

Microenterprise Owners: Challenges with Initialization, Growth, and Success*

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ABSTRACT

The vitality of any community rests on its entrepreneurs; therefore, understanding the barriers that impede microenterprise initialization and growth is essential. This phenomenological study explored the coping strategies of African American business owners related to business growth and operation in a southeast Virginian city. Two theories framed this study: the resource-based theory and the disadvantage theory of entrepreneurship. Twenty microenterprise owners who had active businesses participated in this study. These microenterprise owners responded to semistructured questions and shared their experiences in face-to-face interviews. Data codification and thematic reduction occurred within qualitative data analysis software. Emergent themes included (a) the effects of barriers on microentrepreneurs, (b) the influences of regulatory agencies on microenterprises, (c) entrepreneurial resources required for success, and (d) agency adaptation to entrepreneurial needs. Two invariant themes emerged from the data; these themes were the importance of location and the availability of a quality workforce.

Keywords : Microenterprise; business growth; Entrepreneur; Economic costs; Barriers

1 INTRODUCTION

The vitality of any community rests on the shoulders of its successful entrepreneurs. Entrepreneurs take risks, invest resources including time and materials, create jobs, promote innovation, encourage competition, and create wealth. In 2010, nearly 41% of the population of one southeast Virginian city was African American or Black; statisticians showed that African Americans operated fewer than 21% of the city's businesses [1]. Nationally, the low rate of business ownership among African Americans persists. Although African Americans constitute 13.1% of the population, this group of minorities owns 7.1% of businesses nationally [1]. Analysts used data from the Survey of Business Ownership to show that of the 27 million firms in the United States, African Americans own less than 2 million of these businesses [1]. African American business ownership has yet to reach proportionality with its population [2]. Using data from the Survey of Business Owners, statisticians at the Department of Commerce determined if business receipts matched the adult population of African Americans, these businesses could contribute an additional \$1.2 trillion to the nation's economy.

2 SCOPE OF THE RESEARCH

2.1 Problem Statement

In the United States, African Americans own 7.1% of enterprises nationwide [2]. These enterprises generate lower profits and employ fewer people than enterprises owned by European Americans or Asian Americans [3]. Additionally, African American-owned enterprises accounted for only 0.8% of the nation's employment and 0.5% of total business receipts in 2010 [1]. For the same period, the business participation rates (by population) in one southeast Virginian city were 3% Afri-

can American, 8.5% European American, and 12.5% Asian American [1]. African Americans encounter barriers during venture development, and these entrepreneurs experience difficulty acquiring or accessing the necessary resources to initiate and develop microenterprises. The general business problem is the low success rate of African American microenterprises. The specific business problem is the lack of understanding of how African American microenterprise owners cope with the challenges of growing and operating their businesses.

2.2 Purpose Statement

The purpose of this qualitative phenomenological study was to determine how African American owners of microenterprises coped with the challenges of growing and operating businesses in a small Virginian city. Exploration of this business problem was from the experiential perspectives of the owners of microenterprises. After purposively sampling the African American business community and selecting a minimum of 20 microentrepreneurs who fit the selection criteria, I used semistructured interviews to generate textual data for analysis and textural-structural description. The social impact of this study is its potential to change the internal support dynamic for African American entrepreneurs, particularly in terms of reducing barriers, increasing awareness of barriers, and maximizing utility of internal managerial resources. Addressing the research problem required a qualitative phenomenological approach. This approach enabled evaluation and explanation of how African Americans coped with the challenges of microenterprise ownership. This project provided insights that could become constitutive and constructive steps to increasing levels of business participation among this

group.

2.3 Conceptual Framework

In this study, the resource-based theory and the disadvantage theory of entrepreneurship formed the conceptual framework. The resource-based theory (RBT) was a strategic management concept developed by [4] who argued a firm's (microenterprise's) manager was capable of creating a sustainable competitive advantage by bundling and using idiosyncratic internal resources to enhance enterprise performance. Researchers used RBT to examine the relationship between internal resources and managements' capabilities to initiate and grow enterprises successfully in a given environment [5]. The rationale for using RBT in this investigation was when entrepreneurs pursue business initialization and growth they must maximize the utility of internal resources to develop strategies (sustainable competitive advantages) to overcome barriers and achieve success. With efficient resource utility and knowledge capital, managers might circumvent the negative effects of barriers in the business environment [4]. Scholars cited few studies in which researchers paired RBT with investigations of microenterprises. The preponderance of researchers and scholars used the disadvantage theory of entrepreneurship to assess microenterprises. Together, RBT and the disadvantage theory of entrepreneurship reinforced (a) the importance of identifying the barriers to microenterprise initialization, growth, and success; (b) the importance of understanding the business problem from the perspective of African American microentrepreneurs; and (c) the role of business support agencies in bolstering the internal resources of African American micro enterprises.

