Ethnic Entrepreneurship: Ethnicity and the Economy in Enterprise

By Zulema Valdez
Visiting Fellow, Center for Comparative Immigration Studies
Visiting Research Fellow, Center for U.S.-Mexican Studies

Beyond Ethnic Entrepreneurship: Ethnicity and the Economy in Enterprise[*]

Zulema Valdez
Center for Comparative Immigration Studies and
The Center for US-Mexican Studies
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Abstract: Although entrepreneurial success is often attributed to reciprocity in "ethnic resources" or "social capital," this explanation does not directly address ethnic groups with marginal business-ownership, such as among Mexicans, or non-immigrant, "non-ethnic" business-ownership, such as among Whites. Instead of focusing on ethno-cultural differences, this presentation suggests that three forms of economic integration-market-exchange, reciprocity, and redistribution--combine to facilitate entrepreneurship in a market economy. Relationships of exchange occur within a market economy in which a group is situated. Likewise, reciprocity, such as ethnic resources, or redistribution, such as government assistance, must also be situated within the context of the market when analyzing their impact on entrepreneurial success. Such a comprehensive and systematic perspective more fully explains ethnic differences in entrepreneurship. Using the 1990 CENSAS (long-form census data with tract-level information) and the 1992 Characteristics of Business-Owners database, Valdez argues that in a capitalist economy, market exchange facilitates success while reciprocal and redistributive relationships compensate for market disadvantages, but will affect success only marginally.

Introduction:

Since the 1970's, the increase in business ownership has been especially noteworthy among ethnic groups in the United States (Light 1972; Light and Bonacich 1988; Waldinger et al. 1990). Some ethnic minority groups, such as Koreans and Cubans, are even characterized as "entrepreneurial" because their rates of business-ownership participation far exceed that of other groups. Entrepreneurial ethnic groups are also thought to use their ethnic networks to mobilize resources and opportunities, which in turn contribute to their above-average rates of business-ownership (Light and Bonacich 1988; Portes and Bach 1985; Waldinger et al. 1990). Hence, ethnic entrepreneurship is facilitated by resource mobilization based on ethnicity. At its core, the

ethnic entrepreneurship approach mirrors Granovetter's (1985:487) notion of embeddedness that social relationships rooted in kinship ties constrain or promote economic behavior (Granovetter 1985; Portes and Sensenbrenner 1993:1322; Rath 2000). That is, ethnic membership is regarded as an essential factor in shaping the entrepreneurial outcomes of ethnic groups in the United States. Understanding the relationship between ethnicity and enterprise is important because entrepreneurship among ethnic minorities is associated with socioeconomic mobility (Light 1984; Logan, Alba, and McNulty 1994; Nee and Sanders 1985; Portes and Bach 1985; Portes and Zhou 1992; Sanders and Nee 1987; Sanders and Nee 1996; Waldinger 1986; Waldinger et al. 1990).

Ethnic affiliation, however, does not explain the marginal rates of business ownership among some ethnic groups, such as Mexicans; or entrepreneurship among "non-ethnic" groups – groups not readily identified with their ancestral heritage – such as US-born "whites". Actually, by definition, *ethnic entrepreneurship* is limited to *ethnic* groups and often to those groups with above-average participation rates. And while ethnic entrepreneurship may be associated with economic mobility, group participation rates do not capture this relationship. To address these concerns the present study explores entrepreneurship from a new angle.

I introduce an economic sociology approach to entrepreneurship to theoretically and empirically develop the ethnic entrepreneurship perspective. Theoretically, I apply Polanyi's (1944; 1992[1957]) conceptualization of the modern market economy to entrepreneurial activity. Following Polanyi (1944; 1957), I argue that the economic system of a given society is distinguished by three forms of economic integration -- market exchange, reciprocity, and redistribution (Polanyi 1944; 1992[1957]). Under capitalism, the market exchange relationship is the primary form of economic integration in a market economy (1992[1957]:35). Alongside

the market exchange relationship are two secondary forms of economic integration, reciprocity and redistribution. These three interdependent forms of economic integration constitute relationships found in the market economy that contribute to its maintenance.

My central argument is that under advanced capitalism, the three forms of economic integration contribute differentially to entrepreneurship. Since the market exchange relationship is the dominant or primary form of economic integration, market exchange relationships will improve entrepreneurial outcomes and economic conditions most. In comparison, reciprocal or redistributive relationships are secondary forms of economic integration and as such, may only augment or marginally compensate for one's market position (Szelenyi 1997:119).

In my conception, and with respect to ethnic entrepreneurship, I argue that ethnicity[1] provides the basis for membership in a relationship of reciprocity. As such, it may offer support in the face of market uncertainty among group members, but contributions may only slightly improve the economic viability and entrepreneurial outcomes of the group in question. In other words, resource mobilization or opportunities for entrepreneurship that originate from the ethnic group are not essential to entrepreneurial outcomes and success, but will only compensate marginally to the primary, market exchange relationship.

Empirically, rather than focusing on entrepreneurial ethnic groups, I consider four groups with contrasting business ownership rates and ethnic affiliations, and measure entrepreneurial success not with participation rates but by income and business longevity. I ask the general questions, "What facilitates entrepreneurial success in a market economy?" and "What level of success is achieved?" In so doing, I move away from the centrality of ethnicity in facilitating

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[1] I reject the definition of ethnicity as fixed or static, or that ascribed (Geertz 1963) or monolithic characteristics can differentiate between ethnic groups. I use the term "ethnicity" to create a boundary between members of a group who share a "sense of commonality" and history based on "culture and

entrepreneurship, and from equating business ownership participation with entrepreneurial success.

Ethnic Entrepreneurship:

Ethnic entrepreneurship is loosely defined as business-ownership by immigrant and ethnic-group members (Light and Bonacich 1988; Waldinger 1986; Waldinger et al. 1990). Essentially, the ethnic entrepreneurship literature argues that ethnic group affiliation, or ethnic group affiliation and the relationship of the ethnic group to the opportunity structure of the economy, combine to explain entrepreneurial outcomes.

Light and Bonacich (1988:18-19) offer a cultural, "supply-side" approach, and claim that class and ethnic resources explain entrepreneurship. Class resources are linked to the ethnic group and include material goods, such as property or wealth, and also "bourgeois values, attitudes, and knowledge" (Light and Bonacich 1988:18-19). Ethnic resources include cultural values and information channels, as well as skills, leadership potential, and solidarity (Light and Bonacich 1988:18-19). Class and ethnic resources, then, combine tangible material goods related to class background such as property and wealth; individual-level human capital attainment such as education and work experience; and "intangible" social capital that emerges from group affiliation, and consists of "some aspect of social structures" that "facilitate actions within the structure" (Coleman 1988:S98), such as solidarity, trust, and reciprocal obligations (Portes and Sensenbrenner 1993:1322). While material (class) and human capital contributions count, ethnic membership provides key resources, opportunities, and social capital that facilitate entrepreneurship (Light and Bonacich 1988:18-19; Portes and Sensenbrenner 1993; Sanders and Nee 1996; Zhou and Logan 1989).

descent", even as I acknowledge its subjective character (Barth 1969; Cohen 1978:379; Jiobu 1988; Kahn 1981; Kasinitz 1992; Omi and Winant 1986; Peterson 1975; Peterson 1978; Waldinger 1986:3).

Waldinger and colleagues (Waldinger 1986:924; Waldinger et al. 1990:250) extend this approach, which emphasizes the "supply side" of ethnic entrepreneurship, to include the "demand side" – the interaction of the ethnic group within the larger economy. The interaction model contains three sets of characteristics. Premigration characteristics are similar to Light and Bonacich's (1988) class and ethnic resources, including skills, work experience, and entrepreneurial attitudes before migration (Waldinger et al. 1990:41). Circumstances of migration relate to the larger socio-economic context, especially whether a group is classified as temporary or permanent. Business-ownership may occur among temporary migrants with "nothing to lose" (Piore 1979; Waldinger et al. 1990:42), or among permanent disadvantaged groups facing "blocked mobility" -- discrimination by employers limiting advancement. Finally, post-migration characteristics refer to the value placed on pre-migratory skills by the (host) society, and consequent opportunities. Similarly, Portes and Rumbaut (1990) claim that ethnic group membership and "contextual effects" explain entrepreneurial outcomes, including skills, values, resources, social capital and "supply and demand" concerns. Such "modes of incorporation" combine to explain ethnic differences in entrepreneurship (Portes and Rumbaut 1990:83-93).

In sum, scholars explain ethnic differences in entrepreneurship with material goods, human capital, and ethnic group characteristics, resource mobilization rooted in social capital, and the structure of and interaction with the host society. Yet, while cultural or "interaction" approaches have been used to explain entrepreneurship among a variety of ethnic groups in the United States, they remain largely descriptive and do not say how or why these particular factors combine (Rath 2000).

Participation and Success:

Moreover, the ethnic entrepreneurship perspective often equates "success" with participation rates (Portes and Zhou 1992; Portes and Bach 1985; Light and Bonacich 1988). To illustrate, Koreans in the United States are considered successful entrepreneurs because their rates of self-employment far surpass that of the general population, 28 percent compared to 11 percent (Fairlie and Meyer: 1996:761). Yet, the relationship between participation rates and economic success has not been fully explored (Portes and Zhou 1992; Portes and Bach 1985; Light and Bonacich 1988).

