fourth theory, the Enclave Theory, suggests that co-ethnic cooperation and concentration of ethnic groups increase the group's chances for successful self-employment in a geographically limited location. This theory has been applied to explain the experience of Cubans in Miami, Jews in New York and Chinese in San Francisco. The perspective suggests that demographic and political dominance can foster self employment of a minority ethnic group (Wilson & Portes, 1980; Portes & Manning, 1986).

Finally, there is the Opportunity Structures Theory. It argues that minority business ownership is related to structural constraints such as market conditions, discrimination, residential segregation, and group size. Such structural conditions provide a protected market niche that serves to enhance minority business ownership by catering to the particular needs of the minority group population (Light, 1972; Fischer & Massey, 2000; Brimmer, 1968; Aldrich & Waldinger, 1990).

Objectives

This report is best understood within the framework of the Opportunity Structures Theory. It examines whether residential segregation and demographic dominance are beneficial or harmful to black business ownership. It also examines whether demographic dominance combined with political control (i.e. a black mayor) has any impact on the supply of black business owners as revealed in the black business participation rate.

Data and Method

The data were obtained from the U.S. Bureau of the Census 2002 Survey of Business Owners: Black Owned Firms (2006) and the U.S. Census of Population and Housing for 2000 (2002). Like Boyd (1991), we selected cities that were representative of the black self employed in all geographic regions of the United States as defined by the United States Bureau of the Census. However, unlike Boyd (1991) we chose central cities as our geographic unit instead of metropolitan areas. We believe central cities are more appropriate geographic units for measuring the influence of black residential segregation and black population dominance on black business development. It has been documented (Bates, 1997) that central cities have been the area where blacks have been able to demonstrate their political and demographic dominance to enhance business ownership. From the census data on the black population of central cities in 2000, the percent black was computed. Based on the results, 38 central cities were chosen for analysis. Half of the cities had black majorities, i.e. more than 50% of the inhabitants were

black and half had a black minority. Each city had a total population greater than 100,000. Data on whether the city had a black mayor was obtained from the Joint Center for Political and Economic Studies (see Bositis, 2001). Data on the black residential segregation in central cities were obtained from Census Scope. The independent *t*-test and Pearson's correlation coefficient were used to analyze the data.

Black Minority Cities

The black minority cities extend from Tacoma and Los Angeles in the West to Boston in the Northeast and Miami in the South. Data on each city's black business participation rate, percent black, and the level of black-white residential segregation and whether the city had a black mayor are presented in Table 1. The black population percentage ranges from 3.1% in Albuquerque to 40.4% in Little Rock. The black business participation rates ranged from 19.10 in Pittsburgh to 62.67 in Miami. Finally, the black-white index of dissimilarity (the residential segregation measure) ranged from 40.0 in Tacoma to 87.3 in Chicago. None of the black minority cities had black mayors at the time the data were recorded.

Black Majority Cities

Unlike the spatial distribution of the black minority cities, the black majority cities were more concentrated in the South, the Northeast, and the Midwest. They were absent from the West. Data on each of the cities is listed in Table 2. The percentage black ranged from 50% in Montgomery to 84% in Gary. The black business participation rates ranged from 18.66 in Birmingham to 39.56 in Montgomery. The black-white index of dissimilarity ranged from 60.3 in Savannah to 80.9 in Newark.

Results

We tested first the relationship between black residential segregation and the rate of black business ownership for the 38 cities in the sample. The results revealed a positive correlation of 0.095, which is not significant. When cities with black minorities were analyzed separately from cities with black majorities, the results revealed a correlation of 0.284 between the BPR and black residential segregation in black minority cities and a correlation of 0.125 for black majority cities. The results of both analyses were not significant. It appears that black residential segregation is not significantly related to black business ownership.

The second analysis tested the influence of black demographic dominance. This factor was measured in two ways: the percentage black of the total population, and the existence of a black mayor. This factor assumed that in cities where blacks constituted the majority, the black business participation rate would be significantly higher. Thus, black majority cities should have higher rates of black business ownership than black minority cities. In other words, one would suspect that the higher the percentage black, the higher the black business participation rate. However, instead of a positive correlation, the results revealed a significant negative correlation between the percent black population in the city and the black business ownership rate. The correlation between the two variables was -.459, which was significant at the .01 level.