3 DISCUSSIONS

3.1 Business barriers and firm resources

Managers' abilities to overcome barriers to enterprise initialization or enterprise growth depended upon the industry and the business environment. For example, financial barriers prevented firms from entering markets that required large quantities of capital or, market-specific resources could be inaccessible to aspiring entrepreneurs. [4] posited a firm's manager was capable of creating a sustainable competitive advantage by bundling and using these idiosyncratic resources effectively. Microenterprise managers need to identify potential resources to create a sustainable competitive advantage; then managers need to assess the value, rarity, inimitability, and nonsubstitutability of resources.

3.2 The path to entrepreneurship

Individuals select different paths to entrepreneurship. In terms of the economic opportunity path, entrepreneurs follow market forces and trends. In terms of culture, becoming an entrepreneur was the accepted norm, entrepreneurship results from forces within society, the labor market, or from individuals' internal desires for independence [6]. Regardless of the path chosen to engage in entrepreneurship people acted in their own self-interest, used whatever resources were available to them, and embraced risk to achieve vertical socioeconomic mobility. African Americans met with multiple challenges in the labor and

business environments, but as challenging as entrepreneurship was, entrepreneurship remained a viable option for those who sought mobility, survival, and self-actualization. Taken individually, culture, race, circumstance, or means did not explain the phenomenon of entrepreneurship. The interaction between a committed entrepreneur, available resources, and elements in the business environment gave researchers insight into African Americans' entrepreneurial persistence.

3.3 Forms of labor market discrimination

Minorities exited the workforce and entered self-employment because they (minorities) encountered workplace discrimination, wage discrimination, and organizational assimilation of employee entrepreneurial outputs described workplace discrimination as conditions in which employers created unfair policies or acted in ways that treated workers differently based on race, gender, or physical characteristics. Organizational leaders' actions and policies harmed workers or created disenchantment within the workplace. Researchers defined waged discrimination as the early or downward career mobility of technical workers [7]. Career mobility occurred laterally or vertically, and resulted when managers intentionally manipulated organizational policies to discriminate against African Americans who were at the start of their careers. Using the minority vulnerability theory, [7] proved the hypothesis true that meritocratic ideology influenced employer practices. Through their investigation, Wilson and Roscigno showed how downward mobility removed African Americans from privileged positions that could have propelled those employees into upper-level managerial positions. Overall, African American employees tended to earn low wages and failed to advance within firms because of internal organizational policies and structures [7]. In studies of how organizational leaders' influenced wage discrimination, researchers found company leaders and managers often discredited the innovative contributions made by employees. Through reverse assimilation, organizational leaders adopted employees' innovations and did not monetarily compensate the employees. In these studies on workplace discrimination, researchers showed workers had limited influence and power within the organization. Because of these types of discriminatory forces, workers who faced financial uncertainty and those who were unable to advance their careers turned to self-employment to ease the emotional stressors associated with workplace discrimination.

3.4 Self-employment entry and exit

Workers who experienced disadvantages in the labor market became motivated to pursue their own business ventures. Employees exited the workforce and entered self-employment for two reasons. The primary cause of workforce exit was the discriminatory acts of employers. Secondarily, when employees failed to advance within organizations, those employees chose self-employment to gain autonomy. The deleterious effects of discrimination within the labor market, coupled with blocked economic opportunities, stimulated workers to act in their own self-interest [9, 10]. In a study of African American men, ages 22 to 40, the sustained self-employment rates re-

mained considerably less than the rates among European Americans or Hispanic Americans. Despite the high rates of self-employment entry, African American men tended to return to traditional employment when wage work became available. This shows that short duration of self-employment is a major factor to the entrepreneurs' lack of business experience and knowledge.

3.5 Entrepreneurial motivation

The topic of motivation was ubiquitous in scholarly investigations of the entrepreneur. The human psyche produced motivators that drove individuals over the threshold of business conceptualization, on toward venture initialization. Scholars and researchers defined motivations as driving forces or factors that compelled the entrepreneur to combine knowledge, assets, and resources to build profit-producing enterprises [10]. Moreover, entrepreneurial motivation flowed from two directions, pull factors and push factors. Theorists conceptualized motivational factors as part of the management decision matrix; one set of conditions drove (pushed) individuals to act, and a different set of conditions incentivized (pulled) individuals to pursue a goal. Goals, aspirations, and intentions are part of the motivation complex that results in entrepreneurial action. Researchers systematically tested the motivations, business strategies, and community resources of African American entrepreneurs [10, 6]. In these types of studies, researchers found intrinsic motivators such as self-reliance, the desire for wealth, and gaining respect were psychological drivers for African Americans. Using statistical data collected from 1997 to 2002, [11] confirmed a 45% increase in African American business ownership. Researchers further investigated the differences in entrepreneurial motivation between African Americans and European Americans and found no difference between the two groups [11]. However, researchers could not explain the increased rate of business startups among African Americans.

