Neither Here nor There? How the New Geography of Ethnic Minority Entrepreneurship Disadvantages African Americans

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Abstract

Recent research shows that the foreign born utilize both local and long-distance social relationships to become entrepreneurs, affecting immigrants' chances at upward mobility and their contributions to economic development. Scholars have yet to assess how African-American entrepreneurs take part in similar types of geographically dispersed business communities. Using multi-level social network analyses and OLS regressions to compare the geography of buyer-supplier ties originating from one immigrant neighborhood and one African-American neighborhood in Chicago, this paper highlights a unique mechanism that places African Americans at a disadvantage compared to immigrants: a lack of geographic diversity in African-American social capital. Immigrant entrepreneurs' social networks, unlike African Americans' networks, connect the foreign born to more people in different places, enabling them to circumvent the limitations of their local communities and accrue more business assets. Contrary to existing research, many foreign-born business owners in this study relied on intra-national rather than local or transnational social ties. These findings challenge researchers to reevaluate the geographic foundations of immigrant and African-American entrepreneurship and reexamine how ethnic minority entrepreneurship affects patterns of social stratification and economic development.

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Introduction

A long line of research contrasts the advantages of immigrant entrepreneurs with the disadvantages of African-American entrepreneurs. For instance, Ivan Light's seminal book *Ethnic Enterprise in America* (1972), which arguably brought research on immigrant entrepreneurship and ethnic economies into the mainstream of sociological research, claims that immigrant-owned businesses in the United States are sustained by forms of kinship and community ties that Black-owned businesses lack. Numerous scholarly accounts demonstrate that non-Black ethnic minority groups, such as Jewish and Korean merchants, are able to out-compete Black-owned businesses in African-American neighborhoods because non-Black groups are more successful at integrating supply chains within their co-ethnic communities (Lee 2002; Min 2008). Some scholars even claim that African Americans lack the entrepreneurial drive and ambition of immigrant groups with similar sets of human capital (Bates 1997:2; Sowell 1994).

Despite the wealth of theories that explain why immigrant entrepreneurs hold advantages over African-American entrepreneurs, scholars consistently criticize the degree to which researchers speculate at the barriers to African-American business growth rather than test them using empirical research. As John Sibley Butler puts it,

> Nested within the realities of racism, prejudice, and discrimination…[is the fact that] some Afro-Americans exhibited the same kind of entrepreneurial spirit as other groups who immigrated to this country. But in a curious kind of way, scholars have reacted differently. When the Afro-American tradition has been recognized, it has been misinterpreted and scandalized (2005:41).

One example of the scholarly blind spot regarding African-American entrepreneurship is the contemporary research focus on the extra-local ties of immigrant entrepreneurs. Extra-local ties refer to social relationships outside of one's local community that provide financing, supplies, or other inputs helpful for business ownership. Regional and transnational social relationships, varieties of extra-local ties that circumvent the limitations of the local community, particularly benefit foreign-born business owners with little financial or human capital (Grey and Woodrick 2005; Griffith 2008; Liang and Li 2012; Portes, Guarnizo, and Haller 2002). The story of Javier, a Mexican immigrant who opened a butcher shop in Dalton, Georgia, is evocative of the impact that extra-local social ties can have on business growth.

> Turned down in his loan applications by local banks [in Dalton], Javier resorted to his sister, based in Chicago, who lent him $16,000 as start-up capital…Once the butcher shop was in operation, his Chicago connection also proved useful in terms of locating suppliers…and obtaining further advice on how to attract and retain customers (Hernández-León and Zúñiga 2003:40-42).

In contrast to scholarship on immigrant entrepreneurship, there is little research on the geography of contemporary African-American entrepreneurship (Cummings 1999; Kaplan and House-Soremekun 2006). Scholars tend to presume that African-American entrepreneurship is rooted in local communities, especially among African Americans with little financial or human capital (Butler 2005; Light and Gold 2000). It is true that, historically, African Americans suffered the unique disadvantage of formal residential segregation in which African-American retailers, consumers, and suppliers were forced to co-exist in the same neighborhoods (Boyd 1996; Butler 2005, DuBois 1898; Gold 2010). Nevertheless, extra-localism is not unknown to African Americans: During the Great Migration, for example, in which large numbers of African Americans moved from the South to Northern and Midwestern cities, African Americans often maintained connections with family and friends they left behind in the South (Tolnay 2003).

In light of new beliefs about the geography of immigrant business ownership, scholars must reevaluate the geography of African-American business ownership as well. Using multi-level social network analysis and OLS regressions, this study examines the geography of over 1,000 buyer-supplier ties involving Latino and African-American business owners in the Little Village and Chatham neighborhoods of Chicago. Sociologists and economists have conducted many studies of the minority-owned businesses in Little Village and Chatham (for a review, see Townsend 2005). Nevertheless, existing sociological research presumes that trading partners in these neighborhoods are all local (Raijman 2001; Raijman and Tienda 2003; Tienda and Raijman 2000), and existing economic research overlooks how the geography of business activity in these neighborhoods influences processes of social stratification (Aaronson, Huck, and Townsend 2000; Bond and Townsend 1996). This paper goes beyond previous analyses, demonstrating the extent to which immigrant business owners have access to a more geographically diverse set of social connections than do African Americans. The geographic constraints on African Americans' social ties likely limits Black entrepreneurs' ability to obtain assets that could help their businesses grow. Furthermore, unlike in prior research on immigrant entrepreneurship, foreign-born business owners in this study used intra-national in addition to local and transnational ties.

By empirically assessing the location of ethnic minority business owners' social ties, this paper brings African Americans into recent discourses on minority entrepreneurship. This study's findings also highlight the distinctive barriers to entrepreneurial success that African Americans face in the contemporary United States. Moreover, the evidence highlights a unique form of immigrant entrepreneurship—intra-nationalism—that is rarely discussed in scholarly work.

Classical Theories of Immigrant and African-American Entrepreneurship

The study of immigrant entrepreneurship is rooted in the study of ethnic economies, clusters of businesses owned and operated by entrepreneurs who share an ethnic identity. Classic examples of ethnic economies include the businesses of New York's Chinatown or Miami's Little Havana. The study of immigrant entrepreneurship and ethnic economies took off in the

1970s and 1980s, a time when theorists hoped to explain why many foreign-born groups had entrepreneurship rates higher than native-born groups such as African Americans (Light 1972; Light and Bonacich 1988; Waldinger et al. 1990). Theorists converged around several key propositions, many of which still apply to ethnic economies today.