While Koreans enjoy high rates of entrepreneurship, socio-economic mobility is not guaranteed. Some Koreans own large, professional, and skilled businesses (Portes and Rumbaut 1990:23), but most are small business-owners. Light and Bonacich (1988) find that Los Angeles Korean proprietors work on average, 79 hours a week, and suffer physical and mental exhaustion (1988:278). Similarly, Cheng and Yang (1996) find that Korean-owned firms "...tend to be small, to use family members or a few employees, and concentrated in retail trade, manufacturing, and services (1996:329)." Nowikowski (1984) echoes this sentiment. Regardless of the high entrepreneurial participation rate of Asians (Indians and Pakistanis) in Britain, economic success remains elusive. Most Asians remain "managers of small workshops and petty traders, rather than members of the bourgeoisie proper" (Aldrich et al. 1984; Nowikowski 1984:190). Further, evidence suggests some groups may use entrepreneurship as a "survival strategy" or "economic lifeboat", that is, as a last ditch alternative to unemployment (Hakim 1988: 430-431; Portes and Rumbaut 1990; Light and Roach 1996:193). Findings reveal that groups with high participation rates vary in their capacity to achieve success, not with respect to participation *per se*, but in other indicators of success, such as income.

By bringing in group-level characteristics, the ethnic entrepreneurship literature

challenges partial explanations provided by neo-classical or human capital factors. Group-level explanations based on ethnic membership are supported by empirical findings such as the above-average rates of business ownership among the foreign-born relative to the US-born (Light 1972), and the phenomenal participation rates of groups such as Koreans and Cubans (Light and Bonacich 1988; Portes and Bach 1985). However, the focus on ethnic groups with high participation rates has led to the omission of ethnic groups with low rates (i.e. Mexicans), and some groups completely (i.e., Whites). Moreover, cultural or interactive models of ethnic entrepreneurship are primarily descriptive and largely indeterminate with respect to which factors will play an important role in a particular context (Rath 2000). Finally, the relationship between high participation rates and successful entrepreneurship remains unclear. Still lacking in the ethnic entrepreneurship literature, then, is a systematic explanation of how and why ethnic group membership and its relationship to the host society facilitate entrepreneurship.

Three Forms of Economic Integration: Market, Reciprocity, and Redistribution:

Polanyi (1944) notes that three forms of economic integration, *market exchange*, *reciprocity*, and *redistribution*, characterize societies (Polanyi 1944; Polanyi 1957:35). According to Polanyi, *market exchange* is the primary form of economic integration in a market economy, and is constituted by relationships of exchange coordinated by price in a self-regulating market (Granovetter 1985; Polanyi 1944; Polanyi 1957; Swedberg and Granovetter 1992). Alongside relations of exchange in the market economy, secondary relationships co-exist in the form of *reciprocity*, a social arrangement of long-term symmetrical relationships that illicit trust and obligation (Polanyi 1957:61), and *redistribution*, an asymmetrical relationship in which the collection, allocation, and distribution of goods and services takes place by some central actor, i.e., the state (Polanyi 1957:35). Applying these three forms of economic integration to

entrepreneurship, I argue that market exchange as the primary relationship in a market economy, will influence entrepreneurial success, while reciprocity and redistribution, as secondary forms, will only compensate for market disadvantage or uncertainty. As such, reciprocal and redistributive relationships may only marginally affect entrepreneurial success.

Since the self-regulating market is the dominant form of economic integration under capitalism, entrepreneurs who engage successfully in relationships based on market exchange, will have superior entrepreneurial outcomes. However, entrepreneurs who engage in such relationships are already themselves, likely to be well-integrated in the market. The ability to accumulate capital from market exchange relationships, that is, economic institutions such as banks or investment firms or even personal savings, suggests a strong market position, since such lending institutions do so based on the belief that their investment will generate a profitable return. Because such relationships are only open to those would-be entrepreneurs that are already well-integrated in the market and therefore can compete successfully in the market economy, entrepreneurs who accumulate capital or acquire credit from an economic institution that operates on profit, are presumably more integrated in the market and as a result, will enjoy superior entrepreneurial success.[2]

Well-integrated entrepreneurs, then, are those persons capable of accessing and acquiring capital from profit-seeking lending institutions. They include persons with skills and knowledge valued on the market, such as educational attainment, professional business experience; and

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[2]Similarly, Schumpeter acknowledges that some measure of economic integration is necessary for a would-be entrepreneur to engage in market exchange relationships. He notes that an entrepreneur is not the only one engaging in risk-taking activity when entering a business -- the lending source takes on risk as well, he states, "If the entrepreneur borrows at a fixed rate of interest and undertakes to guarantee the capitalist against loss whatever the results of the enterprise, he can do so only if he owns other assets with which to satisfy the creditor capitalist when things go wrong. But in this case, he is able to satisfy his creditor because he is a capitalist himself and the risk he bears he bears in his capacity of entrepreneur" (Schumpeter [1949]1951:251).

persons with accumulated capital that can be exchanged as collateral in the event of business failure. In other words, persons with high human capital and/or property are well-integrated in the market. Since access to market exchange relationships signal entrepreneurs who are well-integrated in the market, the use of market exchange relationships indicate improved chances of success. Further, the more economic capital accumulated or invested in a business enterprise, the stronger and more profitable the business and the more powerful and privileged the entrepreneur (Szelenyi 1997:114). The old adage, "it takes money to make money" is not lost here. Thus, market exchange relationships contribute to entrepreneurial success.

Reciprocal relationships develop from symmetrical relationships based on recognition, identification, and investment in a collectivity. For example, reciprocity may be based on family membership or ethnic group affiliation. These relationships are maintained by the collectivity through bounded solidarity and enforceable trust, and ultimately benefit individual members by advancing the group as a whole (Granovetter 1985; Swedberg and Granovetter 1992:60). Such relationships provide a source of mutual aid and support for group members, which can be economic or non-economic in character. The Polanyian approach understands ethnicity and corresponding relationships based on ethnic group membership as reciprocity. And reciprocal relationships may generate resources that facilitate entrepreneurship. Such relationships and corresponding resources include: ethnic-information channels that may provide information or knowledge of business opportunities; family or ethnic group borrowing strategies that provide start-up capital or capital to maintain a business; and networks that provide access to low-wage labor from co-ethnics or unpaid family work.

In a similar fashion, ethnic entrepreneurship scholars (Light and Bonacich 1988:178; Waldinger et al. 1990: 34-35) suggest resources generated by reciprocal relationships, termed

"ethnic resources", facilitate entrepreneurship. They claim, however, that ethnic group membership is of considerable importance, even essential, to entrepreneurial outcomes, especially with respect to participation. While the Polanyian approach also recognizes the importance of reciprocal relationships based on ethnicity, these relationships are not given priority or primary status in the market economy.

Rather, they are understood as a secondary form of economic integration, relationships that provide compensatory relief to market exchange. Ethnic membership, then, provides a basis for reciprocal relationships to develop among ethnic groups who may be disadvantaged with respect to market exchange, the primary form of economic integration. Fundamentally, support from relationships of reciprocity is gotten from "who you know, and who knows you" (Szelenyi 1997:114). Hence, ethnic group membership may provide a "secondary criteria" among disadvantaged ethnic groups, contributing to market integration as it compensates for market exchange.

As such, relationships of reciprocity will not determine entrepreneurial success. For example, ethnic membership may provide a basis of reciprocity for an entrepreneur, who may hire a co-ethnic employee. While hiring a co-ethnic may provide a source of cheap or unpaid labor to the employer, it does not necessarily result in entrepreneurial success – it may not affect economic returns. However, hiring a co-ethnic may have a compensatory effect on market integration, a means to improve market disadvantage. In this regard, relationships of reciprocity may contribute marginally to entrepreneurial success.

Another secondary form of economic integration in a market economy is redistribution. Redistributive relationships arise from a central actor, such as the state in a market economy, which collects surplus and redistributes it to members of the polity. For example, taxes collected

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by the state provide resources for its members, such as government business-loans, tax relief for new businesses, entrepreneurial or occupational training, and low-cost or free legal service. Hence, members of the polity who qualify for state-sponsored small business loans, subsidies, or other resources enjoy improved entrepreneurial opportunities. While redistributive relationships are different from reciprocal relationships, they are both secondary forms of integration and as such, may provide only compensatory relief that augments market uncertainty. Therefore, the contributions of secondary relationships may affect entrepreneurial success only marginally.

I suggest the Polanyian approach will ultimately provide a better explanation than the ethnic entrepreneurship approach, and will also clear up some conceptual issues. For instance, while neo-classical economists and scholars of ethnic entrepreneurship suggest that human capital contributes to entrepreneurship, they diverge on whether human capital arises from individual- or group-level processes. Instead of entering this debate, the Polanyian approach conceptualizes human capital as a facilitator of market exchange that aids economic integration and therefore contributes to entrepreneurial success.

Moreover, ethnic entrepreneurship scholars often focus on those "entrepreneurially-inclined" (Light and Bonacich 1988:9) or "entrepreneurial" (Portes and Rumbaut 1990:20-23) ethnic groups and ascribe ethnic-specific entrepreneurial characteristics and resources to them. Rather than focusing on the specific features of particular ethnic-groups, the Polanyian approach re-conceptualizes group membership itself as providing a basis for reciprocity. Therefore membership alone, regardless of whether a group participates in entrepreneurship in above average numbers or is "ethnic" or "non-ethnic", is sufficient for consideration as it may provide compensatory support for market disadvantage.