3.6 Societal Barriers and the Economic Costs of Social Stratification

Despite the gradual removal of legal barriers, social and environmental structures continued to plague and impede the growth of African American enterprises. African Americans aspired to business ownership and made modest progress, however, African Americans had to choose between earning substandard wages and taking the risk of self-employment to earn a worthy living. First, business ownership was a vehicle for upward mobility. Second, business ownership was a path toward the revitalization of economically depressed neighborhoods. Third, business development and growth were the ultimate solutions to the unemployment woes of a virulent society. In the context of entrepreneurship, social stratification was problematic for owners of nascent enterprises and for experienced business owners who had ambitions to grow their enterprises [12].

3.7 Education

First, education bolstered an individual's human capital and was helpful to the entrepreneur for finding solutions to business challenges. Second, education enabled business decision-making. Third, education was a determinant of business per-

formance. People who lacked college level education had fewer entrepreneurial aspirations and were less likely to start new ventures. Statisticians indicated more than half of entrepreneurs had some college education, and approximately 25% of African American entrepreneurs had an undergraduate degree. The level of education attainment and the amount of business experience (knowledge capital) were determinants of industry selection and strategic management decisions [13]. Education supported ethnic minority business owners formally and informally. Education and training courses focused on business skill development are foundational, empowering, and transformative. However, education alone might not be sufficient for entrepreneurial skill development mentorship and organizational involvement is essential to help ethnic minority business owners transcend economic isolation.

3.8 Financial resources and associated Barriers

Access to capital was one of the most crippling factors for entrepreneurs. Business initialization and operation demanded the availability of capital for investment in furniture, fixtures, tool, machinery, inventory, and for payroll. Undercapitalized entrepreneurs were slow to start new firms and could fail in the initialization stages of development. Furthermore, African American entrepreneurs who had insufficient personal equity were less likely to accumulate or access the capital needed to start new enterprises [14]. For the microentrepreneur seeking capital for business initialization or expansion, lacking legitimacy is a barrier to capital acquisition. This results to inability to access traditional sources of economic capital. Possessing economic capital would enable managers to maximize the development and acquisition of resources and, in turn, the possession of resources would serve to legitimize microenterprises.

3.9 The Small Business Administration

Lawmakers established the U.S. Small Business Administration (SBA) in 1953 to protect, assist, and counsel small business owners [15]. Government-sponsored organizations such as the Reconstruction Finance Corporation, the Smaller War Plants Corporation, and the Small Defense Plants Administration were the predecessors of the SBA; each of these organizations was a government response to a period of American economic hardship, such as the Great Depression and World Wars I and II. Federal and state governments, small business lending institutions, and business organizations like the SBA had the common goal of helping disadvantaged people shift to business ownership [15]. The SBA adapted its functions to service various government initiatives throughout the years. For example, through the Economic Opportunity Act of 1964, the SBA expanded its loan guarantee program to include marginalized business owners who lived in poor neighborhoods and who could not compete in the marketplace. High loan default rates preceded the program's demise in 1984. In a related effort, from 1977 to 1996, SBA administrators oversaw another program called the Minority Enterprise Small Business Investment Company (MESBIC). The administrators, with the intent of revitalizing poorer neighborhoods and boosting microeconomic growth, used MESBIC to target economically distressed areas around the country. The MESBIC

program ended after an extended period of negative return on investment, inadequate distribution of resources around the country, and limited innovative business activity [16].

4.0 Entrepreneurship Policy

People in every society had a genuine interest in promoting ethnic minority business ownership because higher levels of business ownership potentially reduced poverty, reduced dependency on the dole, and stabilized unemployment [17]. Furthermore, promoting entrepreneurship contributed to economic growth and balanced income inequities. Socioeconomic theorists suggested entrepreneurial development created stability and sustainability within communities affected by economic downturns. Conversely, low levels of entrepreneurial activity had deleterious effects on the rate of a community's economic development [17]. Policymakers used the existing entrepreneurial culture and historical economic trends to formulate policies that could expand and grow the economy. The goals of policymakers focused on job creation, stimulation of innovation, and economic growth, the entrepreneurs' goals were upward social mobility, independence, and survival. Researchers' findings underscored the need for policy alignment with entrepreneurs' needs and confirmed that policies should support entrepreneurial education and the development of entrepreneurial competencies to prepare societies for the future [18]. From President Coolidge to President Obama, presidents and their administrations instituted policies targeting ethnic minority neighborhoods, business owners, and enterprises with the intent to spur self-employment, economic growth, and job creation [19, 20].

