

DEVELOPING SELF-EMPLOYMENT AMONG AFRICAN AMERICANS: AN EXAMINATION OF HUMAN CAPITAL RESOURCES

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According to 1997 U.S. Census data, African Americans own only 4% of small, entrepreneurial businesses, and earn 0.4% of total receipts for all small businesses. The self-employment status of African Americans is tenuous in the United States. Given that African Americans may not be fully using self-employment as an alternative in the pursuit of economic development, this paper investigates whether self-employment outcomes differ between African Americans and whites, based on their accumulation of human capital resources. Data from the 1993 through 2000 Current Population Surveys: Annual Individual level Files (CPS) are employed to investigate self-employment outcomes among African Americans and whites.

Key Words: African American Entrepreneurship, Minority Business Development, Minority Self-Employment

INTRODUCTION

The U.S. Economic Census reported approximately 20.8 million small businesses in 1997, and 17.3 million small businesses in 1992. Small business growth has increased dramatically in a very short period. This represents a 20% increase in the number of businesses over this five-year period. Revenues and employment opportunities created through self-employment are critical for the American economy. Self-employment contributes to upward economic mobility, and is a significant means of obtaining middle class status for whites as well as immigrant and ethnic minorities. The unemployed and underemployed also pursue self-employment, and although self-employment for the disenfranchised may not result in wealth, it remains critical for their survival. Alternatively, self-employment may not always result in upward economic mobility. The lack of available jobs may drive the formerly employed into self-employment, and this defensive trend may result in declining incomes from self-employment. Also, the nature and subsequent outcomes of self-employment may vary according to the size of the ethnoracial group (Light and Roach, in Waldinger and Bozorgmehr, 1996).

Self-employment contributes to the creation of national wealth and job

opportunities. Bregger (1996) finds that self-employment is a significant source of jobs in the United States; approximately one out of every eleven employed people is self-employed. Light and Rosenstein (1995) also contend that a society's entrepreneurial resources effect both its aggregate economic development and the economic opportunities of individual groups within that society. Entrepreneurs contribute to general economic development, and to the development of their ethnic group. For example, small ethnic enterprises provide initial training and employment for underemployed coethnics (Bailey and Waldinger, 1991). In the contemporary American economy, self-employment is viewed as critical for policies designed to improve the socioeconomic status of the less educated and economically disadvantaged (Dolinsky et al., 1993). Business ownership is also an important source of financial wealth, community capital formation, self-esteem for owners and employees, skills and capacity building, and political power (Kwansa, 1998).

Further, self-employment has been a crucial aid used by ethnic groups to reduce discrimination in the mainstream economy. These ethnic groups have included pre-World War II Chinese and Japanese immigrants in California (Light, 1972), Cuban refugees in Florida (Borjas, 1986), and the Chinese in New York City (Waldinger, 1986). Although self-employment is increasingly significant, disparities in self-employment outcomes are evident for different groups. Rates of self-employment for ethnic and immigrant minorities vary; Borjas (1986) finds that immigrants in the United States consistently exhibit higher levels of self-employment than their native born counterparts. Whites and Asians are also more likely to be self-employed than are African Americans and Hispanics. According to 1997 U.S. Census data, African Americans own only 4% of small, entrepreneurial businesses, and earn 0.4% of total receipts for all small businesses. The self-employment status of African Americans is tenuous in the United States. Given that African Americans may not be fully using self-employment as an alternative in the pursuit of economic development, this paper investigates whether self-employment outcomes differ between African Americans and whites, based on their accumulation of human capital resources.

While black entrepreneurs are expected to have accumulated human resource advantages, based on their historical and current experience, they are also expected to have fewer resources than their white counterparts. Human resource advantages include human capital (education and labor force experience), and demographic characteristics (being male, being married, and being older). If African American entrepreneurs are operating from a disadvantage, the occupations they enter and their earnings potential

will be impacted. The accepted finding that self-employment rates increase as human capital and other resources increase still holds for both blacks and whites, but it may be more appropriate in explaining white entrepreneurship.