Empirical Implications of the Polanyian Approach:

In sum, I argue that in a capitalist economy, the use of market exchange relationships will have a positive effect on entrepreneurial success, here measured by total personal income and longevity of business. Reciprocal and redistributive relationships will augment market disadvantage, and disadvantaged groups may use secondary relationships to compensate for a weak economic position (Szelenyi 1997:114). I explore some empirical implications drawn from the Polanyian approach:

a. All groups use market exchange, reciprocal, and redistributive relationships.

b. Ethnic minorities, who are disadvantaged with respect to the primary form of economic integration, may be more likely to use secondary forms of integration, such as reciprocity and redistribution.

c. The use of market exchange relationships will have a significant and strong relationship to entrepreneurial success.

d. Reciprocal relationships may have a significant relationship to entrepreneurial success, but this relationship will be weaker than the relationship of market exchange to success.

e. Redistributive relationships may have a significant relationship to entrepreneurial success, but this relationship will be weaker than the relationship of market exchange to success.

DATA AND METHODS:
Data:

I analyze data from the *1992 Characteristics of Business Owners Database* (*CBO*), the third and most recently conducted *CBO* (previous *CBO*'s were collected in 1982 and 1987). The *CBO* survey is a supplement to the Survey of Minority-Owned Business Enterprises and Survey of Women-Owned Businesses. The *1992 CBO* is a mail survey sent to individual proprietors or self-employed persons, partnerships, or subchapter S corporations[3] (Headd 1999). The 1992

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[3] A Subchapter S Corporation is a general corporation that has elected a special tax status with the IRS after the corporation has been formed. Subchapter S corporations are most appropriate for small business owners and entrepreneurs who prefer to be taxed as if they were still sole proprietors or partners. When a

CBO is a mail survey of 1992 businesses that was conducted in 1995-1996. Firms that went out

of business in this period most likely did not respond to this survey and non-response bias has

been estimated at twenty percent (Nucci 1992).

The *CBO* database consists of three separate surveys: a sole proprietor's survey, an owner

survey for each owner in a partnership or S corporation, and a firm survey. Women and

minorities are oversampled to ensure a sufficient number of each for analysis. The *CBO* contains

individual background information such as business and work-experience, race/ethnicity, age,

education, and marital status as well as detailed information on business practice and experience.

The Bureau of the Census collects the *CBO* data under IRS Title 13. As such, access is restricted

to protect the confidentiality of survey respondents. The Center for Economic Studies at the US

Bureau of the Census approves access to the data, and in concert with the IRS, determines

disclosure of data for public inspection to ensure confidentiality.

For the purposes of this analysis, I merged the owner survey and firm survey to study

individual owner characteristics combined with specific firm information. The analysis

presented here is based on 22,427 unweighted White (13,094), Korean (763), Mexican (2,720),

and Black (5,850) male business owners, after eliminating respondents who were missing on any

of the independent or dependent variables.

Dependent Variable, Success:

The dependent variable, success, is operationalized in two ways: owner's total personal

income and longevity of business. The original version of owner's total personal income

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general corporation makes a profit, it pays a federal corporate income tax on the profit. If the company
also declares a dividend, the stockholders must report the dividend as personal income and pay more
taxes. S Corporations avoid this "double taxation" (once at the corporate level and again at the personal
level) because all income or loss is reported only once on the personal tax returns of the stockholders. For
many small businesses, the S Corporation offers the best of both worlds, combining the tax advantages of
a sole proprietorship or partnership with the limited liability and enduring life of a corporate structure.

consists of ten categories ranging from less than $5000 to $150,000 or greater. For the purposes of this analysis, I recoded total personal income to "1" if less than $25,000; "2" if $25,000-$74,999; and "3" if over $75,000.

Longevity of business is recoded from the original variable, "Year Acquire Ownership". The original version of this variable consists of eight categories ranging from acquire ownership before 1970 to acquire ownership in survey year, 1992. For this analysis, longevity of business was coded "1" if the business existed for three years or less; "2" if the business existed for four to twelve years; and "3" if the business existed for thirteen years or longer.

Independent Variables:

As summarized in Table 1, *human capital variables* include individual-level characteristics: age, education, work experience, managerial experience, and owner experience. Age is a dichotomous variable defined as younger (less than age 44 and coded as "0") and older (age 45 to 65 and coded as "1"). Education is defined as a series of four dummy variables for the categories: high school or less (reference category), some college, bachelor's degree, and professional/graduate degree. Work experience is defined as less than ten years (coded as "0") or 10 years or more (coded as "1"). Managerial experience is defined as no managerial experience (coded as "0") or any managerial experience (coded as "1"). Owner experience is defined as no experience (coded as "0") or any owner experience (coded as "1").

Alternative factors describe two hypothesized effects from the ethnic entrepreneurship perspective. *Alternative factors* include blocked mobility or entrepreneurial pursuit, two variables recoded from the original variable, reasons for starting a business. Blocked mobility captures the use of entrepreneurship when other opportunities are unavailable or limited. It is defined as similar work not available or to advance in profession (coded as "1"), or other (coded

as "0"). Entrepreneurial spirit is defined as developing new ideas or to become one's own boss (coded as "1"), or other (coded as "0").

Market exchange variables facilitate market exchange, such as the amount of capital invested at business startup or indicate the use of market exchange relationships, such as borrowing from an institution such as a bank or investment company. *Market exchange variables* include: amount of capital at startup, borrow capital from bank for startup capital, borrow from bank when low cash, and hire employees. Amount of capital at startup consists of four dummy variables coded as no capital (reference group), low capital ($0-24,999), medium ($25,000-49,999), and high capital (more than $50,000). Borrow capital from bank for startup capital is defined as borrowing from a bank or investment company when starting a business (coded as "1") or no borrowing from a bank or investment company when starting a business (coded as "0"). Borrow from bank when low cash is defined as borrowing from a bank or investment company to combat a low cash flow (coded as "1") or no borrowing from a bank or investment company to combat a low cash flow (coded as "0"). Finally, hire employees is defined as having one or more employees (coded as "1") or no employees (coded as "0").

Reciprocal variables indicate the use of reciprocal relationships, such as borrowing from a co-ethnic or a family member. *Reciprocal variables* include: borrow capital from family/kin for startup capital (coded as "1") or no borrowing from family/kin for startup capital (coded as "0"); and borrowing from family/kin when low cash (coded as "1") or no borrowing from family/kin (coded as "0"). Marital status is defined as married (coded as "1") and not married (including single, divorced, or widowed and coded as "0"). Relative is owner is defined as having a relative who owns a business (coded as "1") or no relative is owner (coded as "0").

One variable that captures the use of a relationship based on *redistribution* is included in

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the analysis. Borrow from government is defined as borrowing from a government small business loan or subsidy for startup capital (coded as "1") or no borrowing (coded as "0").

Some control and reference variables are included in the analysis for the variables described earlier in other categories. Some business owners do not borrow startup capital from a bank, family or the government. A control variable, no borrowing from a bank, family, or government is defined as no borrowing from bank, family, or government (coded as "1") or borrow from bank, family, or government (coded as "0"). Some business owners do not face a low cash problem in their business. A reference variable, no low cash problem, is defined as do not have low cash problem (coded as "1") or have low cash problem (coded as "0"). Finally, some business owners do face a low cash problem in their business, but do not borrow from a bank, family, or government. A control variable, other low cash borrowing, is defined as borrow from other source when low cash (coded as "1") or borrow from bank, family, or government when low cash (coded as "0").

RESULTS:

Descriptive Statistics:

Table 2 shows the distribution of each variable included in the analysis by ethnic group. The distribution of the first dependent variable, total personal income, shows that 24 percent of Whites fall in the lowest income category ($0-24,999), the smallest percentage in this sample. A higher percentage of Koreans (33 percent) than Whites are found in this income category. Mexicans and Blacks are more likely to be in this income category (41 percent and 48 percent, respectively) than in either the medium or high income category, while Koreans are more likely to fall into the medium income category (43 percent fall between $25,000 and 74,999) than any other group (36 percent of Whites, 39 percent of Mexicans, and 35 percent of Blacks). In the

high income category (over $75,000), more Whites (40 percent) are found than any other ethnic group (25 percent of Koreans, 20 percent of Mexicans, and 17 percent of Blacks).

The distribution of the second dependent variable, years of ownership, shows that 27 percent of White business owners have been in business three years or less. All of the other ethnic groups have a higher percent in this category: 37 percent of Koreans, 35 percent of Mexicans, and 34 percent of Blacks have been in business three years or less. The distribution for the middle category (4 – 12 years) is similar for all the ethnic groups, 47 percent of Koreans, 41 percent of Whites and Mexicans and 39 percent of Blacks are found here. In contrast, Whites are much more likely to be in business for 13 years or more (32 percent), in comparison to 23 percent of Mexicans, 27 percent of Blacks, and a paltry 15 percent of Koreans.