5 METHODOLOGY

The use of the qualitative research method and phenomenological design was appropriate and justifiable for studying the entrepreneurial experience because the intent was to understand a phenomenon. The population selected for this study was African American microenterprise owners in one city in southeast Virginia who encountered barriers to business initialization, growth, and success. The sampling method was criterion-based and purposive. Three strategies were useful for accessing likely participants for this study. First, by contacting likely candidates who had listings in the Small, Women, & Minority Owned (SWaM) vendor directory by phone and email. The second strategy for accessing participants involved approaching likely participants directly. The third option for accessing participants was using respondent-driven sampling. Respondent-driven sampling is a method useful for locating individuals who have characteristics or experiences related to a phenomenon. In this study, no new details emerged from the collected data after the first 17 interviews; however, three additional interviews were conducted to verify that data saturation was complete.

5.1 Data Analysis

Analysis of the data in this study focused on the responses of 20 African American entrepreneurs to the seven interview questions. Dedoose was incorporated as the data analytical software for this study (www.dedoose.com). Using this software sorting

of data was done in a variety of ways, created labels, searched for key words and phrases, and used color codes to identify aspects of the data. In the program, the researchers drilled down through the collected data to identify emerging themes. Program designers configured the software so that researchers have the option of graphically displaying data to support findings. The program had versatile features useful for creating relational maps and diagrams to enhance the presentation of qualitative data.

4.2 Summary of Findings

There were four themes and two invariant themes that emerged from the codification and thematic reduction of transcribed material. Neither the research questions nor the interview questions focused on the two invariant themes intentionally; however, including discussion of these invariant themes deepened the understanding of the phenomenon. The four emergent themes were

1. The effects of barriers on microenterprise owners. Exploring the effects of barriers on enterprise development, growth, and success from the perspectives of microentrepreneurs exposed two types of barriers. First, business barriers resulted from interactions between microenterprise owners and regulatory agencies. Second, societal forces continued to challenge entrepreneurial progress among African Americans. Participants' responses to three interview questions addressed the central research question and identified the sources of entrepreneurial barriers. Participants identified untimely and unnecessary delays acquiring licenses and permits, poor regulation enforcement, illegal business activities, and discrimination as barriers detrimental to business development, growth, and success.

2. The influences of agencies on microenterprise owners. Exploring how agencies influenced microenterprise owners showed that agencies influenced entrepreneurial behaviors and abilities differently. First, the timeliness of agency response to inquiries influenced entrepreneurs' ability to gather information and perform functions necessary to the efficient operation of their enterprises. Second, information accessibility and availability supported entrepreneurs' strategic plans.

3. Internal and external entrepreneurial resources required for success. Findings associated with motivation provided examples of opportunistic and survivalist entrepreneurial behaviors.

4. Agency adaptation to entrepreneurial resource needs. Participants' perceived needs included expansion of agency support offerings, affordable access to marketing, access to minority development programs, and financial support for operations. Participants explained their views on ways that business support agencies could adapt to meet the needs of the African American business community.

The invariant themes were the importance of location and the availability of a quality workforce. The city's geographic dimensions presented unique challenges for this group of entrepreneurs. Some of the participants believed that having the right location is crucial. An invariant theme that co-occurred with business growth plans was access to a quality, qualified

workforce. Workforce quality was a resource useful for strengthening the reputation of the business. As a business attribute, workforce quality could improve the business's standing in the community, and allow the business owner to expand service offerings.

5 CONCLUSION

The purpose of this study was to determine how African American microenterprise owners coped with barriers and business structures that affected business initialization, growth, and success. Exploration of this business problem was from the experiential perspectives of the business owners. After purposively sampling the African American business community and selecting 20 microentrepreneurs who fit the selection criteria, I used semistructured interviews to generate textual data to describe the phenomenon richly. Microentrepreneurs pursued business ownership for a variety of reasons. The findings of this study revealed how barriers hindered the development of African American microenterprises and how these entrepreneurs coped with the challenges of business ownership. The identified barriers included discrimination, information asymmetry, capitalization limitations, inconsistent regulatory enforcement, and administrative delays. Business owners who encountered barriers during enterprise development had difficulty acquiring or accessing the resources they needed to develop and execute strategic plans. Despite the existence of barriers, microentrepreneurs persevered, sought new knowledge through networking, shared business strategies, supported one another, mentored nascent and aspiring entrepreneurs, and served their community. The results of this study renewed awareness of the challenges faced by African American entrepreneurs. This study provided anecdotal evidence and insights stakeholders may use to strengthen internal resources, affect policy changes, enhance management strategies, and promote economic vitality in southeast Virginia of the paper.

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