The hypothesis tested states:

African Americans who are self-employed are more likely to be resource disadvantaged, while whites who are self-employed are more likely to be resource advantaged.

EDUCATIONAL ATTAINMENT

Education, as a measure of a group's human capital investment, significantly impacts self-employment, as education provides the skills needed for establishing a business. Borjas (1986) finds that education has a positive and significant impact on self-employment rates, and suggests that higher levels of education increase the individual's ability to provide valuable services, and also increase workers' organizational and managerial skills. College education increases the probability that a man will select self-employment over salaried work (Carr, 1996). Carr finds that men and women with more than four years of college are almost three times as likely to be self-employed, as compared with high school graduates. Further, individuals who work for their own corporations have higher levels of education than wage workers.

These findings on the effects of education on self-employment are consistent with human capital arguments. However, contrary to these arguments, research suggests a negative effect of increasing education on self-employment for African Americans. Why would education have a positive effect on white self-employment, but a negative effect on black self-employment? Butler and Herring (1991) find that increasing levels of education do not seem to increase the probability of self-employment for blacks. Instead, African Americans with higher levels of educational attainment are more likely to work in the primary sector of the labor market, which offers job stability, promotion opportunities and retirement benefits (Butler and Herring, 1991; Portes and Bach, 1985). Although human capital positively influences self-employment, highly educated blacks are expected to be employed in wage and salary occupations, in both private and public spheres of the economy.

Since a major difference between blacks and whites in American society is the experience of disadvantage, this study suggests that cumulative disad-

vantage influences the impact of education on self-employment. Even when African Americans have achieved educational attainment comparable to whites, since disproportionately more blacks are from impoverished backgrounds (or the working poor and the working class), they incur a social obligation to care for their relatives, and thus are unable to absorb the initial costs of self-employment (Oliver and Shapiro, 1995). In addition, their educational attainment simply does not negate their lack of personal and family wealth. In this study, it is expected that even when African American educational attainment is comparable to that of whites, its impact on the selection of self-employment will differ. The possession of wealth is a central issue in explaining why the impact of education differs for blacks and whites. Education, without wealth, constrains self-employment. While education does offer more employment opportunities for blacks, the lack of "backup" resources means that African Americans must take jobs that are initially stable.

LABOR FORCE EXPERIENCE

Explanations of self-employment also focus on labor force experience (Butler and Herring, 1991). Tucker (1988) finds that the average self-employed worker has approximately seven more years of labor force experience than the average government worker. The awareness of entrepreneurial opportunities depends on having the experience needed to recognize and evaluate opportunity. Self-employment may be more likely if individuals have developed useful information for entrepreneurship from previous work experience, as such information reduces uncertainties associated with self-employment. Thus, the transfer of information from previous work experience to self-employment increases the probability of self-employment because it reduces entrepreneurial costs. Labor force experience may also influence the ability to acquire financial resources and social capital. Self-employment outcomes may be functions of the entrepreneur's skill in recognizing environmental opportunities, and assembling and deploying resources needed to pursue these opportunities. Borjas (1986) also finds a positive and significant association between labor force experience and self-employment for all racial/ethnic groups, except black men. The lack of business experience may make minority businesses especially vulnerable, as these businesses also experience discriminatory practices (Aldrich and Reiss, 1976).

Using industry classifications developed by Bibb and Form (1977), core industries include mining, construction, manufacturing of durable and non-

durable goods, transportation, communications, public utilities and public administration. Peripheral industries include wholesale trade, retail trade, finance, insurance, real estate and business and repair services. Peripheral industries also include services (personal services, entertainment and recreation, and professional services), and agriculture and forestry. As compared with labor force experience in peripheral industries, experience in core industries represents greater human capital investment, and is a resource advantage. Thus, as labor force experience in core industries increases, African Americans may be more averse to assuming the risks associated with self-employment.