The second set of variables shown on Table 2 is *human capital* and include age, education, and experience. The distribution of age shows that Mexicans are the youngest; half are less than 45 years old (52 percent). Blacks are more likely to be older – fully 60 percent are over 45 years old. Koreans (59 percent) and Whites (58 percent) follow closely behind, and Mexicans are much less likely to be 45 years or older (40 percent).

With respect to the distribution of education, almost half (48 percent) of Mexicans have a high school education or less. In contrast, 39 percent of Blacks, 28 percent of Whites, and only 22 percent of Koreans have a high school education or less. 25 percent of Blacks have some college education, compared to 23 percent of Mexicans, 22 percent of Whites, and 18 percent of Koreans. Koreans and Whites are much more likely to have a bachelor's degree (39 percent and 31 percent, respectively). Only 20 percent of Blacks and Mexicans fall in this category. And again, Whites and Koreans are more likely to have a professional or graduate degree (20 percent each), compared to their less educated Black and Mexican counterparts (16 percent and 10

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percent, respectively).

Finally, experience includes work experience, managerial experience, and owner experience. Only 34 percent of Koreans have ten or more years of work experience. In contrast, half of the Mexicans (49 percent), 56 percent of Blacks, and 57 percent of Whites have ten or more years of work experience. The majority of all groups record some managerial experience. Korean and White business owners are most likely to have managerial experience (64 percent each), compared to 57 percent of Mexicans and 54 percent of Blacks. While fewer business owners in the sample had previous owner experience than managerial experience, many report such experience. A third of all Koreans and Whites (33 percent and 32 percent, respectively) compared to 21 percent of Mexicans and only 18 percent of Blacks have some owner experience.

Alternative factors address the ethnic entrepreneurship literature, which suggests that ethnic entrepreneurs enter business disproportionately to combat blocked mobility or to realize entrepreneurial pursuits. There are no significant differences across ethnic groups in reporting blocked mobility -- approximately 10 percent of all groups report limited opportunities as a reason for starting a business. The distribution also shows the "entrepreneurial" orientation of business owners by ethnicity. Surprisingly, a higher percentage of Mexican and Black business owners (33 percent) claim to enter business for entrepreneurial reasons, while 29 percent of Whites and only 19 percent of Koreans do.

Market exchange variables include: capital used at startup, borrow from a bank for startup, borrow from a bank when low cash, and hire employees. Of the groups in this sample, Blacks are most likely to start their businesses with no capital (24 percent), followed by Whites (19 percent) and Mexicans (17 percent). Only 8 percent of Korean business-owners start businesses with no capital. Additionally, Blacks are more likely than any other group to be in

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the second to lowest category of startup capital (44 percent), closely followed by Mexicans (41 percent), compared to Whites and Koreans (29 percent and 18 percent, respectively). In contrast, at the high end of startup capital, Koreans are far more likely to start their businesses with $50,000 or more (42 percent), followed by Whites (26 percent), Mexicans (15 percent) and Blacks at the bottom (12 percent).

Koreans are much more likely than the other groups to borrow from a bank to accumulate capital to start a business (34 percent). The other groups are similar to each other, with 21 percent of Blacks, and 19 percent of Whites and Mexicans borrowing from a bank. When faced with low cash, 14 percent of Whites borrow from a bank, compared to 12 percent of Koreans and Mexicans, and only 11 percent of Blacks. Finally, Whites are more likely to hire employees (70 percent) compared to 62 percent of Koreans, 58 percent of Mexicans, and only 39 percent of Blacks.

Reciprocal variables are the next set of variables in Table 3.2. *Reciprocal variables* include: borrow capital from family/kin for startup capital, borrow from family when low cash, marital status, and relative is owner. 29 percent of Koreans borrow from family/kin, compared to 17 percent of Mexicans, 15 percent of Whites, and only 12 percent of Blacks. With respect to borrow from family when low cash, Koreans are more likely to do so (19 percent), compared to half that percentage for Mexicans and Blacks (10 percent each), and only 5 percent of Whites. Korean business owners are more likely to be married (92 percent), compared to 82 percent of Whites, 81 percent of Mexicans, and 78 percent of Blacks. Finally, among business owners who have a relative owner, more Whites fall into this category (62 percent), with the other ethnic groups far behind (46 percent of Mexicans, 42 percent of Koreans and 39 percent of Blacks).

Table 3.2 also shows that borrowing from a government is rarely used by any group (and

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is suppressed for Koreans because the small cell count violates disclosure policy). Among White, Mexican, and Black business owners, however, the percent who borrow from the government is 1 percent or less.

Some reference categories and controls are included in the regression analysis. These variables are included here as the final set of variables. Some business owners do not borrow startup capital from a bank, family or the government. This variable, no borrow startup capital from a bank, family, or government startup capital, is included as control variable for borrow from bank for startup, borrow from family for startup, and borrow from government for startup. Whites are the most likely not to borrow startup capital (65 percent) from any source. Blacks and Mexicans follow closely behind (64 percent and 63 percent, respectively). In contrast, Koreans are much less likely than the other groups not to borrow startup capital from a bank, family, or government, as only 36 percent do not borrow from any source.

Additionally, some business owners do not face a low cash problem in their business. Therefore, the reference variable, no low cash measure, is included in the analysis. Whites are most likely not to face a low cash problem in their business (43 percent). Koreans and Mexicans follow closely behind Whites (39 percent and 37 percent, respectively). Finally, some business owners face a low cash problem, but do not borrow from a bank, family, or government. A control variable, other low cash measure", then, is included in the analysis. Among business owners who do face a low cash problem but do not borrow from a bank, family, or government, 54 percent of Blacks, 42 percent of Mexicans, 39 percent of Whites, and 33 percent of Koreans fall in this category.

Bivariate Tables:

Table 3 illustrates the use of market exchange and reciprocity to accumulate capital for business startup, by ethnicity. Borrowing startup capital from a bank represents a market exchange relationship, while borrowing startup capital from a family member represents a reciprocal relationship. Table 3 indicates that most business owners do not use outside sources to borrow capital. Approximately three-fourths of all White, Mexican, and Black business owners do not use outside sources to borrow capital, and half of Koreans fall into this category. Row 2 of Table 3 shows the percentage of groups who borrow from a bank for startup capital. 10 percent of Whites and Mexicans borrow from a bank for startup capital, compared to 13 percent of Blacks and 18 percent of Koreans. Row 3 of Table 3 illustrates the use of only reciprocal relationships as a borrowing strategy to start a business. While 6 percent of Whites, 7 percent of Mexicans, and only 4 percent of Blacks borrow from family for startup capital, Koreans are twice as likely to use this source (13 percent). Finally, White, Mexican, and Black business owners are similar (9 percent of Whites and Mexicans, 8 percent of Blacks) in the extent to which they use a combination of market and reciprocal sources to start a business. Koreans however, are much more likely to borrow from a bank for startup capital and borrow from family for startup capital (16 percent).

Table 4 illustrates the use of relationships of market exchange, reciprocity, and redistribution to borrow when the business experiences low cash flow. Table 4 shows that Koreans are twice as likely to borrow from family when low cash (19 percent) than are Mexican and Black business owners (10 percent). Finally, a mere 5 percent of Whites borrow from family members when faced with low cash flow problems, significantly less than the other groups.

The use of redistribution, in the form of borrowing from a government source, is shown in Table 5. Table 5, Row 1 shows that borrowing from the government for startup capital is low

overall -- 1 percent for all groups. However, Black business owners are twice as likely (1.4 percent) to use a government source for business startup as compared to all other groups (.7 percent).

Table 6 addresses the ethnic entrepreneurship literature, which argues that ethnic entrepreneurs enter business disproportionately to combat "blocked mobility" or to realize an "entrepreneurial pursuit". Table 6, Row 1 shows the percentage of business owners who report entering into business due to blocked mobility. There are no significant differences across ethnic groups in reporting blocked mobility. Approximately 10 percent of all groups reporting limited opportunities as a reason for starting a business. Table 6, Row 2 also shows the extent to which business owners enter business because of entrepreneurial reasons. Surprisingly, 33 percent of Mexican and Black business owners claim to enter business for entrepreneurial reasons, while 29 percent of Whites and only 19 percent of Koreans are likely to do so.

Multivariate Analysis:

Tables 7 and 8 present an ordinal logistic regression analysis of total personal income (Table 7) and longevity of the business (Table 8). The analyses examine the effect of market exchange, reciprocity, and redistribution on the ordered response variables, total personal income and longevity of business. Preliminary models added each category of variables in separate steps. Then, interaction terms between ethnicity and each set of explanatory factors were added separately. The final analysis includes the main effects of ethnicity and the significant interactions. However, since ethnicity is combined with a number of interaction terms, the coefficients for ethnicity cannot be interpreted as simple main effects. Thus, the interaction terms are used to disseminate the effects of ethnicity.

In this paper, only these final models are presented, as allowed by the Bureau of the

Census and IRS disclosure process.[4] It would have been ideal to present, in addition to the

models with significant interactions, models with no interactions (main effects models) but the

disclosure process of the Bureau of the Census and IRS did not allow for this.