Ethnic economies come about through the interaction of unique demand and supply factors. The local ethnic market, which is sometimes confined to a tightly bound urban neighborhood such as a Chinatown, can provide the first impetus to immigrant entrepreneurship. Locals demand ethnic goods and services, such as groceries and travel aid, that mainstream businesses are either unable or unwilling to provide (Waldinger et al. 1990). Market opportunities can also come in the form of volatile markets, such as the garment trade (Waldinger 1986), or underserved markets, such as the grocery business in poor, urban communities (Light and Bonacich 1988). On the supply side, blocked mobility in the mainstream labor market and an entrepreneurial aptitude among members of an ethnic community can push individuals into business ownership, swelling the ranks of those who take part in the ethnic economy. As with the demand factors discussed above, supply factors are often treated as features of the local economy and community. Some scholars stress the importance of national-level economic policies for ethnic economy growth, but theories of local supply and demand have had a great deal more influence on the ethnic economy literature (Light and Gold 2000; Rath and Kloosterman 2000).

For several reasons, once immigrant entrepreneurs become established, they prefer to take part in co-ethnic business networks. Co-ethnic employees, for instance, can be used as a cheap, exploitable labor source (Zhou 2004). Business owners deem co-ethnic business partners trustworthy as well. Co-ethnic business networks are often built upon shared ethnic community ties and frequent face-to-face contact, which mitigate competitive dynamics in the group and ensure fairness and honesty in business deals (Portes and Sensenbrenner 1993; Waldinger et al. 1990:138). In summary, early theorization of ethnic economies highlighted how local immigrant communities work together to create businesses that help community members become upwardly mobile.

Two sets of people seldom take part in ethnic economies. The first set is second-generation immigrants, who typically gain more human and cultural capital than the first generation, enabling the second generation to overcome the forms of blocked mobility that draws first-generation immigrants into the ethnic economy (Kim 2004). The second set is members of the majority ethnic group, who often face the fewest structural barriers to participation in the mainstream labor force. In the United States, ethnic economies sometimes exist among non-Hispanic Whites, although they are rarely recorded in the ethnic economy literature and likely have little impact on the overall mobility patterns of non-Hispanic Whites (Light and Gold 2000:9-10).

In contrast to the rarity of ethnic economies among non-Hispanic Whites, many elements of ethnic economy theory explain the experience of African Americans. The same discriminatory forces that push low-skill immigrants into entrepreneurship also push low-skill African Americans into entrepreneurship (Light and Gold 2000; Waldinger et al. 1990). In addition, some African Americans rely on one another for financial support starting a business, but less so than highly entrepreneurial immigrant groups (Lee 2002). In some cases, such as the Greenwood section of Tulsa, Oklahoma, the Hayti district of Durham, North Carolina, or the South Side of Chicago in the early 20th Century, African Americans created diversified economies that served co-ethnic clientele (Butler 2005; Drake and Cayton 1945).

African Americans have undergone experiences that leave their businesses uniquely disadvantaged. The burden of legal and social discrimination from banks, non-Black customers, and local governments intent on containing the spread of Black-owned businesses into predominantly White areas has limited the ability of African Americans to form businesses comparable in size and scope to similarly skilled immigrants (Bates 1997; Blanchflower, Levine, and Zimmerman 2003; Butler 2005). In addition, the residential segregation of African Americans concentrates many low-skill, low-wealth individuals together, inhibiting opportunities for profitable, long-lasting entrepreneurship in African-American communities (Massey and Denton 1993). From the 19^{th} to the early 20^{th} Centuries, the Black middle class conducted business alongside poorer Blacks in segregated African-American neighborhoods, which provided the opportunity for some entrepreneurs to be highly successful (Boyd 1996; Butler 2005, DuBois 1898; Gold 2010). There also exists a successful class of well-educated, high-skill Black entrepreneurs today (Landry and Marsh 2011; Waldinger et al. 1990:61). Nevertheless, consistently throughout history, including the present day, many African-American communities have had little access to financial capital from non-Black sources, making these business communities isolated and unable to compete with non-Black competitors (Bates 1997; Drake and Cayton 1945; Lee 2002). Scholars therefore tend to view African-American business clusters as local, rather than extra-local, phenomena.

To summarize, the classical approach to studying immigrant- and Black-owned businesses was to root them in local business networks. Co-ethnic employees, financiers, and partners all came from the local communities in which the businesses occurred. By the 1990s, evidence was mounting that immigrants' business networks extended beyond the local community, so scholars developed new conceptual tools to explain immigrant entrepreneurship. Theories of African-American entrepreneurship, however, were left largely untouched.

Contemporary Theories of Minority Business Development

With the rise of globalization and social network analysis in the 1990s, scholars began to reevaluate the roots of local community in favor of extra-local social connections that bridged people in different cities, regions, and countries (Castells 1996; Castles 2002). Scholars discovered new types of communities among immigrants, such as those that were transnational. Transnationalism refers to the economic, political, and cultural activities that transcend the borders of nation-states. Transnational connections can act as conduits through which ideas, goods, and raw materials flow, and they sometimes boost the growth of local businesses (Landolt, Autler, and Baires 1999; Portes, Guarnizo, and Haller 2002; Zhou 2004). In some cases, transnationalism has undermined local ethnic economies. When discussing an immigrant entrepreneur from the Otavala region of Ecuador, David Kyle states,

> What surprised him the most about life in New York City–where a small colony of several hundred Otavalans are constantly shuttling back and forth [between New York City and Otavala]–was the *lack* of social solidarity and mutual aid among his co-ethnics…Whereas labor migrants' social solidarity reduces costs abroad with few drawbacks, a transnational entrepreneur's primary assets include 'proprietary social relations'–clients, patrons, and foreign fictive kin (1999:437).

Other forms of extra-local community grew in part due to internal migration, such as those that emerged in new immigrant destinations. New immigrant destinations are those parts of the United States that are becoming immigration gateways despite having little experience with international migrants, places such as Atlanta or Las Vegas rather than Los Angeles or New York (Singer 2004). Some evidence demonstrates that new destination migrants are using economic exchange partners outside of the local community to grow businesses in these areas. Many of these ties are intra-national, connecting new destinations to economic resources in traditional immigrant gateways (Griffith 2008; Hernández-León and Zúñiga 2003; Liang and Li

2012). The story of Javier, the butcher shop owner in Dalton, Georgia mentioned at the outset of this paper, demonstrates how extra-local ties can shape business growth in new destinations.

As theories of extra-localism multiplied, scholars discovered that extra-local forms of immigrant community were not new. Past evidence, in other words, was reassessed in light of new conceptual developments. Transnationalism occurred across many previous eras of international migration to the U.S. (Foner 1997; Morawska 2007), although the size and scope of transnationalism is broader in the modern era (Portes, Guarnizo, and Haller 2002). Even intra-national connections, such as those occurring in some new immigrant destinations, were found to have predecessors in the past (Waldinger and Fitzgerald 2003:11-12). For example, in the mid-20th Century, Midwestern agricultural migrants to California, known derisively as Okies, sent money back home, as did Appalachian laborers recruited to work in Midwestern factories during World War II (Gregory 1989; Tuttle Jr. 1993; Waldinger and Fitzgerald 2003:47).