In the third analysis, we separated black minority cities from black majority cities and employed a *t*-test to see if significant differences could be found in the average black business participation rates. Demographic dominance has historically been an important factor in black business ownership (Bates, 1997). The results revealed in Table 3 show that, on average, the black business participation rate in black majority cities was not higher (0.262) but lower than the black minority cities (0.346). This difference was significant at the .01 level.

Our final analysis tested the influence of black demographic dominance in the form of a black mayor as chief administrator. Black mayors governed 11 of the 38 cities (Table 4). All of them were predominantly black. The results revealed that black mayors had virtually no influence on black business ownership. There was no significant difference in the average black business participation rate between cities with and cities without black mayors. In fact, cities with black mayors had lower black business participation rates (0.2676) than cities without black mayors (0.3186), on average.

In sum, our analysis based upon the Opportunity Structure Theory of black business ownership revealed that black residential segregation is positively related to black business ownership in central cities, but the relationship is not significant. The relationship of demographic dominance to black business ownership was significantly negative. Instead of enhancing black business ownership, cities with black majorities had lower rates of black entrepreneurship than cities with black minorities. Finally, contrary to past studies, black mayors had no significant positive influence on black business participation rates. Instead, cities with black mayors had lower average rates of black business ownership than cities without black mayors.

It appears that in the Post-Civil Rights Era, residential segregation no longer yields a protected market and does not significantly enhance the rate of black business participation. Moreover, black demographic dominance combined with a black mayor actually reduces black business ownership. While Detroit is the largest black majority city in the US, its experience in terms of business development resonates with that of other black majority cities. These findings, although based on central cities instead of metropolitan areas, are consistent with the findings of Boyd (1991) and Fisher and Massey (2000). These results may suggest the emergence of the “de-racialization” of black-owned businesses. It may be that black demographic dominance and black political control in the form of a black mayor no longer influence black business ownership.

POTENTIAL IMPACT OF MICHIGAN’S PROPOSAL 2

The third part of our report examines, in a preliminary way, the impact that anti-affirmative action public policies may have on black business development. We begin with a discussion of *Richmond v. Croson* (1989) and end with a discussion on Michigan’s Proposal 2.

The Croson decision challenged the constitutionality of minority business set aside programs at state and local levels. The US Supreme Court struck down as unconstitutional Richmond, Virginia’s ordinance that required 30 percent of each construction contract to be awarded to a minority business. The Court ruled that a state or local government must produce specific evidence of racial or ethnic discrimination against the group targeted for assistance and the remedy selected must be “narrowly tailored” to address the types of discrimination found to exist in the jurisdiction (*Richmond v. Croson*, 1989). Before the decision, black mayors often ensured that black businesses were not overlooked in securing access to set asides. After the decision, set asides were suspended all over the country (Walker, 1998). Thus the degree to which political influence has enhanced black owned business has declined since the *Richmond v. Croson* decision in 1989. Furthermore, recent anti-affirmative action initiatives may prove to be additional obstacles to black business ownership. These initiatives include California’s Proposition 209, Washington State’s Initiative 200, and Michigan’s Proposal 2.

Michigan’s Proposal 2 was approved by the voters in 2006. The Proposal makes it a violation for the State’s Executive Branch to grant preferences to minority and women owned businesses in procurements. The proposal specifically stated that no preferential treatment can be granted on the basis of race, sex, color, ethnicity and national origin (Michigan Civil Rights Commission, 2007). This new trend may lure potential black business owners to give less weight to the black population concentration of an area and more weight to location in their decisions to open a business. Future black business owners may have to avoid relying on the black population alone to support their business. As the data we analyzed show, the black business participation rate is higher in cities with black minorities. This pattern suggests that in the Post Civil Rights Era, more black business owners are relying on a more diverse multiracial, multiethnic clientele in central cities. (Bates, 1997). These results are not good news for black majority cities. Such places have been faced with the out-migration of businesses to the suburbs and continue to experience an underrepresentation of business development, including those owned by blacks.