Multivariate Analysis Results for Total Personal Income:

Table 7 presents estimates of ethnicity, market exchange, reciprocity, and redistribution

on total personal income. While ethnicity is the first set of variables in the analysis, interaction

terms by ethnicity are included in the model, therefore, ethnicity coefficients can not be

interpreted as simple main effects and the interactions must also be considered in understanding

the ethnicity effects. I do this in the interpretations below. Ordinal logistic regression explains

the effects of a one-unit increase in the explanatory factors on the ordered response variable, total

personal income.[5]

The main effects of the human capital variables illustrate that as age, education, and work

experience (including work, managerial, and ownership experience) increase, total personal

income also increases. The single significant interaction term for ethnicity by age, reveals that

older Black business owners are less likely to increase their total personal income compared to

the other groups (.115 + -.148 = -.03). Further, a significant interaction between college

education and being Black shows that college educated Blacks record a significant increase in

income compared to less educated Blacks (.215 + .204 = .419). Moreover, there is a significant

interaction among Koreans with a professional or graduate degree. While business owners who

hold a professional degree markedly increase their income return category by 1.6, Korean

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[4] An ordinal regression analysis was conducted that introduced in separate models, the various sets of
explanatory factors for the human capital model, ethnic entrepreneurship perspective, and Polanyian
approach separately, and a test for key interactions identified in the preceding sections.
[5] In ordered logistic regression the exponentiated coefficients are the ratios for a one-unit increase in the
covariate of the odds of outcome K to outcomes below K, outcome K-1 to outcomes below K-1 and so
on.... That is, the outcomes are ordered.

professionals enjoy an even larger increase in income (2.43). Whites with managerial experience have a higher income than Whites without such experience, and Black and Mexican business owners also increase their total personal income with managerial experience. Koreans with managerial experience, however, slightly decrease their total personal income (-.04). Finally, among Blacks, the relationship between owner experience and total personal income is weaker than for other groups.

Market exchange variables include: amount of capital at startup, years of ownership, hire employees, borrow from a bank for startup, and borrow from bank when low cash. There is a curvilinear relationship between the amount of capital at startup and total personal income. Business owners with low capital at startup ($1-24,999) have a significantly lower total personal income (-.18) compared to those with no startup capital. However, business owners whose startup capital is medium or high, enjoy significantly increased income returns compared to the reference group (no startup capital). Business owners with medium startup capital ($25,000-49,000), increase their income, and business owners with high startup capital ($50,000 to 100,000,000) increase their income even more (.79). Additionally, there are significant interaction effects between being Black and the three categories of startup capital, which demonstrate that the relationship between startup capital and total personal income is much stronger for Blacks than among other groups. There is also a significant interaction effect between being Mexican and medium startup capital, which demonstrates that Mexicans with medium startup capital have a stronger relationship to income than the other groups.

Business owners with medium or high years of ownership increase their income, compared to business owners with fewer years of ownership. And while Black income returns are also significantly increased for business owners with high years of ownership compared to

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those with low years (.78 + -.44 = .34), they are not as high as non-Black business owners (.78).

Finally, the presence of employees increases income by .86 for all groups, compared to business owners with no employees.

Borrowing from a bank to accumulate start up capital has a negative effect on total personal income (-.66), which may suggest that business owners who do not borrow from a bank may enjoy a better economic position than those who borrow. Yet, the significant interaction between ethnicity and borrowing from a bank for start up capital shows that while Blacks and Mexicans decrease total personal income if they borrow from a bank for startup capital, they are less negatively affected than Whites and Koreans. Finally, borrowing from a bank when there is a low cash problem is also negatively related to total personal income (-.41), with no significant interactions.

Reciprocal variables include: marital status, relative is owner, borrow from family for startup, and borrow from family when low cash. Married White and Korean business owners significantly increase their total personal income, compared to unmarried White and Korean business owners. In contrast, marriage has a markedly different effect among Blacks and Mexicans. Married Blacks and Mexicans face a decrease in income, compared to their co-ethnic unmarried counterparts. Finally, having a relative who owns a business does not markedly affect total personal income, and this is consistent among all groups.

Borrow from family for startup and borrow from family when low cash both decrease total personal income for Whites, Koreans, and Blacks (compared to those who do not borrow, which may indicate greater financial resources). Mexican business owners are the exception, since they enjoy increased income returns when they borrow from reciprocal sources.

Finally, borrow from government for startup capital shows the odds of total personal

income decrease by -.83 among all groups.

Multivariate Analysis Results for Longevity of Business:

Table 3.8 presents estimates of the effect of ethnicity, market exchange, reciprocity, and redistribution on longevity of business. Total personal income is also included in this analysis, as a market exchange variable.

Human capital variables include age, education, and work, managerial, and owner experience. The main effects of age illustrate that as business owners get older, there is a market increase in longevity of business (1.74). As educational attainment increases, longevity of business decreases. However, Koreans with a bachelor's degree actually increase their business longevity (.09).

Business longevity decreases among Whites with work experience (-1.015). And while Mexican and Black business owners with work experience also decrease longevity of business, the effects are less negative compared to Whites. For Blacks, as work experience increases, business longevity decreases by -.681. Similarly, Mexicans with work experience also decrease their business longevity, but again, less than Whites (-.58). And among Koreans, there is only a slight decrease in business longevity (-.08).

Business owners with managerial experience have businesses for fewer years, compared to those with no managerial experience, and there are no significant interactions between managerial experience and ethnicity. Having previous experience as an owner also significantly decreases longevity, however, Blacks are much less negatively impacted by having previous owner experience as compared to the other groups (-.14).

Turning to market exchange variables, the relationship between amount of startup capital and years of ownership is not linear. Low capital at startup ($1-24,999) shows a positive

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increase in longevity of business. Medium startup capital ($25,000-49,999) is not markedly

different from those who start their businesses with no startup capital (.09), and this finding is

consistent among all business owners. Finally, high startup capital significantly decreases

business longevity, and the decrease is even greater for Black and Korean business owners.

While startup capital does not positively increase years of ownership, total personal

income does. Business owners with medium income ($25,000-49,999) increase business

longevity by .35; and business owners with high income ($50,000 or more) increase longevity of

business by .67, compared to business owners with no income.

The presence of employees contributes significantly to longevity of business (.57),

compared to businesses with no employees. Significant interactions between ethnicity and the

presence of employees, shows that Black and Mexican business owners with employees increase

their years of ownership by .88.

Further, borrowing from bank for startup capital or when facing a low cash problem

shows mixed results. Borrowing from a bank for startup capital increases business longevity by

.21, while borrowing from a bank when facing a low cash problem does not alter business

longevity, compared to those who do not borrow. There are no significant interactions between

ethnicity and borrowing from bank for startup capital or when facing a low cash problem.

Reciprocal relationships are indicated by marital status, relative is owner, borrow from

family for startup capital, and borrow from family when low. Marital status significantly

increases longevity of business among Whites, Koreans, and Mexicans by .12, compared to

business owners who are not married. Additionally, married Black business owners actually

improve their business longevity by .30. Among business owners for whom a relative is owner,

longevity of business is markedly increased (.18), compared to business owners who do not have

a relative who owns a business. One exception to this finding is among Koreans. Korean business owners who have a relative who owns a business decrease their business longevity (-.23). Further, longevity of business is not affected by the use of reciprocal borrowing for startup capital or to augment low cash flow in the business, compared to those who do not borrow at all.

Finally, business owners who borrow from a government source increase longevity of business by .53, compared to business owners who do not borrow, and there are no significant interactions by ethnicity.

Discussion:

Drawing from the Polanyian approach, I argue that all groups use market exchange, reciprocal, and redistributive relationships (empirical implication 2a), nevertheless, ethnic minorities may be more likely to use secondary forms of economic integration (empirical implication 2b). Market exchange relationships are primary, since they are constituted by relations of exchange and coordinated by price in a market economy. Market exchange relationships, then, contribute to entrepreneurial success. In addition to the market exchange relationship, reciprocal and redistributive relationships are also present in advanced capitalism, and these relationships are contingent upon membership in a group or polity (respectively) rather than the market (Polanyi 1944). Therefore, reciprocal and redistributive relationships are secondary forms of economic integration in a market economy, and may provide compensatory relief based on market disadvantage, which may contribute only marginally to entrepreneurial success.

I observe that all groups access and use the three forms of economic integration (Table 3, 4 and 5). Specifically, findings reveal that Korean business owners report greater access to the use of market exchange relationships, compared to White, Mexican and Black business owners.

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For instance, Korean business owners are much more likely to borrow startup capital from a bank than any other group (Table 3), signifying the presence of strong market exchange relationships. Still, Whites are less likely to borrow from any source (suggesting that this group may draw from personal savings), and are also less likely to face a low cash problem. These findings indicate a strong market exchange position among Koreans and Whites, relative to the other groups (Table 4). Sanders and Nee (1996) argue that middle- or upper-class groups, such as Koreans (and Whites), have greater access to financial capital from banks or other market exchange institutions (Sanders and Nee 1996:232). Further, Light and Bonacich (1988), and Waldinger and colleagues (1990) also indicate that the use of personal savings often provide sufficient financial capital to start a business for some ethnic groups.

Moreover, research shows that when access to market exchange relationships is limited, some ethnic groups, such as Koreans, Chinese and Taiwanese, rely on reciprocal relationships based on family or co-ethnic membership to provide access to capital (Light and Bonacich 1988; Sanders and Nee 1996:232-233; Waldinger et al. 1990). For instance, Light and Bonacich (1988) find that Koreans participate in reciprocal relationships, such as rotating credit associations. Consistent with this research, my analysis reveals the use of market exchange and reciprocal borrowing strategies by Korean business owners.