Despite the rapid growth of research on extra-localism among international and internal migrants in the U.S., little to no work has analyzed African-American extra-localism, particularly in the context of business ownership. As mentioned earlier, African-American business owners, by virtue of events such as the Great Migration, may engage in extra-localism alongside the foreign born. At the same time, the experiences of immigrants and African Americans may differ enough that Black business owners are less likely to rely on extra-local ties.

Suppliers as a Case of Extra-Localism among Minority Business Owners

The analysis of a particular type of extra-local tie, that between a business owner and their supplier, is helpful because of the value many entrepreneurs place on conducting business with co-ethnics. When business owners are part of an ethnic economy, they can efficiently search their business networks for needed inputs such as supplies and raw materials (Wilson and Martin

1982). Suppliers may offer discounts to co-ethnics as well, particularly if the supply chain is vertically integrated within the ethnic community (Chin, Yoon, and Smith 1996; Light and Gold 2000; Portes and Bach 1985). In circumstances where vertical integration does not occur within an ethnic community, as happens among many less entrepreneurial groups, business owners would still prefer co-ethnic suppliers if they were available (Raijman and Tienda 2003). Even among non-Hispanic Whites in the United States, the use of co-ethnic suppliers can be extremely common (Aaronson, Huck, and Townsend 2000), although research on non-Hispanic White ethnic economies is so scant it is unknown to what extent co-ethnicity matters in such situations. Regardless of ethnicity, cheaper suppliers can mean a firm has more cash on hand to invest in assets and other needed inputs. Access to assets such as machines for production or finances for business expansion help ethnic and mainstream firms alike (Light 1984; Wernerfelt 1984).

Transnational and intra-national supplier relationships can be especially beneficial to ethnic minority entrepreneurs. Trust is an essential component of the buyer-supplier relationship (Bönte 2008), and when businesses are discriminated against by local vendors, co-ethnicity helps overcome uncertainty about suppliers far away. In Spain, for instance, foreign-born, informal street vendors created a nationwide supplier network amongst themselves in order to survive the rejection from trading partners that they faced in local markets (Oliver-Smith 1990). Some immigrant business owners, moreover, explicitly sell goods and services from their country of origin. This can include informal courier services or "suitcase entrepreneurs" who go home, fill their suitcases with specific goods, and sell those items in an immigrant neighborhood (Landolt, Autler, and Baires 1999; Smith and Guarnizo 1998). In short, the relationship between business owners and their suppliers is frequently emblematic of the ways in which ethnic economy participants conduct business. A geographic analysis of the relationships between business owners and their suppliers will demonstrate how useful extra-localism may be to business owners in ethnic economies and how common extra-localism is among immigrants and African Americans.

Hypotheses

Literature on immigrant entrepreneurship and ethnic economies has established that foreign-born business owners use extra-local social and economic ties (Chin, Yoon, and Smith 1996; Grey and Woodrick 2005; Griffith 2008; Liang and Li 2012; Portes, Guarnizo, and Haller 2002). Evidence shows that some African Americans have extra-local connections around the United States as well (Tolnay 2003). Nevertheless, the scale and scope of African-American extra-localism is likely to be less than that of immigrants. The migration histories of the foreign born likely expose them to sources of social capital in more places. As discussed in the previous section, business owners' ties to their suppliers provide an effective context in which to understand how entrepreneurs engage in extra-localism.

> ***Hypothesis 1:*** *African-American entrepreneurs are less likely than immigrant entrepreneurs to use an extra-local supplier.*

By virtue of taking part in co-ethnic business networks, business owners are often able to attain supplies more cheaply, buy more supplies on credit, and have access to cash and other assets needed for business expansion (Light 1984; Raijman and Tienda 2003; Wilson and Martin 1982). Nevertheless, if co-ethnic supplier networks are limited to the local area, entrepreneurs may not be purchasing the cheapest supplies available or finding inputs necessary to grow their businesses. Black-owned businesses may already hold fewer assets than immigrant-owned businesses by virtue of the unique disadvantages African-American entrepreneurs endure in the marketplace (Bates 1997; Blanchflower, Levine, and Zimmerman 2003; Butler 2005). The combination of being Black and not having extra-local suppliers is therefore likely to put entrepreneurs at an even greater disadvantage, particularly when entrepreneurs try to accrue business assets.

Hypothesis 2: *An entrepreneur who is both African-American and not using an extra-local supplier has fewer business assets.*

Research Setting

Data come from two sources: the Little Village and Chatham Surveys. Both surveys were administered to business owners in the Little Village and Chatham neighborhoods of Chicago in the mid-1990s. Little Village contains the largest Mexican community in the Midwestern United States. According to the survey's website,[1] the neighborhood's Mexican population, which includes many immigrants directly from Mexico, grew rapidly in the 1970s and 1980s after the neighborhood's Czech population started to decline. Many of the neighborhood's businesses tend to be small and Mexican-owned and cooperate for financing, supplies, and ideas (Raijman 2001; Tienda and Raijman 2000). Chatham, a predominantly African-American neighborhood, seems different from Little Village at first glance. Chatham is a longstanding, historically noted bastion of middle-class African-American living (Skertic and Dedman 2001). According to the Chatham Survey's website,[2] some of the largest Black-owned banks and insurance companies in the nation were headquartered in Chatham in the mid-20th Century. As with Little Village, however, Chatham has an ethnic economy full of small, often undercapitalized businesses. The ethnic economy struggles to attract customers and thrive as a commercial corridor (Braden 1995:344).

Little Village and Chatham are valuable research sites with which to conduct a comparative case study of the geography of minority entrepreneurship because both neighborhoods contain ethnic economies full of small enterprises run by low-skill, low-capital business owners (Bond and Townsend 1996; Raijman 2001). Nonetheless, Little Village has a newer community that includes many foreign-born entrepreneurs, while Chatham has a longstanding community that includes many native-born entrepreneurs. These settings therefore provide a spectrum of conditions in which social capital is available to entrepreneurs.

The Little Village and Chatham Surveys provide unique insights into the use of extra-local social capital because, in addition to asking about firm and business owner characteristics, the surveys asked for information on the top three suppliers to each firm, including the suppliers' locations and relationships to the business owner.[3] In addition, the surveys asked owners to report their firms' total assets as a dollar amount.

