

NE-167R Concept Paper: Minority-Owned Family Businesses

Diane Masuo and Grace Fong
University of Hawaii

A review of the literature confirms that there is not a lot known about family-owned, minority owned businesses. The literature on minority-owned businesses does not make a distinction as to whether these businesses are family-owned. While there are numerous works on minority small business ownership or minority entrepreneurship, there is very little empirical work published on minority-owned family businesses. Borhas (1986), however, alludes to the likelihood that minority-owned small businesses are family businesses. He suggests that hiring spouses or other family members is a strategy to reduce the risk of having to deal with workers who shirk their responsibilities. Whether actual ownership of the business is shared, however, is not clear.

Much of the literature on minority-owned businesses are descriptive reports (Lee, 1996; Steward & Boyd, 1988; Bates & Furino, 1985) or case studies, focusing particularly on Asians and Blacks (Bell, 1990; Dahlby, 1990; Lyons, 1990). The few empirical studies examined:

- a) probability of self employment-natives vs. immigrants, (Bates & Furino, 1985; Borhas, 1986)
- b) rates of business ownership among minority groups, ownership numbers and revenues, (O'Hare, 1992; Salyers & Strang, 1996)
- c) factors associated with formation, growth and survival of minority businesses, (Dadzie & Cho, 1989; Bates & Furino, 1985)
- d) alternative paths to business ownership, (Feldman, Koberg, & Dean, 1991)
- e) value orientations-minority vs. non-minority small business owners (Enz, Dollinger & Daily, 1990)
- f) problems related to tax compliance (Price, 1992).

Research Issues. Several research issues that have implications for the study of minority-owned family businesses need attention.

1) **Definitional problem.** The category "family-owned business" is not a standard form of business ownership. For example, Census data on minority-owned businesses cover a particular set of businesses based on form of ownership (i.e., sole proprietorship, partnership, Subchapter S corporation) and revenues (earnings greater than \$500 in a particular year). Thus, comparisons of family owned businesses to business described in the Census or other large data bases may be difficult because there may not be sufficient information in the data to identify which partnerships and Subchapter S corporations are "family owned." (Partnerships and other classifications of business cannot be assumed to be family-owned.)

There is also a need for greater differentiation in definitions of "self-employed",

“entrepreneur”, and “family owned”, clarifying what forms of businesses and who is encompassed in each: an individual, several individuals working in the business, shared ownership of the business. It is not clear in the literature whether minority-owned businesses tend to start off as sole proprietorships or as partnerships among family members, and whether form of ownership changes over time.

2) Sampling issue: When matching samples for comparative studies of minority vs. non-minority firms, the following classification variables should be considered: corporate vs. non-corporate status; type of business (sole proprietorship, partnership, Subchapter S corporation); and business net worth and liquidity (as measures of profitability) (Bates & Furino, 1985). Other relevant classification variables include size of business; level of business sophistication (e.g. years of training or experience in business); and level and source of financial capital (e.g. government-sponsored micro-loans). All of these factors may affect the success rates of small businesses. For example, businesses that are recipients of government sponsored micro-loans tend to be smaller in size and face a higher risk for failure (Bates & Furino, 1985). These high risk start-up businesses have a very different profile from that of many businesses started by recent immigrants who tend to be more highly educated and have a higher level of startup capital (Borhas, 1986; O'Hare, 1992). To group all minority-owned business together without attention to these variables may yield a distorted picture of how these businesses compare with non-minority-owned businesses.

3) Areas needing further research.

a. Differing management styles & potential conflicts (traditional, culture-based vs. Western). A higher percentage of immigrant minorities have been found to be engaged in self-employment than natives (Borhas, 1986; Dahlby, 1990; O'Hare, 1992). Their higher rate of business ownership is associated with possession of high levels of education, relatively high incomes which provide more capital to launch small businesses, and prior experience in professional/executive occupations before immigrating. Lee (1996) observes that small Chinese family businesses in Singapore are increasingly faced with conflicts, particularly intergenerational ones, as they attempt to integrate Western management practices with traditional Chinese ones. The values underlying the respective practices are very much culturally-based, and often clash. One must question whether this phenomenon is also being experienced in family businesses owned by recent immigrants to the US, and whether such conflicts spill-over into the family.

b. Family-business interface issues in minority-owned family businesses. Due to the general lack of research on minority-owned family businesses, little is known about the tensions or conflicts they face, nor how these conflicts compare between minority and non-minority businesses. Research in these areas have practical implications for practitioners involved in the planning and delivery of businesses assistance programs for minority business owners.

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