Economic Viability in the Post-Proposal 2 Era

Public policy makers have argued that small businesses are very important engines of economic growth (Cavalluzzo, Cavalluzzo & Wolken, 2002). This is especially the case for women and minorities. Because these groups are disadvantaged in the larger economy, small businesses offer a prized means of achieving upward mobility. Such businesses are usually younger and smaller than businesses owned by white men. Due in part to their age and size, minority and women owned businesses have had more difficulty surviving and growing. That is because survival is highly correlated with business age and employment size (Hall, 1987; Duane, Roberts & Samuelson, 1989; Troske, 1992; Robb, 2000). Furthermore, minority and women owned firms have more barriers to overcome than firms owned by white men. These include limited access to capital and business experience and being subject to discrimination (Bates, 1997). That is why policy makers at the federal and state levels established government programs to provide assistance to minority and women owned firms years ago. The implementation of these policies and programs was based on two premises: (1) That self employment is an effective means to achieve upward social and economic mobility for those lacking employment opportunities in existing firms and the public sector and; (2) Minority and women owned firms need assistance via public policy and other programs to be competitive with white male-owned firms (Robb, 2002).

While the premises remain, assistance to minority and women owned businesses has declined since the *City of Richmond v. J.A. Croson & Company* U. S. Supreme Court decision in 1989 limited set aside programs for minorities and women. The evidence presented in this report suggests that after Croson, set asides to black enterprises were significantly reduced (Darden, Gold, Newberry & Petrin, 2007; Walker, 1998). There is reason to believe that Michigan's Proposal 2 will further hinder the ability of government to assist woman and minority entrepreneurs. Proposal 2 might be one of the most critical public policies impacting minority and women owned businesses ever passed in the state. After all, Michigan is the third state in the US (after Washington and California) to pass an anti-affirmative action proposition and the only state in the economically declining North Central Region to do so. This is significant, since Michigan is experiencing severe economic restructuring, deterioration in its manufacturing sector, high rates of unemployment, and increasing poverty. Since minorities and women are concentrated in the most economically troubled areas of the state, they are likely to bear significant impacts from economic stagnation and decline. In such economic circumstances, the expectation prior to the passage of Proposal 2 was that government assistance would be provided via public policy to enhance small business growth including the growth of minority and women owned firms. Such forms of assistance as we have known them are no longer available.

Due to serious concerns about the negative consequences of the Proposal 2, the NAACP (National Association for the Advancement of Colored People) of Southern Oakland County met on May 20, 2007 to discuss Proposal 2's impact on business owners' abilities to secure contracts and how that ability would affect their bottom line (Detroit Free Press, 2007). Their assertion is that without these forms of assistance the economic fate of Michigan may be adversely impacted. Moreover, by creating a hostile environment for minority and women workers and entrepreneurs, Proposal 2 may discourage dynamic individuals from other states and countries from contributing to Michigan's economy.

Table 1: Black Minority Cities (N = 19)

City	BPR-All Black Firms	Percent Black	Dissimilarity Index	Black Mayor
Phoenix	0.3176	0.0510	0.5440	No
Little Rock	0.2720	0.4040	0.6390	No
Los Angeles	0.6251	0.1120	0.7400	No
Bridgeport	0.2791	0.3080	0.4790	No
Miami	0.6267	0.2230	0.8030	No
Chicago	0.3701	0.3680	0.8730	No
Indianapolis	0.2783	0.2550	0.6740	No
Kansas City	0.2760	0.3010	0.5780	No
Boston	0.2375	0.2530	0.7580	No
Minneapolis	0.4458	0.1800	0.6130	No
Charlotte	0.3808	0.3270	0.6110	No
Las Vegas	0.2933	0.1040	0.4240	No
Albuquerque	0.3775	0.0310	0.3950	No
New York	0.4605	0.2660	0.8530	No
Oklahoma City	0.3173	0.1540	0.5900	No
Pittsburgh	0.1910	0.2710	0.7130	No
Dallas	0.3079	0.2590	0.7150	No
Tacoma	0.3158	0.1120	0.4000	No
Milwaukee	0.1971	0.3730	0.7140	

Source: computed by the authors from data obtained from U.S. Bureau of the Census, 2006; Census Scope, 2007; Bositis, 2001.