The Little Village Survey was conducted on a sample of 244 businesses, while the Chatham Survey was conducted on a sample of 181 businesses. In the Little Village Survey, businesses were stratified by line of business, in which commonly found firms, such as restaurants and hair salons, were sampled at a rate of 35 percent. Uncommon businesses, such as bakeries and iron works, were sampled at a rate of 100 percent. Remaining businesses were sampled at a rate of 50 percent. The sample excluded professional firms because the formal requirements for self-employment in fields such as medicine and law are sufficiently different from those related to small business formation, particularly among low-skill immigrant entrepreneurs. The response rate to the survey was 70 percent. The Chatham Survey was a replication of the Little Village Survey. The Chatham sample was also stratified by line of business, with hair stylists and eating places sampled at one-half the probability of the remaining business types because of the ubiquity of hair stylists and eating places in Chatham. The response rate for this survey was 58 percent. Both samples collectively include White, Asian, Hispanic, and African-American business owners, but I limit the Little Village sample to

Hispanics and the Chatham sample to African Americans in order to isolate the groups most closely associated with each neighborhood.[4] Although an analysis of Mexican rather than Hispanic business owners would have been preferable, both surveys asked only about whether or not business owners were Latino. Ninety-three percent of Hispanic business owners were foreign-born, and less than four percent of African-American business owners were foreign-born. Because of this, I treat Latino business owners as immigrants. Nonetheless, supplementary analyses available from the author that analyze the small Asian sample in the data set suggest that the influence of being foreign-born on extra-local supplier usage is of more general importance than any features unique to the Latino community.

It should be emphasized that these data were collected in the 1990s, and that the original intention of the surveys was to understand how time spent in and resources drawn from the informal sector influenced the formal business activity of ethnic minority entrepreneurs (Townsend 2005). Although the surveys include detailed information on supplier geography, in other words, most previous research using the surveys was not focused on extra-localism, assuming instead that ethnic business networks in these neighborhoods were largely local (Bond and Townsend 1996; Raijman 2001; Raijman and Tienda 2003). One regression-based study did include indicator variables for the use of suppliers in the Chicago suburbs and outside of the Chicago metro area, but the study did little to explore any implications for the geography of minority entrepreneurship and ethnic economies (Aaronson, Huck, and Townsend 2000). The aim of this paper is to reevaluate past evidence of immigrant and African-American entrepreneurship in light of new conceptual developments such as extra-localism. By pursuing this aim, this study can determine if scholars must update theories of immigrant and African-American business geography.

Variables and Methods

The empirical portion of this paper shows results for two sets of regression analyses. First, multilevel regressions relate the likelihood of extra-localism to being an African-American business owner. Second, OLS regressions relate a business's assets to being owned by an African-American who uses only local suppliers. The *dependent variable* for the first analysis is a dichotomous variable indicating if the tie between a business owner and their supplier involved a supplier outside of Chicago. Although a strict definition of local ethnic economy membership would be limited to the local ethnic neighborhood, there are several reasons to treat a supplier in another part of Chicago as local.[5] First, a supplier in another part of Chicago could still take part in the forms of face-to-face contact and community engagement in the neighborhood that make local ethnic economies unique. Second, although the Little Village Survey coded the location of suppliers in Chicago by community area, the Chatham survey coded the location of suppliers by city only. Third, a neighborhood-level analysis of supplier locations is susceptible to the modifiable areal unit problem in which conclusions would be different if neighborhood boundaries were drawn differently (Openshaw 1983). Little Village is part of the larger Chicago community area called South Lawndale. Figure 1 shows the locations of suppliers in Chicago using a dot density map. The larger a circle, the greater the number of suppliers to Little Village business owners located in that community area. Unsurprisingly, there was a big cluster of suppliers in South Lawndale, approximately 47 of them. In the neighboring Lower West Side, however, there were 61. If community area boundaries were drawn differently, the supplier count in the local neighborhood could look vastly different. As a result, I use a more conservative measure of treating suppliers in Chicago as local and those outside of Chicago as extra-local.

[Figure 1]

The multilevel regressions treat owner-supplier ties (Level-1) as nested in business owners (Level-2), a modeling strategy commonly used for egocentric networks (Carrasco, Miller, and Wellman 2008; Van Duijn et al. 1999). At Level 2, the primary *independent variable* of interest is coded as 1 for African-American business owners and 0 for Latino business owners. Another Level-2 variable is the number of years the business owner has lived in Chicago, which indicates embeddedness in the local community. I also measure firm age using the natural log of months of operation and firm size using the natural log of start-up capital. I include a Level-2 dummy variable for whether or not the firm has other locations as well. Finally, I control for industry type using dummies for service and retail firms. Service firms are less likely to require supplies from far away, whereas retail firms, particularly among immigrants, may specialize in goods from the homeland (Waldinger et al. 1990). At Level 1, I use a dummy for whether or not a supplier had a personal relation to the business owner. Extra-local ties may be easier to maintain when they are personal (Bell and Zaheer 2007). Because a single business owner could use a mix of personal and professional suppliers, I run random effects for this variable. I do not center the Level-1 variables because all of them are binary, and centering them obscures the interpretation of the results. When Level-1 units are grand-mean centered, results are similar to those reported here.[6]

OLS regressions relating assets to being an African-American business owner who uses only local suppliers take the form below:

$$\log(A) = \alpha + \beta_1 B + \beta_2 I + \beta_3 (B * I) + \beta_4 \boldsymbol{C} + \varepsilon \qquad (1)$$

where log(A), the *dependent variable*, is the logged dollar amount of an entrepreneur's business assets, α is the intercept, B is a dummy for being Black rather than Latino, I is a dummy indicating whether or not an owner relied exclusively on suppliers inside of Chicago, (B*I) is an interaction term, **C** is a vector of control variables, and ε is the error term. (B*I) is the *independent variable* that tests Hypothesis 2. **C** includes firm age, the number of years the owner has spent in Chicago, and the industry type of the firm. All business owners had assets greater than zero.

How Similar Are the Business Owners of Little Village and Chatham?

The clusters of minority-owned businesses in Little Village and Chatham are similar in many respects, indicating that a comparative case study of these two settings is appropriate. Table 1 presents 1990 U.S. Census information on each respective neighborhood. I report information from the year 1990 because it was the Census year closest in time to the data analyzed in this paper. As mentioned earlier, Little Village was largely inhabited by Latinos, while Chatham was almost entirely African-American. On measures such as household income, education, and unemployment, the neighborhoods were virtually identical. Self-employment rates in these neighborhoods were also low and comparable to each other. Finally, the foreign-born population was large in Little Village but virtually non-existent in Chatham. The Census data suggest two points. First, as with the Latino and African-American populations across the United States, business ownership rates were fairly weak in these communities (Light and Gold 2000). Second, the business owners in each respective neighborhood had access to a built-in co-ethnic client base and workforce.

[Table 1]

Table 2 shows summary statistics for business owners in the data set. A key point of difference between African-American and Latino business owners was that, on average, Black business owners lived in Chicago for much longer than Latinos did, and Black-owned businesses had been in existence for much longer. This is unsurprising considering that Latino business owners were 93 percent foreign-born, whereas African-American business owners were only four percent foreign-born. Despite any differences in the length of time business owners spent in Chicago, median assets, profitability, and capitalization of businesses were roughly equal for Hispanics and Blacks. Median assets for both sets of businesses ranged between $60,000 and $71,000, median profits were $15,000 each, and start-up costs for both groups hovered around $9,000. The ethnic economies in both Little Village and Chatham were largely comprised of low-capital, small-scale enterprises.