In contrast, Mexicans and Blacks are rarely characterized as using relationships of market exchange (such as borrowing from a bank), or reciprocity (such as borrowing from a co-ethnic) (Logan et al. 1994; Portes and Bach 1985; Waldinger et al. 1990). Findings presented here also show this weaker relationship to market exchange or reciprocity than Whites and Koreans (Table 3 and Table 4). Yet, I find that Mexican business owners are much closer to White business owners in their access to market exchange and reciprocity than Korean or Black business

owners. And interestingly, Black business owners are not able to access market exchange and reciprocal relationships to the degree that other groups do. Yet, Blacks are twice as likely to access redistributive relationships (although this number is very small for all groups) (Table 5). These findings appear to support the use of redistribution as a secondary and compensatory relationship, especially used by Black business owners in lieu of their access to other forms of economic integration.

In sum, relationships of market exchange, reciprocity, and redistribution are used by all groups. I find that Mexican and Black business owners are less likely to use relationships of market exchange and reciprocity than Koreans (Tables 2, 3 and 4). On the other hand, Mexicans and Blacks are more likely to use reciprocal relationships than Whites, and Blacks are much more likely to use redistributive relationships than Whites or any other group (Table 5). Hence, relationships of reciprocity and redistribution are used by disadvantaged ethnic minorities (Koreans, Mexicans and Blacks) to a greater degree than other groups (Whites), in support of empirical implications 2a and 2b. Furthermore, the differential use of such relationships by ethnicity may indicate underlying differences on the degree to which each group is integrated in the economy.

The Polanyian approach suggests that the use of market exchange, reciprocity, and redistribution will have a differential effect on entrepreneurial success. Since market exchange is the primary form of economic integration in a capitalist economy (Polanyi 1944; Polanyi 1957), the use of market exchange relationships will have a significant and strong relationship to entrepreneurial success, compared to the secondary relationships of reciprocity and redistribution (empirical implication 2c).

Most market exchange variables increase income returns, with some differences by

ethnicity (although the differences remain positive) (Table 7). For example, there is a stronger relationship between startup capital and total personal income among Black business owners, compared to other groups. While most market exchange variables increase income returns, borrowing strategies appear to decrease income returns. Since the reference group includes business owners who did not borrow – findings suggest that business owners who borrow from a bank are in a weaker market exchange position than those who do not need to borrow at all. Given this interpretation, findings provide strong support for the Polanyian perspective, that relationships of market exchange improve entrepreneurial success. As business owners acquire human capital, invest more capital in their business, and hire employees, they increase entrepreneurial success. Further, if business owners do not borrow money from a bank because they presumably invest their own money, then they are also likely to increase their income.

Moreover, most market exchange variables contribute to business longevity (Table 8). Findings show that business owners who access market exchange institutions stay in business longer. However, one market exchange relationship actually decreases business longevity. Business owners who make large investments in startup capital are less likely to be in business longer, and this finding differs by ethnicity. It is possible that the accumulation of a large amount of startup capital may require "putting off" the business while capital is being collected or saved, resulting in fewer years of business ownership. The stronger, negative relationship among Black and Korean business owners may suggest that these disadvantaged groups have a tougher time accumulating income before finally starting their businesses (Table 8). In contrast, Bates (1994) finds that the more startup capital that is invested in a business, the more likely the business will stay in business longer (Bates 1994:680). Given these contrasting findings, further research on business longevity is needed to fully understand the relationship between startup

capital and business longevity.

For the most part, the analysis demonstrates strong support for the Polanyian approach. Market exchange relationships generally increase entrepreneurial success (empirical implication 2c). When differences are noted by ethnicity, the relationship between market exchange and success is usually stronger, that is, success increases among ethnic minorities who use market exchange relationships.

According to the Polanyian approach, relationships of reciprocity may have a significant relationship to entrepreneurial success, but this relationship will be weaker than the relationship of market exchange and success (empirical implication 2d). Findings reveal that the effects of reciprocal relationships on success vary. Overall, findings suggest that the use of reciprocal relationships is largely marginal or negative. Likewise, Bates (1994) finds that the use of reciprocal relationships, measured by the presence of minority employees and minority clientele, are negatively associated with business longevity (Bates 1994:683). My findings indicate only three specific instances in which relationships of reciprocity increase entrepreneurial outcomes: married business owners outperform unmarried business owners; Mexicans who use relationships of reciprocity for startup capital increase their income; and finally, having a relative who owns a business increases business longevity (with the exception of Koreans). Thus, the mostly marginal and negative findings provide support for the Polanyian approach, which suggests that reciprocity, as a secondary relationship, will have a weaker effect on entrepreneurial success than relationships of market exchange.

Finally, the Polanyian approach claims that relationships of redistribution will have a significant effect on entrepreneurial success; however, these relationships will be weaker than market exchange relationships (empirical implication 2e). Findings suggest that borrowing from

the government for startup capital decreases income returns (Table 7) and increases business longevity (Table 8). However, it is important to note that only a small number of business owners use this redistributive strategy, so these findings are merely suggestive.

In sum, I show that reciprocal and redistributive relationships do not contribute to entrepreneurial success to the degree than market exchange relationships do. While reciprocity and redistribution have some effects, overall these relationships are much weaker and generally contribute marginally or negatively to entrepreneurial success. Hence, findings demonstrate support for the Polanyian approach.

Additionally, the Polanyian approach also suggests that reciprocal and redistributive relationships may contribute to entrepreneurial outcomes disproportionately among disadvantaged minorities (Koreans, Mexicans, and Blacks), who may use such strategies as compensatory relief in the face of market uncertainty. I show that many market exchange relationships disproportionately increase income and longevity of business among disadvantaged ethnic minorities (Tables 7 and 8), suggesting that ethnic minorities capable of accessing market exchange relationships garner increased rewards and benefits which result in increased entrepreneurial success. Moreover, I show that while some relationships of reciprocity and redistribution have negative effects, Mexicans who borrow from family increase their income, and Blacks who are married increase business longevity. Hence, the Polanyian approach also finds moderate support that reciprocity and redistribution may sometimes compensate sufficiently to increase entrepreneurial outcomes.

Ethnic Entrepreneurship Perspective and Polanyian Approach Combined:

The ethnic entrepreneurship perspective argues that ethnic resources facilitate entrepreneurial participation and success, and emphasize the contributions of ethnic resources "to

explain why some immigrant minority groups achieve economic success despite societal hostility and initial disadvantages" (Sanders and Nee 1996:746).

In considering the ethnic entrepreneurship perspective and the Polanyian approach to entrepreneurial success, the multivariate analysis shows that relationships of reciprocity (ethnic resources) do not contribute to entrepreneurial success to the degree that market exchange relationships do. Moreover, the use of reciprocal relationships (ethnic resources) does not benefit Koreans more than other groups, a finding that provides evidence against the ethnic entrepreneurship perspective, which would predict the disproportionate use and effects of ethnic resources by Koreans, on entrepreneurial success. In fact, in some cases, the use of reciprocal relationships (ethnic resources) negatively impact Koreans. Hence, while Koreans do use ethnic resources to a greater degree than other groups, in strong support of the ethnic entrepreneurship perspective, the uses of such resources do not generally contribute to entrepreneurial success. Moreover, the use of market exchange relationships contributes to entrepreneurial success much more consistently and to a greater degree than does reciprocity. In sum, findings presented here provide weak support for the ethnic entrepreneurship perspective, in that it recognizes the overwhelming use of ethnic resources by Koreans. However, findings reveal strong support for the Polanyian approach, which recognizes the primary importance of market exchange in predicting entrepreneurial success, and the marginal effects of reciprocity.

Conclusions:

This analysis investigates the Polanyian approach to entrepreneurship, which extends the theoretical and empirical implications of the ethnic entrepreneurship approach. Using the central concepts of market exchange, reciprocity, and redistribution, situated within advanced capitalism, a more refined analysis of the relationships that facilitate entrepreneurial success, and

how such relationships vary by ethnicity, is presented.

With respect to the ethnic entrepreneurship perspective, scholars have correctly determined the importance of ethnic resources (in my terms, reciprocal relationships) in providing resources, opportunities, and strategies that facilitate entrepreneurship (Light and Bonacich 1988). Koreans, the quintessential entrepreneurial ethnic group, borrow from kin or co-ethnics much more than other groups. And since almost 30 percent of Korean males are likely to be entrepreneurs (Light and Bonacich 1988; Waldinger et al. 1990), this statistic alone requires an understanding of the contributions of ethnic resources, and the entrepreneurial outcomes such support may provide. However, while ethnic entrepreneurship scholars have highlighted the importance of ethnic membership on entrepreneurship, they have failed to account for the use of such relationships among groups who are not labeled "entrepreneurial", or who are not considered "ethnic". The focus on only those groups with above-average participation rates has lead to the limited ability of this perspective to successfully explain the entrepreneurial outcomes of "non-entrepreneurial" ethnic groups, such as Blacks and Mexicans, groups that in some instances, show surprisingly dramatic and elite entrepreneurial outcomes. Further, groups considered "non-ethnic" by this perspective, are rarely if ever included in a comparison with ethnic entrepreneurs. Whites are omitted from the ethnic entrepreneurship literature, yet also use "ethnic resources", such as being married or reciprocal borrowing strategies, sometimes with returns that surpass other ethnic groups. A reconsideration of ethnic entrepreneurship, one which allows for the use of relationships of reciprocity by all groups, albeit differently, provides a more accurate picture of the importance of such relationships on entrepreneurial outcomes.