Table 2: Black Majority Cities (N = 19)

City	BPR-All Black Firms	Percent Black	Dissimilarity Index	Black Mayor
Montgomery	0.3956	0.4963	0.6630	No
Birmingham	0.18660	0.7346	0.6630	Yes
Washington, D.C.	0.3553	0.6001	0.8150	Yes
Atlanta	0.3299	0.6139	0.8350	Yes
Augusta-Richmond	0.2626	0.5037	0.5350	No
Savannah	0.2263	0.5708	0.6030	Yes
Gary	0.2410	0.8403	0.6500	No
New Orleans	0.2854	0.6725	0.7060	Yes
Baton Rouge	0.2797	0.5002	0.7510	No
Shreveport	0.2071	0.5080	0.7070	No
Baltimore	0.2331	0.6434	0.7520	No
Detroit	0.2517	0.8155	0.6330	Yes
Flint	0.2601	0.7064	0.6820	Yes
Jackson	0.3052	0.7064	0.6820	Yes
St. Louis	0.2010	0.5120	0.7240	No
Newark	0.2139	0.5346	0.8090	Yes
Cleveland	0.2116	0.5099	0.7940	No
Memphis	0.2924	0.6141	0.6860	Yes
Richmond	0.2367	0.5719	0.6830	Yes

Source: computed by the authors from data obtained from U.S. Bureau of the Census, 2006; Census Scope, 2007; Bositis, 2001.

Table 3: Black Business Participation Rates in Black Minority vs. Black Majority Central Cities

The Independent T-Test for Equality of Means

Group Statistics					
Variables		N	Mean	Standard De- viation	Standard Error Mean
BPR*	1	19	0.262	0.055	0.013
BPR*	2	19	0.346	0.122	0.028

*BPR = Business Participation Rate or (Number of Black Owned Firms) / (Black population / 1000)

1 = Black Majority Cities

2 = Black Minority Cities

Independent Samples Test

		t-test for Equality of Means						
		t	df	Sig. (2- tailed)	Mean Differ- ence	Std. Error Differ- ence	95% Confidence	
							Lower	Upper
BPR	Equal Value Assumed	-2.734	36	0.010	-0.084	0.031	-0.146	-0.022
BPR	Equal Value Not As- sumed	-2.734	25.16	0.011	-0.084	0.031	-0.147	-0.021

Significant at the .01 level

Table 4: Black Business Participation Rates in Central Cities With and Without a Black Mayor

Independent T-Test for Equality of Means

Group Statistics

Variable	City Type	N	Mean	Standard Deviation	Standard Error Mean
BPR*	Black Mayor	11	0.2676	0.0513	0.0155
BPR*	No Black Mayor	27	0.3186	0.0090	0.0221

*BPR = Black Business Participation Rate = (Number of black owned firms) / (Black population / 1000)

Independent Samples Test

t-test for Equality of Means

	t	DF	Sig (2-Tailed)	Mean Difference	Std. Error Difference	95% Confidence	
						Lower	Upper
BPR**	1.408	36	0.168	0.0510	0.0362	-0.0224	0.1244

Difference not significant

**BPR Equal variances assumed based on Levene's test

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APPENDIX 1
BLACK ENTREPRENEURSHIP INTERVIEW QUESTIONS

Please describe the business development program that you are involved with.

How did you become involved in the field of minority business development?

How can the human resources of Detroit, including skills, loyalty, political mobilization, consumer demand, cultural tastes, community organizations and the like be put to the task of developing local businesses?

What liabilities for local business development do you associate with Detroit's economic and demographic make-up?

What assets for local business development do you associate with Detroit's economic and demographic make-up?

Why do you believe that immigrant and ethnic groups dominate certain retail niches in Detroit?

What programs and resources should be provided to assist the development of business activities among residents in Detroit?

Among these do resources such as capital, management skill and experience or other factors stand out as most important?

Articles in local newspapers, such as the Michigan Citizen, sometimes describe conflicts between well off minority entrepreneurs and minority business owners lacking assets and connections. Is this a major issue among local entrepreneurs? If so, how does it impact business development? How might it be resolved?

Some experts have argued that mom and pop retail businesses are not capable of generating significant profits or jobs, while other types of small businesses, such as business services, are more economically rewarding. Nevertheless, having visible retail businesses owned by groups not representative of the local population increases the likelihood of tense interactions between business owners and customers. Moreover, having many small businesses owned by out group members makes residents feel less in control of their local environment. Do you believe that it is important to have a large fraction of local businesses owned by members of the same racial/ethnic group as local residents?

How have political changes at the state and local level, such as having a new mayor, governor or city council shaped the local environment for minority business development?

How have political changes at the federal level, such as having a new president shaped the local environment for minority business development?

What is your perception of the local economic climate for minority business development?

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