[Table 2]

The industrial compositions of Little Village and Chatham were similar as well. Beauty shops were an important component of both ethnic economies, comprising 11 percent of each group's businesses. Beauty shops were in fact the most common business type for African Americans. Similarly, eating and drinking places were important to both groups. Fifteen percent of Hispanic businesses were eating and drinking places—the most common business type among Hispanics—and eight percent of Black-owned businesses were eating and drinking places. The only other notable business type was grocery stores, which made up 10 percent of Latino businesses. Many firms took part in industries in which small enterprises are commonly found. Remaining businesses in the data set ranged from iron foundries to accountancy offices to apparel manufacturers. In sum, Little Village and Chatham were comparable across the financial capital levels of business owners and the characteristics of firms in each ethnic economy. It remains to be seen if supplier geography was similar across the two neighborhoods as well.

Where Were Suppliers to Little Village and Chatham Located?

Figures 2 and 3 are flow maps indicating where each group's suppliers were located. All lines originate in a supplier's location and end in Chicago. The thicker the line, the more suppliers were located at the origin of the line. Little Village's supplier ties were much more geographically dispersed than Chatham's supplier ties were. While 52 percent of Little Village suppliers were based in Chicago, almost 10 percent came from Los Angeles, a major hub for Latinos, especially Mexican immigrants. Large amounts of supplies also came from other Latino hubs such as Miami, suggesting the possibility of vibrant intra-national connections between the Latino community of Little Village and other Latino communities in the U.S. Interestingly, only one percent of supplies came from Mexico and a handful came from Nicaragua, suggesting transnational connections occurred as well, but to a lesser degree than intra-national ones.

[Figure 2]

[Figure 3]

The wide dispersion of suppliers to Little Village contrasts with the geographic narrowness of suppliers to Chatham. Sixty percent of suppliers to Chatham were located in Chicago, not hugely different from the 52 percent of suppliers to Little Village located in Chicago. Nevertheless, Chatham business owners had no international ties, and long-distance ties connected Chatham to fewer cities around the U.S. One percent of suppliers were in Dallas, one percent were in Nashville, and another one percent were in New York City. Most extra-local supplier ties in fact connected Chatham business owners to the suburbs of Chicago. After Chicago, for example, the cities with the second and third largest numbers of suppliers to Chatham were Alsip and Harvey, both suburbs just outside of the South Side of Chicago. The median distances of extra-local suppliers to Little Village and Chatham highlight how differently extra-localism manifested itself in each ethnic economy. Whereas the median distance between Little Village and one of its extra-local suppliers was 252 miles, roughly equivalent to a drive from Little Village to Cincinnati, Ohio, the median distance between Chatham and one of its extra-local suppliers was 30 miles, comparable to a drive from Chatham to Joliet, Illinois. Although African Americans had fewer extra-local ties than did Latinos, there could be many reasons why this would be the case, and the extra-local ties may have had no effect on firms' total assets. Multivariate analyses will sort out the competing possibilities.

Multivariate Results

Table 3 shows results from the multilevel regressions comparing the likelihood of having an extra-local supplier across African Americans and Latinos. Model (1) is the intercept-only model, which can help determine how much variation in extra-local supplier usage occurred within and between business owners. Roughly 44 percent of variation occurred across business owners, indicating the variance that would have been neglected had I not accounted for the multilevel structure of the data. Model (2) adds the independent variable of interest: being an African-American rather than a Latino business owner. According to Model (2), being Black decreased the likelihood of using an extra-local supplier by 45 percent. The difference between African-American and Latino business owners increased once controls were added, as shown in Model (3). Control variables were rarely associated with extra-local supplier usage, with the unsurprising exception of firms that had branches in multiple locations as well as suppliers who relied on personal relations. Finally, according to Model (4), random effects were statistically insignificant. In other words, across the population of business owners, the use of extra-local suppliers who were personal relations likely did not differ to a meaningful degree. The inclusion of random effects also augmented the gap in extra-local supplier usage between African Americans and Latinos. The multilevel regression results, in sum, confirm that the supplier ties of Black business owners were more confined to the local area than the supplier ties of Latinos.

[Table 3]

The next set of regressions, shown in Table 4, tests the association between logged assets, being African-American, and not engaging in extra-localism. Column (1) of the table shows that, all else being equal, African Americans had 67 percent fewer business assets than Latinos. At the median level of assets for businesses overall, $65,000, 67 percent translates to $43,550. Column (2) directly tests Hypothesis 2 by interacting being Black with not engaging in extra-localism. Being African-American and using extra-local suppliers yielded a 49 percent decrease in assets compared to Latinos who used extra-local suppliers. Being African-American and using only local suppliers resulted in an additional decrease of 42 percent in assets (-0.42 = 0.55 – 0.97), which upholds Hypothesis 2. In other words, not only were African Americans less likely to use extra-local suppliers, which Table 3 showed. When using only local suppliers, they also suffered the greatest disadvantage in terms of assets. If one breaks down median assets by key univariate categories, it becomes clear that the African-American disadvantage was due to Black business owners who only engaged in localism. Latinos who used extra-local suppliers had median assets of $65,000, while Latinos who only used local suppliers had median assets of $100,000. Oppositely, Black entrepreneurs who used extra-local suppliers had median assets of $62,500, while Blacks who only used local suppliers had median assets of $34,000. In other words, those African Americans with no extra-localism were driving the results in Table 4. Control variables in the table followed received wisdom. Older businesses held greater assets, and service firms, which are less likely to rely on machines or inventories to conduct their business, held fewer assets.

[Table 4]

It is possible that the regressions in Table 4 suffer from endogeneity due to reverse causality. Firms with greater assets can use more resources to seek out extra-local suppliers, and extra-local suppliers may be more willing to work with higher-asset firms (Whittington, Owen-Smith, and Powell 2009). Nevertheless, according to Column (2), Latinos who only used local suppliers suffered no asset disadvantage.[7] Among Latinos, in other words, firms with greater assets were not associated with more extra-localism. The specific combination of being Black and not engaging in extra-localism decreased business assets the most. African-American entrepreneurs already start out with lower business assets due to their human capital disadvantages and experiences of racial discrimination (Bates 1997), and the geographic circumscription of their business networks likely compounds their asset disadvantage. To summarize the multivariate analyses, African Americans were less likely to engage in extra-localism, which put them at a unique disadvantage compared to immigrants, at least in terms of business assets.