Finally, I argue that the ethnic entrepreneurship perspective regards the contributions of

ethnic resources (in my terms, relationships of reciprocity) as central to entrepreneurial outcomes, oft-touted as the essential feature that explains Korean exceptionalism (Light and Bonacich 1988; Logan et al. 1994; Waldinger et al. 1990). However, my findings clearly show that such relationships have weaker effects than relationships of market exchange. Surprisingly, ethnic resources rarely contribute entrepreneurial success, even among Korean entrepreneurs! The Polanyian approach recognizes the importance of relationships of reciprocity, but acknowledges its secondary status, and therefore can better account for its limited contributions.

I find that the use of market exchange relationships generally improves entrepreneurial success. While the ability of an entrepreneur to borrow from a bank or investment company to acquire startup capital may already presume a stronger market position compared to an entrepreneur who cannot access such a relationship, the ability to borrow and use market exchange relationships, improve entrepreneurial performance. And although all groups use market exchange relationships, they differ in the ability to access such relationships. Hence, it is not surprising that those entrepreneurs who use such relationships enjoy improved entrepreneurial success.

Interestingly, some Black and Mexican entrepreneurs who possess and access market exchange relationships actually outperform White and Korean entrepreneurs, who on average have greater access to such relationships. The lack of such relationships among these disadvantage minorities in general, may result in higher returns for these "elite" entrepreneurs, since this exclusive group faces less competition on the open market. Still, even while ethnic differences persist, market exchange relationships among all groups have a stronger relationship to entrepreneurial success than the secondary forms of economic integration.

I argue that secondary forms of economic integration, reciprocity and redistribution,

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generate resources and opportunities drawn not from economic relationships and institutions, but rather, relationships based on ethnic/kin membership or membership in the state, respectively. Reciprocity and redistribution are secondary relationships (Polanyi 1957: 61, 35) that also provide support for entrepreneurship; however, since these relationships are more likely to augment or compensate for market uncertainty, these relationships may be disproportionately used by disadvantaged groups, such as ethnic minorities (Szelenyi 1997:114). Hence, to the degree that these relationships provide compensatory economic and non-economic support, they may contribute marginally to entrepreneurial success.

Findings show that relationships of reciprocity contribute to entrepreneurial success, however, these relationships vary by ethnicity. Further, I find that the relationship between reciprocity and entrepreneurial success is weaker than market exchange. Specific findings reveal that being married contributes to entrepreneurial success among all groups. And business longevity increases among Mexican and Black business owners who have a relative who owns a business, but decreases among Koreans. This finding is especially provocative, given that Korean entrepreneurs are often regarded in the ethnic entrepreneurship literature as benefiting from reciprocal obligations and relationships (Light and Bonacich 1988). As Sanders and Nee (1987) suggest, proponents of ethnic entrepreneurship sometimes "emphasizes the positive influences of ethnic solidarity on the socioeconomic attainment of immigrant-minority groups, while it ignores many of the negative consequences of ethnic solidarity" (Sanders and Nee 1987:765). This finding highlights the possible negative effects associated with co-ethnic obligations that Sanders and Nee suggest may exist in ethnic entrepreneurship (Sanders and Nee 1987:765). More specifically, and with reference to the Polanyian approach, the findings identify the mostly marginal, sometimes positive and sometimes negative effects of reciprocity.

Generally, reciprocal and redistributive relationships "level the playing field" for disadvantaged entrepreneurs, and only sometimes improve (or worsen) entrepreneurial success among some groups. The variation in reciprocal and redistributive relationships underscore the inconsistency that is inherent in such relationships, not found in the more straightforward market exchange relationships, the dominant form of economic integration in advanced capitalism. However, these secondary relationships are important to the degree that they do provide compensatory support for disadvantaged entrepreneurs, and are used by ethnic groups with differential success.

I provide a perspective that fosters a greater understanding of the relationship between ethnicity and entrepreneurship in advanced capitalism, and suggest that ethnicity provides a basis of reciprocity to develop, that serves to facilitate market integration. Evidence presented here encourages the use of this approach with respect to ethnic and "non-ethnic" entrepreneurship and groups with differential rates of participation -- entrepreneurial groups and outcomes not readily explained by the human capital or ethnic entrepreneurship perspectives. Ultimately, my findings support a re-conceptualization of ethnic entrepreneurship and entrepreneurship more generally, to consider the separate forms of economic integration -- market exchange, reciprocity, and redistribution, and the distinct and differential effects of these relationships on entrepreneurial success.

Table 1 Variable Definitions

Variable: **Definition:**

DEPENDENT VARIABLES, SUCCESS:

Total Personal Income	A series of dummy variables including: *low* (0-24,999), *medium* (25,000- 74,999), *high* (75,000-150,000 or more)
Years Ownership	A categorical variable for years business ownership: 1=0-3; 2=4-12; 3=13-23 or more

INDEPENDENT VARIABLES, MARKET EXCHANGE, RECIPROCITY, REDISTRIBUTION:

Ethnicity	A series of dummy variables including: *White (reference), Korean, Mexican, Black*

Human Capital

Age	A dummy variable for "Age on December 31, 1992": 0=18-44; 1=45-65
Education	A series of dummy variables including: *high school or less (reference), some college, bachelor's degree, professional/graduate degree*
Work Experience	A dummy variable for years work experience: 0=0-9; 1=10 or more
Managerial Experience	A dummy variable for years of managerial experience: 0=none; 1=1 year or more
Owner Experience	A dummy variable for years owner experience: 0=none; 1=1 or more

Alternative Factors affecting Entrepreneurship

Blocked mobility	A dummy variable for blocked mobility: 0= other; 1=blocked mobility, "similar work not available or to advance in job"
Entrepreneurial spirit	A dummy variable for entrepreneurial spirit: 0=other; 1=entrepreneurial pursuit, "to develop new ideas or become own boss"

Market Exchange

Capital at Startup	A series of dummy variables including: *none (reference), low* (1-24,999), *medium* (25,000-49,999), and *high* (50,000-1,000,000 or more)

Table 1 Variable Definitions (continued)

Variable:	Definition:
Borrowed Capital From Bank	A dummy variable for borrowing from market exchange relationships: 0 = reciprocal or redistributive borrowing; 1=market exchange borrowing, "borrowing from a bank, business loan or investment firm"
Borrowed Capital From Bank When Low Cash	A dummy variable for borrowing from market exchange relationships: 0 = no or reciprocal borrowing; 1 = market exchange borrowing, "borrowing from a bank, business loan, investment firm"
Hire Employees	A categorical variable for number of paid employees:0=no; 1= yes (0-500 or more)

Reciprocity (ethnic resources)

Borrowed Capital From Family for Startup	A dummy variable for borrowing from reciprocal relationships: 0= market exchange or redistributive borrowing; 1 = reciprocal borrowing, "borrowed from spouse/family"
Borrowed From Family When Low Cash	A dummy variable for borrowing from reciprocal relationships: 0 = no or market exchange borrowing; 1 = reciprocal borrowing, "borrowed from spouse/family"
Married	A dummy variable for married status: 0=not married; 1=married
Relative is Owner	A dummy variable for "know or have worked for relative who owns a business": 0=no; 1=yes

Redistribution

Borrow Capital From Government	A dummy variable for borrowing from redistributive relationships: 0=market exchange or reciprocal borrowing; 1 = redistributive borrowing, "borrowed capital from government source or loan"

Source: *1992 Characteristics of Business Owners Database*, provided by the US Census Bureau, Center for Economic Studies, UCLA California Census Research Data Center.

Table 2 Distribution of Variables Used in Analysis by Ethnicity (N=22,427)

Variable:	Whites	Koreans	Mexicans	Blacks
Dependent Variables:				
Total Personal Income				
Low (0-24,999)	.24	.33	.41	.48
Medium (25K-74,999)	.36	.43	.39	.35
High (75K-150K+)	.40	.25	.20	.17
Years Ownership				
Low (0-3)	.27	.37	.35	.34
Medium (4-12)	.41	.47	.41	.39
High (13-23+)	.32	.15	.23	.27
Independent Variables				
Human Capital:				
Age (45-65)	.58	.59	.48	.60
Education				
High school	.28	.22	.48	.39
Some college	.22	.18	.23	.25
Bachelor's	.31	.39	.18	.20
Professional/graduate	.20	.20	.10	.16
Work Experience				
10 years or more	.57	.34	.49	.56
Managerial Experience				
1 year or more	.64	.64	.57	.54
Owner Experience				
1 year or more	.32	.33	.21	.18
Alternative Factors:				
Entrepreneurial pursuit	.29	.19	.33	.33
Blocked mobility	.12	.10	.11	.10
Other	.41	.71	.56	.57
Market Exchange:				
Capital at Startup				
None	.19	.08	.17	.24
Low (1-24,999)	.29	.18	.41	.44
Medium (25K-49,999)	.26	.32	.26	.20
High (50K-1,000,000+)	.26	.42	.15	.12
Borrow from bank				
for startup	.19	.34	.19	.21
Borrow from bank				
when low cash	.14	.12	.12	.11
Hire employees	.70	.62	.58	.39

Table 2 Distribution of Variables Used in Analysis by Ethnicity (N=22,427) (continued)

Variable:	Whites	Koreans	Mexicans	Blacks
Reciprocity (ethnic resources):				
Borrow from family				
for startup	.15	.29	.17	.12
Borrow from family				
when low cash	.05	.19	.10	.10
Married	.82	.92	.81	.78
Relative is owner	.62	.42	.46	.39
Redistribution:				
Borrow from government	.01	---#	.01	.01
(Reference/Control)				
No borrow from a bank,				
family or government	.65	.36	.64	.63
No low cash	.43	.39	.37	.26
Other borrow when				
low cash	.39	.33	.42	.54
N:	**13,094**	**763**	**2,720**	**5,850**

Source: *1992 Characteristics of Business Owners Database*, provided by the US Census Bureau, Center for Economic Studies. # - This cell has been suppressed as required by IRS Title XIII.