DATA AND METHODS

Data from the 1993 through 2000 Current Population Surveys: Annual Individual level Files (CPS) are employed to investigate self-employment outcomes among African Americans and whites. The CPS is conducted monthly by the U.S. Census Bureau for the Bureau of Labor Statistics, and surveys approximately 60,000 households. The CPS gathers data on labor force characteristics of the U.S. population, and is nationally representative of the civilian non-institutional population. Information regarding the employment status of each household member 15 years old and older is obtained from CPS interviews. This study aggregates CPS data from 1993 to 2000 because the total number of self-employed African Americans for each year was too small to use the years individually. The study is limited to this seven year period because a different measure of self-employment was used before 1993.

Logistic regression models are used to determine how the independent variables predict the probability of being self-employed for blacks and whites. Logistic regression is the appropriate technique to evaluate self-employment. Since self-employment is dichotomous, logistic regression identifies factors that contribute to being self-employed vs. not being self-employed. The results from the logistic regressions give the coefficients for the independent variables. These coefficients show the effects of the independent variables on the probability of being self-employed or not self-employed. Interaction models are tested for the effects of the interaction of race with the other independent variables on self-employment. Non-significant interactions are not reported.

VARIABLE MEASURES

The dependent variable is the probability of self-employment. In the CPS data, this variable records the individual class of worker on his or her main job and reports whether the respondent is self-employed or not self-employed.

Independent Variables

Education is coded into three categories: (less than high school completed, high school degree/ some college completed, and college/higher degree attained). The reference category is less than high school. Labor force experience is measured as the industry of longest job held by the respondent. Following Bibb and Form (1977), industries are coded into three categories (core, peripheral and never worked). The reference category is core industries. (A limitation of the CPS data is that the actual years of work experience are not available). The reference category for gender is females. Three age categories were used: young (18 to 25), mid (25 to 35), and older (over 35), with the young age category as the reference category. Marital status is treated as dichotomous (married or not married), and the reference category is not married.

RESULTS

Descriptive statistics for the pooled self-employed sample (African Americans and whites) are presented in this section. Means and standard deviations are given for numeric variables, and proportions are given for categorical variables. Results from the logistic regression models are presented.

Comparisons of means and proportions for the African American (2,014) and the white self-employed samples (52,355) are presented in Table 1. T-tests of the means indicate that differences between blacks and whites are significant in the probability of self-employment. Self-employed whites are more likely to have a college education/higher than self-employed blacks; 30% of whites have a college degree/higher, as compared with 23% of blacks. However, 62% of self-employed blacks have a high school degree/some college, as compared with 59% of self-employed whites. Fourteen percent of self-employed blacks and 9% of self-employed whites have less than a high school degree. The differences in education are signifi-

TABLE 1. COMPARISON OF MEANS AND PROPORTIONS FOR SELF-EMPLOYED AFRICAN AMERICANS (N=2,014) AND WHITES (N=52,355)

| Measure | Black mean | SD | White mean | SD |
|------------------------------------|-------------|-------------|-------------|----------------|
| Human capital variables | | | | |
| Education (lths) | .144 | | .093 | |
| Education (hsas) | .623 | | .598 | |
| Education (cldg) | .231 | | .308 | |
| Labor experience (core) | .262 | | .248 | |
| Labor experience (periph) | .675 | | .722 | |
| Labor experience (nvr work) | .062 | | .029 | |
| Demographic characteristics | | | | |
| Sex (male) | .612 | | .651 | |
| Age | 42.00 | 10.68 | 43.79 | 10.5*** |
| Age (young: 18 to 25) | .045 | .208 | .028 | .166 |
| Age (mid: 26 to 35) | .243 | .429 | .209 | .406 |
| Age (older: over 35) | .710 | .710 | .762 | .425 |
| Marital status (married) | .511 | | .766 | |
| Household resources | | | | |
| Household income | \$24,471.53 | \$27,967.06 | \$31,614.54 | \$32,814.48*** |
| Case other income | \$2,005.73 | \$5,738.07 | \$3,091.97 | \$7,182.49*** |
| Self-employment outcomes | | | | |
| Professional occupations | .310 | | .366 | .481*** |
| Self-employment earnings | \$12,369.78 | \$19,557.83 | \$13,030.95 | \$22,595.73 |

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

cant.