Discussion and Conclusion

Much research has compared and contrasted the entrepreneurship patterns of immigrants and African Americans (Bates 1997; Butler 2005; Light 1972; Light and Gold 2000), yet research on each group is presently at a crossroads. While discoveries such as transnationalism and new destinations have encouraged scholars to reevaluate the geographic foundations of immigrant entrepreneurship (Foner 1997; Hernández-León and Zúñiga 2003; Morawska 2007; Portes, Guarnizo, and Haller 2002; Singer 2004), scholars have yet to elaborate on the geography of contemporary African-American entrepreneurship. This paper used data on the geography of suppliers to foreign-born Latino and native-born African-American entrepreneurs in Chicago to highlight the unique disadvantages African-American business owners can face. Immigrant business owners were more likely than African-American business owners were to rely on suppliers outside of the local community, and African Americans with no extra-local suppliers held the lowest total assets. This finding suggests that African Americans endure a condition that requires more investigation: a lack of geographic diversity in African-American social capital. Whereas immigrants may bypass the limitations of their local community to sustain business development, African Americans may be less able to do so. Although existing research demonstrates that ties to the home country can support immigrant entrepreneurs (Chin, Yoon, and Smith 1996; Portes, Guarnizo, and Haller 2002), foreign-born business owners in this study rarely engaged in transnationalism. Instead, most immigrants' extra-local suppliers were intra-national, connecting Latino entrepreneurs to U.S. cities with large Hispanic populations such as Los Angeles and Miami. These findings have implications for scholars of stratification, race, and international migration and suggest new avenues for public policy.

For stratification and race scholars, this paper highlights the discovery of a previously unacknowledged mechanism affecting African-American entrepreneurs: the geographic circumscription of trading partners. While immigrants usually have social capital in previous and current places of residence that can help them find inputs for their businesses, African Americans may lack a variety of social connections that can help them accrue more financial or cultural capital. Several forms of disadvantage affecting African Americans have been noted by scholars, ranging from occupational segregation to discrimination from banks and legal authorities (Blanchflower, Levine, and Zimmerman 2003; Butler 2005; Oliver and Shapiro 2006). One particularly pernicious disadvantage is residential segregation, which geographically isolates Blacks from opportunities in better neighborhoods (Massey and Denton 1993). Nevertheless, the geographic circumscription of African Americans' trading partners goes beyond neighborhood-level processes. Social network research is beginning to recognize that segregation in geographic and network space can mutually reinforce one another (Echenique and Fryer 2007; Smith 2007).

The combination of segregation in social and network space may be particularly harmful to Black-owned businesses. This paper focused on Chicago, historically a highly segregated city. African-American firms in other cities also exhibit high degrees of spatial concentration, however, suggesting that segregation is an experience common to many African-American businesses (Kaplan and House-Soremekun 2006). Scholars must do more to investigate the consequences of geographically circumscribed social capital for African Americans seeking to use self-employment as a means to upward mobility.

This study also holds lessons for scholars of international migration. Among immigrant entrepreneurs, extra-local ties were rarely transnational, instead connecting business owners to other cities in the same country. In addition to the growing interest in transnationalism and new immigrant destinations, scholars must explore the impact of intra-nationalism on the foreign born. Whenever scholars analyze immigrant entrepreneurs in local ethnic economies, they must account for the possibility that the social capital holding the ethnic economy together may be rooted in intra-national immigrant diasporas. Researchers should treat intra-nationalism as a third variety of immigrant entrepreneurship between localism and transnationalism. Just as transnational entrepreneurs take advantage of ties between the home and host country in order to become profitable, intra-national entrepreneurs may gain much from capital accrued in other regions of the destination country (Grey and Woodrick 2005; Griffith 2008; Hernández-León and Zúñiga 2003; Liang and Li 2012).

For policy makers, the findings suggest some intriguing opportunities for economic development. Many attempts by government agencies to provide African Americans with set-aside loans or preferential contracts have generated little growth in Black-owned businesses (Bates 1997; Gold and Light 2000). Additionally, economic empowerment zones, which policy makers usually create to incentivize the development of blighted urban African-American communities, often attract businesses from outside rather than inside the local community (Sutton 2014). A missing ingredient of these economic development initiatives may be the need to establish sources of social support that can sustain low-skill entrepreneurs. If poor Black neighborhoods lack access to people with business training, ideas, supplies, or financing, then programs that inject social capital into isolated African-American communities may need to accompany the financial programs already in place.

The limitations of this paper provide new directions for future research. First, although this paper highlights how the geographic circumscription of African-American social capital can impact business asset holdings, the next step is to analyze the resulting impact on other measures of business strength such as proprietor income, business survival rates, and job creation. Second, future research should include measures of network embeddedness in order to better identify how entrepreneurs' local social capital endowments affect their use of extra-local social connections. Third, the inclusion of a measure that captures entrepreneurs' personal migration histories would help determine if extra-local supplies are coming from places in which entrepreneurs previously lived. Finally, the paper's cross-sectional data cannot reveal if immigrants will shed their extra-local social ties the longer they stay in the host society. Although Little Village entrepreneurs may ultimately drop their extra-local connections, a growing body of literature shows that immigrant entrepreneurs tend to be moving in the opposite direction, toward more extra-localism (Griffith 2008; Liang and Li 2012; Portes, Guarnizo, and Haller 2002). Regardless of the study's shortcomings, the findings were robust enough to call into question traditional assumptions about immigrant and African-American entrepreneurship.

In conclusion, by better identifying the mechanisms that prevent the upward mobility of disenfranchised groups such as African Americans, and by moving beyond simple dichotomies such as localism versus transnationalism, scholars can better understand the roots of racial and ethnic stratification. In order to move the study of minority entrepreneurship forward, the survey questions and tools from social network analysis used in this paper should be replicated in other locations. That way, scholars can attain a deeper understanding of entrepreneurship and its effect on the economic incorporation of African Americans and foreign-born minorities in the United States.

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Table 1. Little Village and Chatham Neighborhood Characteristics

Variable	Neighborhood: Little Village[2]	Neighborhood: Chatham[3]
Total Population	75,690	36,779
Median Household Income[1]	$23,092	$26,032
Mean Age	26	40
Race		
% White	26.70%	0.60%
% Black	8.09%	99.12%
% Asian	0.28%	0.11%
Ethnicity		
% Latino	85.88%	0.54%
% Foreign Born	47.65%	1.08%
% College Graduate	12.46%	16.04%
% Unemployed	13.85%	12.65%
% of Households in Poverty	20.11%	11.44%
% Female	44.43%	55.89%
% Married	47.11%	32.99%
% Self-Employed	2.41%	2.82%

Source: U.S. Decennial Census, 1990

1. Income is reported in 1989 dollars.

2. Includes Cook County, Illinois Census Tracts 3005-3020. Although Little Village also includes Tracts 3001-3004, these tracts were excluded from both the Little Village Survey and this table because, first, these tracts are separated from Tracts 3005-3020 by a major road, and second, residents of Tracts 3001-3004 are predominantly African-American.