Table 3 Sources of Borrowed Capital by Ethnicity

Borrow Capital	White	Korean	Mexican	Black	Total
No Borrow	75.2%	53.0%	73.1%	74.3%	16588 74.0%
Borrow from Bank	10.1%	18.4%	10.0%	13.3%	2507 11.2%
Borow from Family	5.6%	12.6%	7.5%	4.3%	12.91 5.8%
Borow from Bank or Family	9.1%	16.1%	9.5%	8.1%	2041 9.1%
Total:	13094 100%	763 100%	2720 100%	5850 100%	22427 100%

Pearson chi2(9)=271.717 Pr=.000

Source: *1992 Characteristics of Business Owners Database*, provided by the US Census Bureau, Center for Economic Studies, located at the UCLA California Census Research Data Center.

Table 4 Sources of Borrowed Capital When Faced With Low Cash by Ethnicity

Borrow when Low Cash Measure	White	Korean	Mexican	Black	Total
No Low Cash	43.5%	37.9%	37.5%	26.0%	8519 36%
Borrow from Bank when Low Cash	12.7%	10.2%	10.2%	9.4%	1449 12%
Borrow from Family when Low Cash	4.2%	19%	10%	10%	2563 11%
Borrow from Bank or Family when Low Cash	1.0%	1.4%	1.3%	1.2%	249 1.1%
Borrow from Other Source when Low Cash	38.6%	33.2%	42.4%	54.4%	9647 42%
Total	13094 100%	763 100%	2720 100%	5850 100%	22427 100%

Pearson chi2(3)=320.238 Pr=.000

Source: *1992 Characteristics of Business Owners Database*, provided by the US Census Bureau, Center for Economic Studies, located at the UCLA California Census Research Data Center.

Table 5 Government as Source of Borrowed Capital by Ethnicity

Borrowed from Government	Black	Other (White, Korean, Mexican)	Total
Yes			190
	1.4%	.7%	.9%
No			22237
	98.6%	99.3%	99.2%
Total	5850	16577	22427
	100%	100%	100%

Pearson chi2(1)=27.212 Pr=.000

Source: *1992 Characteristics of Business Owners Database*, provided by the US Census Bureau, Center for Economic Studies, located at the UCLA California Census Research Data Center.

Table 6 Alternative Factors for Ethnic Entrepreneurship

Alternative Factors	White	Korean	Mexican	Black	Total
Blocked Mobility	11.5%	9.8%	11.0%	9.9%	2462 11.0%
Entrepreneurial Spirit	29.0%	18.6%	33.0%	33.5%	6799 30.3%
Neither	59.5%	71.6%	55.8%	56.7%	13166 58.7%
Total:	13094 100%	763 100%	2720 100%	5850 100%	22427 100%

Pearson chi2(6)=110.659 Pr=.000

Source: *1992 Characteristics of Business Owners Database*, provided by the US Census Bureau, Center for Economic Studies, located at the UCLA California Census Research Data Center.

Table 7 Ordinal Logistic Regression of Entrepreneurial Success, as Measured by Total Personal Income

Variables	Coefficient	SE
Ethnicity		
Korean	-.401**	(.130)
Mexican	-.206	(.111)
Black	-.480***	(.102)
Human Capital		
Age	.115**	(.036)
Black*older	-.148*	(.068)
Education		
Some College	.215***	(.041)
Bachelor's Degree	.979***	(.036)
Professional/Graduate	1.955***	(.044)
Black*college	.204**	(.072)
Korean*professional	.477**	(.189)
Work Experience	.068*	(.031)
Managerial Experience	.436***	(.041)
Black*managerial experience	-.247***	(.069)
Korean*managerial experience	-.484**	(.153)
Mexican*managerial experience	-.258**	(.086)
Owner Experience	.505***	(.038)
Black*owner experience	-.222**	(.080)
Alternative Factors		
Blocked Mobility	.247***	(.045)
Entrepreneurial Pursuit	-.111**	(.035)
Black*entrepreneurial pursuit	.136*	(.066)
Market-Exchange		
Capital at Startup		
Low	-.180***	(.052)
Medium	.217***	(.058)
High	.788***	(.060)
Black*low capital	.270***	(.084)
Black*medium capital	.375***	(.100)
Black*high capital	.353**	(.116)
Mexican*medium capital	.227*	(.095)
Years of Ownership		
Medium	.414***	(.033)
High	.783***	(.044)
Black*high years ownership	-.438***	(.075)
Hire Employees	.863***	(.030)
Borrow from Bank for Startup Capital	-.658***	(.047)
Black*borrow from bank	.395***	(.083)
Mexican*borrow from bank	.501***	(.106)
Borrow from Bank when Low Cash	-.405***	(.043)

Table 7 Ordinal Logistic Regression of Entrepreneurial Success, as Measured by Total Personal Income (continued)

Variables	Coefficient	SE
Reciprocity (ethnic resources)		
Married	.266***	(.046)
Black*married	-.161*	(.080)
Mexican*married	-.243*	(.107)
Relative is Owner	.006	(.028)
Borrowed from Family		
for Startup Capital	-.112**	(.043)
Mexican*borrow from family	.277*	(.143)
Borrow from Family when		
Low Cash Measure	-.882***	(.060)
Redistribution		
Borrowed from Government	-.834***	(.150)
Reference/Control		
Borrow from Other when		
Low Cash Measure	-.289***	(.036)

Note: Numbers in parentheses are standard errors. Reference categories are "White" for *ethnicity*, "high school or less" for *school*, "low" for *total personal income*, "none" for *capital at startup*, ***p<.001, **p<.01, *p<.05

Table 8 Ordinal Logistic Regression of Entrepreneurial Success, as Measured by Years of Ownership (Business Longevity)

Variables	Coefficient	SE
Ethnicity		
Korean	-.853***	(.146)
Mexican	-.905***	(.080)
Black	-.710***	(.089)
Human Capital		
Age	.1.739***	(.030)
Education		
Some College	-.129***	(.036)
Bachelor's Degree	-.359***	(.038)
Professional/Graduate	-.490***	(.042)
Mexican*bachelor's	.332***	(.101)
Korean*bachelor's	.445**	(.146)
Work Experience	-1.015***	(.039)
Black*work experience	.334***	(.064)
Mexican*work experience	.439***	(.082)
Korean*work experience	.936***	(.150)
Managerial Experience	-.330***	(.031)
Owner Experience	-.469***	(.037)
Black*owner experience	.333***	(.076)
Alternative Factors		
Blocked mobility	-.095*	(.043)
Entrepreneurial pursuit	-.047	(.034)
Black* entrepreneurial pursuit	.137*	(.064)
Market-Exchange		
Capital at Startup		
Low	.327***	(.050)
Medium	.086	(.049)
High	-.256***	(.056)
Black*low capital	-.166**	(.066)
Black*high capital	-.474***	(.095)
Korean*low capital	-.412*	(.203)
Korean*high capital	-.599***	(.160)
Total Personal Income		
Medium	.350***	(.034)
High	.668***	(.040)
Hire Employees	.572***	(.038)
Black*employees	.309***	(.066)
Mexican*employees	.311***	(.085)
Borrow from Bank for Startup Capital	.208***	(.037)
Borrow from Bank when		
Low Cash Measure	-.064	(.042)

Table 8 Ordinal Logistic Regression of Entrepreneurial Success, as Measured by Years
of Ownership (Business Longevity) (continued)

Variables	Coefficient	SE
Reciprocity (ethnic resources)		
Married	.117**	(.041)
Black*married	.187**	(.075)
Relative is Owner	.176***	(.028)
Korean*relative is owner	-.405**	(.147)
Borrow from Family for		
Startup Capital	-.020	(.041)
Borrow from Family when Low Cash	-.066	(.052)
Redistribution		
Borrow from Government		
for Startup Capital	.532***	(.143)
Reference/Control		
Borrow from Other when		
Low Cash Measure	-.076*	(.035)

Note: Numbers in parentheses are standard errors. Reference categories are "White" for *ethnicity*, "high school or less" for *school*, "low" for *years ownership*, "none" for *capital at startup*, "none" for *Low Cash Measure*.

***p<.001,** p<.01,* p<.05

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