Core industries provided previous labor force experience for 25% of self-employed whites, compared with 26% for blacks; the difference is not significant. Labor force experience in peripheral industries for self-employed whites is 72%, as compared with 67% for blacks, a significant difference. Two percent of self-employed whites reported no previous labor force experience, while 6% of blacks reported no labor force experience. This difference is also significant. The t-tests indicate that there are significant differences in the levels of human capital accumulation between self-employed blacks and whites.

Males are sixty-one percent of self-employed blacks, and 65% of the self-employed whites. The average age of the self-employed is similar for the two groups (42 for blacks and 43.79 for whites). More than two-thirds of self-employed whites are married (76%), while 51% of self-employed blacks

TABLE 2. LOGISTIC MODEL OF PROBABILITY OF SELF-EMPLOYMENT VS. OTHER EMPLOYMENT (N=502,667)

| | Estimate | Odds | Chi square |
|--|----------|-------|------------|
| Demographic characteristics | | | |
| Race (black=1) ¹ | -.812 | .444 | 1140.21** |
| Sex (male=1) | .785 | 2.194 | 5614.66** |
| Age: 25 to 35 | 1.155 | 3.175 | 1680.16** |
| Age: over 35 | 1.753 | 5.774 | 4131.83** |
| Marital status (married=1) | .371 | 1.450 | 851.65** |
| Human capital variables | | | |
| High school/some college (lths) | .093 | 1.098 | 27.40*** |
| LFE: peripheral (core ind) | .813 | 2.255 | 5313.01*** |
| LFE: never worked (core ind) | .966 | 2.628 | 1107.56*** |
| Significant interaction effects² | | | |
| <i>Race × College/higher education</i> | .187 | 1.206 | 5.16* |
| <i>Race × Peripheral industries</i> | -.145 | .865 | 6.82** |
| <i>Race × Age: older</i> | -.310 | .733 | 7.04** |
| <i>Race × Married</i> | -.202 | .816 | 12.22*** |

¹ Reference categories in parentheses.

² Significant interaction effects of race and the independent variables on the probability of self-employment are italicized.

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

are married. The difference in marital status is significant between groups.

The logistic regression models for the probability of self-employment for the CPS sample (N = 502,667) and significant interaction effects are presented in Table 2.

Consistent with the literature on occupational gender stratification, males are 119% more likely to be self-employed than are females (odds ratio = 2.194). Self-employment is shown to increase with age for both blacks and whites. As compared with the young age group, both the mid and older age groups are more likely to be self-employed (217% and 477% respectively). However, while the age effect for blacks is positive, it is weaker than the effect for whites. The interaction effects show that blacks in the older age category are less likely to be self-employed than their white counterparts. Research findings consistently associate increasing age with a greater probability of being self-employed (Bregger, 1996; Carr, 1996). The findings in this study show this to be true for both whites and blacks. Although older blacks are less likely to be self-employed than are older whites, they are still more likely to be self-employed than younger blacks.

Being married is positively associated with self-employment for whites. Whites who are married are 45% more likely to be self-employed than their counterparts who are not married. As with whites, blacks who are married are also more likely to be self-employed than blacks who are not married. However, the interaction effect of race by marital status on the probability of self-employment shows that being black and married increases the odds of self-employment by 18%. Thus, the positive effect of being married is weaker for blacks than for whites. Spouses may offer greater financial assets in white families, which render self-employment more feasible. In contrast, the positive effect of marriage on self-employment for African American families suggests that the black families that are engaging in self-employment are not necessarily resource disadvantaged.