3. Includes Cook County, Illinois Census Tracts 4401-4409.

Table 2. Summary Statistics on Business Owners and Their Ties to Suppliers

Variable	Minority Group: Latinos	Minority Group: African Americans
Business Owner Characteristics		
% Who Use At Least One Supplier Outside of Chicago	38.02%	23.12%
Median Business Assets	$71,000	$60,000
Median Profits Last Year	$15,000	$15,000
Mean Years Living in Chicago	22	43
Median # of Months Owner's Firm Has Been In Business	74	110
Median Amount of Startup Capital	$9,000	$8,900
% Foreign-Born	92.68%	3.94%
% Whose Businesses Have Other Locations	18.91%	11.31%
Industry Type		
% Whose Firms Are in Retail	57.82%	41.22%
% Whose Firms Are in Service	27.78%	28.24%
Owner-Supplier Tie Characteristics		
% Extra-Local Ties	41.89%	32.19%
% Ties Involving Personal Relations	4.97%	0.24%
# of Businesses (Weighted)[1]	889	407
# of Businesses (Unweighted)	187	154
# of Owner-Supplier Ties (Weighted)	2,632	1,220
# of Owner-Supplier Ties (Unweighted)	554	462

1. Weights refer to whether or not survey weights were applied to the data.

Table 3. Multilevel Logistic Regressions of the Likelihood of Using an Extra-Local Supplier on Selected Variables

Fixed Effects	(1) Intercept-Only	(2) Intercept-and-Black-Only	(3) Full Fixed Effects Model	(4) Full Random Effects Model
Level-1 Variables				
Supplier is a Personal Relation?			1.06*	0.84*
			(0.49)	(0.41)
Level-2 Variables				
Black		-0.60*	-0.72*	-0.78*
		(0.26)	(0.34)	(0.39)
Business Age, in Months[1]			-0.24	-0.22
			(0.17)	(0.19)
Years in Chicago			0.01	0.00
			(0.01)	(0.01)
Start-Up Capital[1]			-0.01	0.02
			(0.08)	(0.09)
Has Other Locations			0.75*	0.72*
			(0.35)	(0.37)
Industry Type				
Service			-0.06	-0.11
			(0.39)	(0.40)
Retail			-0.31	-0.31
			(0.34)	(0.34)
Intercept	-0.57***	-0.40*	0.55	0.31
	(0.13)	(0.16)	(1.07)	(1.20)
Random Effects				
Supplier is a Personal Relation?				0.32
				(0.97)
Intercept	1.67***	1.65***	1.61**	1.89*
	(0.57)	(0.55)	(0.62)	(0.75)
Deviance	3484.52	3464.30	3073.57	3071.62

*p<0.05, **p<0.01, ***p<0.001

1. These values are logged.

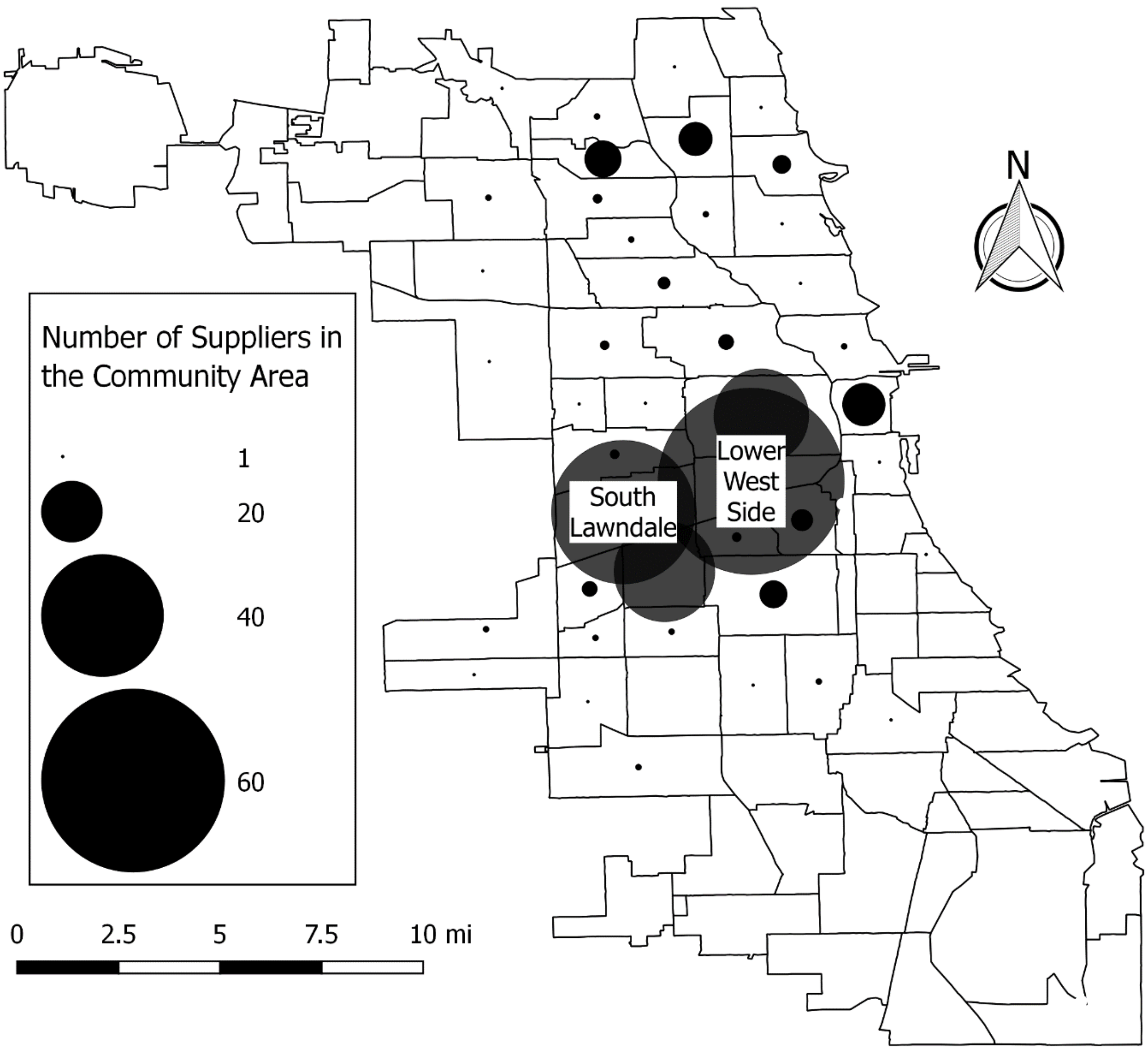
Table 4. OLS Regressions of Logged Business Assets on Selected Variables

Variables	(1)	(2)
Black	-0.67**	-0.49*
	(0.22)	(0.23)
Localism Only	0.15	0.55
	(0.23)	(0.31)
Black X Localism Only		-0.97*
		(0.47)
Business Age, in Months[1]	0.54***	0.55***
	(0.10)	(0.10)
Years in Chicago	0.01	0.01
	(0.01)	(0.01)
Industry Type		
Service	-0.49*	-0.47*
	(0.23)	(0.23)
Retail	-0.12	-0.17
	(0.20)	(0.20)
Intercept	8.63***	8.63***
	(0.44)	(0.44)
R^2	0.20	0.22
N	244	