Having more than a high school education is significantly and positively related with the probability of self-employment for both blacks and whites. As compared with those who have less than a high school education, individuals with a high school degree/some college are 17% more likely to be self-employed, while those with a college degree/higher education are 9% more likely to be self-employed. The positive effect of education on self-employment is similar for blacks and whites. Blacks with moderate and higher educational attainment are more likely to be self-employed than blacks with less than a high school education. Similarly, self-employed whites tend to have higher levels of education than their non-self-employed counterparts.

Interestingly, while the effect of education on self-employment begins to level off for whites as education increases, it is stronger as blacks gain more education. Whites with higher education are less likely to be self-employed than whites with some college education, while blacks with higher education are more likely to be self-employed than blacks with some college education. Investing in education does pay off for self-employment, especially for blacks. College educated blacks are most likely to be self-employed, while whites with a high school degree/some college are most likely to be self-employed. Being black with a college degree/higher education increases the likelihood of self-employment. Blacks with college degrees or more are 20% more likely to be self-employed than are whites with a college degree or higher education. In contrast, the interaction effects of race and education on self-employment show that as compared with being white with a high school degree/some college, being black with a high school degree/some college reduces the odds of self-employment by 12%. However, this effect was not significant.

Labor force experience in core industries is not shown to increase self-

employment for whites. In general, as compared with core industries, experience in peripheral industries increases the odds of self-employment by 125%, and no previous labor force experience increases these odds by 162% (odds ratios = 2.255 and 2.628 respectively). Thus, whites with core labor force experience are less likely to be self-employed. Similar to whites, blacks with peripheral experience and no previous work experience are more likely to be self-employed than blacks with core experience. However, the interaction effects of race and previous labor force experience in peripheral industries on self-employment are weaker for blacks than for whites (125% vs. 95%). Previous labor force experience is a measure of resource advantage; core experience is associated with greater resource accumulation. These findings suggest that more resource advantages in labor force experience are associated with a greater likelihood of African Americans engaging in government or private employment.

CONCLUSION

These findings suggest that highly educated African Americans may be attracted to self-employment, although they have viable employment alternatives in private or public markets. Their self-employment is not expected to be marginal and disadvantaged (lacking human capital and demographic resources). African Americans with some college education are more likely to use this human capital in securing private and government jobs, and not in self-employment, as compared to blacks with college degrees and higher education. This suggests that for blacks with moderate resource advantages, self-employment remains risky. Highly educated African Americans are most likely to be self-employed, and their self-employment does not seem to be marginal, since there are no significant differences between self-employment earnings between blacks and whites. Blacks with previous labor force experience in peripheral industries are less likely to be self-employed than are their white counterparts.

Since whites with peripheral experience are more likely to engage in self-employment than their black counterparts, blacks with moderate human capital may be unwilling to risk their human capital investment in self-employment, and are more likely to wait until they gain more resources. Resource accumulation seems to be functioning as a buffer against the risks associated with self-employment for blacks. While core occupations require substantial financial capital to be initiated, the occupations that are considered peripheral typically require less start-up financial capital. African Americans may have more limited access to the financing needed for self-

employment in core industries.

Encouraging initial entry and long-term survival in self-employment by African Americans requires an understanding of the factors that determine the success of black self-employment. The study shows that African Americans are competitively using available resources. Highly educated blacks are most likely to be self-employed. Similarly, blacks with peripheral labor force experience are also most likely to be self-employed. As resource advantaged African Americans are most likely to be engaged in self-employment that is not marginal and that is profitable, it may be worthwhile to focus on increasing human capital (education and labor force experience) for African Americans before initiating self-employment. This study extends the literature on African American self-employment, and attempts to add to the understanding of the determinants of African American socio-economic development.

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