*p<0.05, **p<0.01, ***p<0.001

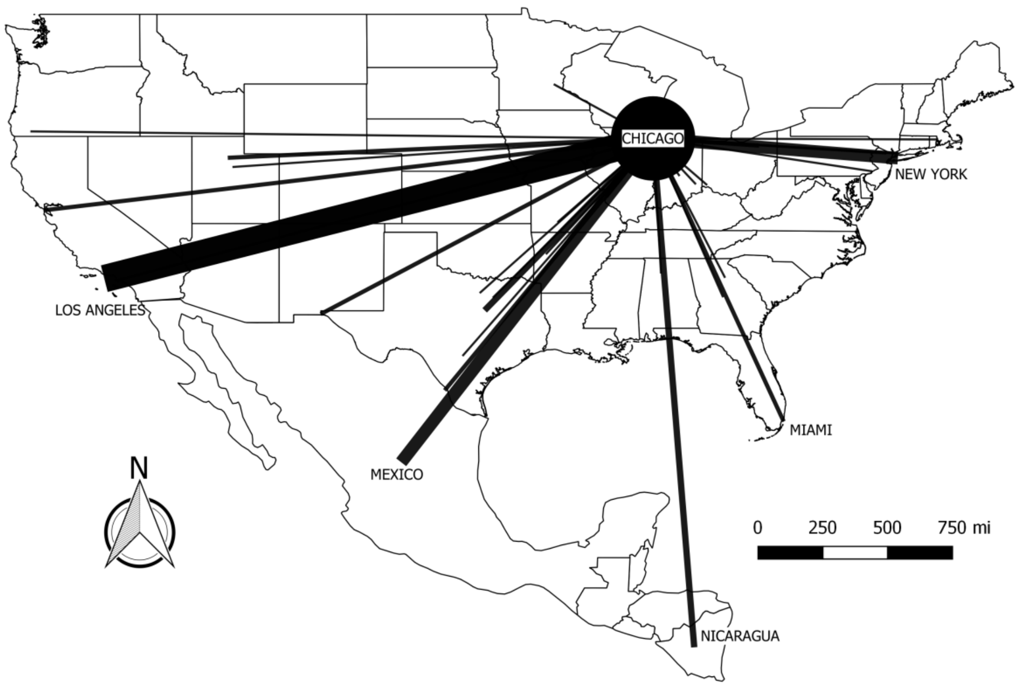
1. This value is logged.

Figure 1. The Location of Chicago-Based Suppliers to Little Village Business Owners



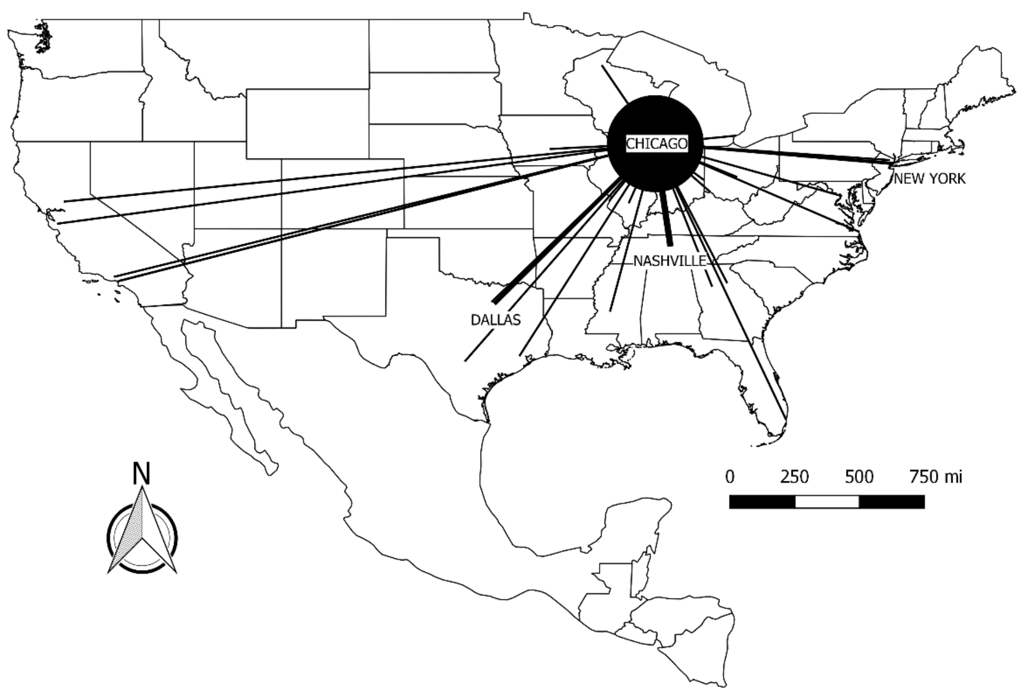
The city of Chicago is broken up into 77 community areas. The neighborhood of Little Village is part of the South Lawndale community area.

Figure 2. Locations of Suppliers to Latino Business Owners



This flow map represents the locations of suppliers to Little Village business owners. The thicker the line, the more suppliers were from that location. The large circle on Chicago indicates the many suppliers who were based there. Figure 3 contains the flow map of suppliers to Chatham.

Figure 3. Locations of Suppliers to African-American Business Owners



This flow map represents the locations of suppliers to Chatham business owners. The thicker the line, the more suppliers were from that location. The large circle on Chicago indicates the many suppliers who were based there. Figure 2 contains the flow map of suppliers to Little Village.

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[1] opr.princeton.edu/archive/lvs/

[2]www.chicagofed.org/webpages/region/community_development/cedric/household_and_small_business_data_chatham.cfm

[3] The surveys also asked about the locations and relationships of the top three lenders to each business owner, but the overwhelming majority of these businesses were self-financed, so I limit the discussion in this paper to supplier usage.

[4] Little Village included no African-American business owners, and Chatham included only one Hispanic business owner. Adding groups other than Latinos and African Americans to the analysis would have caused several problems. First, using unweighted data, only 25 businesspeople self-reported as White or Caucasian, and 24 self-reported as of an Other ethnicity. Second, by adding in groups other than Latinos and African Americans, it would become much more difficult to analyze the connection between social capital and extra-local supplier usage because of the predominantly Latino and African-American businesses that inhabit the ethnic economies studied here.

[5] As will be shown, most supplier ties were local, and those suppliers outside of Chicago were located as far away as Mexico and Nicaragua. The analysis, in other words, is substantively similar if I change the distinction between local and extra-local suppliers from the city to another regional distinction such as metropolitan statistical area or commuting zone.

[6] I exclude a Level-1 variable not mentioned here, the logged number of months the business owner has used a given supplier, because it is multicollinear with business age.

[7] When conducting this regression on Latinos only, the association between logged assets and Localism Only remains statistically not significant.