

## ABSTRACT

Financial Motivations and Small Business Survival: The Effects of Gender and Race

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It has been well established in previous literature that female and minority entrepreneurs are less successful with business ventures in comparison to whites and males. Motivation and growth expectations have also been shown to be positively associated with business success. This paper examines how differing motivations and business goals affect the disparity in business outcomes among different racial groups using data from the Second Panel Study of Entrepreneurial Dynamics (PSED II). The results varied. Stronger motivations for financial gain do appear to have a negative effect on business survival rate for black women and Hispanic men. However, for black men, non-black women and Hispanic women, the effect seems to be positive, particularly for black men and Hispanic women. When looking at the interaction between financial motivations, race and gender, various significant effects were found.

Financial Motivations and Small Business Survival: The Effects of Gender and Race

by

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A Thesis

Approved by the Department of Sociology

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Submitted to the Graduate Faculty of  
Baylor University in Partial Fulfillment of the  
Requirements for the Degree  
of  
Master of Arts

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May 2017

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## CHAPTER ONE

### Introduction

Entrepreneurial success has been a widely studied topic for decades and with good reason. Research has revealed a wealth of positive impacts that small businesses have had within local communities. In areas where small businesses have flourished, population health has improved, the poverty rate has lowered, civic engagement has increased and job creation has grown (Blanchard, Tolbert, and Mencken 2012; Tolbert et al. 2002). It has also been shown to aid the economic development of certain disadvantaged groups in U.S. society, including racial minorities and immigrants (Nopper 2011).

However, while the positive effects of entrepreneurship on communities seem to be well documented, business ventures are far from consistently successful. Minority and women business owners may be especially exposed to the harsher side of starting and running a small business. In the United States, minorities are less likely to enter into a business venture, more likely to exit one and less benefitted by the policy initiatives that are designed to aid these entrepreneurial activities (Fairlie 1999; Nopper 2011). Women who endeavor to start a small business disproportionately face obstacles to business survival and minority women entrepreneurs are particularly vulnerable to business failure when compared to white male entrepreneurs (Bellucci, Borisov, and Zazzaro 2010; Mora and Dávila 2014; Muravyev, Talavera, and Schäfer 2009).

Thus the effects of gender and race on entrepreneurial success have become important subsets of the small business research. However, much of this literature has

focused primarily on external factors, such as barriers to financing, education and market availability, all of which have been shown to have important implications for the business survival rate among minority and female entrepreneurs. Yet internal factors and socio-cultural influences may also contribute to our understanding of what affects small business survival.

Motivations can have a substantial impact on the end result of a business venture. One study of successful black entrepreneurs found that their subjects were more likely to find their motivations for pursuing this path from “internally stimulated opportunities than externally stimulated opportunities”(Singh and Gibbs 2013). The authors of that study could not compare their sample of black entrepreneurs to whites or other minorities nor could they make comparisons of men and women. However, they demonstrated a need for further research in a subject that has so far been scarcely studied especially at the intersection of race and gender. The purpose of this study is to examine the motivations that new entrepreneurs have for starting a business, observe what effects those motivations have on the rate of business survival and note any different effects between whites and minorities as well as between men and women.



## CHAPTER TWO

### Theoretical Background, Literature Review and Hypotheses

For the past several decades, research on entrepreneurial intentions has been heavily informed by the theory of planned behavior (Schlaegel and Koenig 2014). This theory has been applied to many different realms for the purpose of explaining variance in intentions (Ajzen 1985, 1991) With regard to entrepreneurship, the theory of planned behavior states that “attitudes, subjective norms, and perceived behavioral control” strongly predict an individual’s intention and later action to start a business (Schlaegel and Koenig 2014).

The application of this theory is significant for understanding the role of socio-cultural influences on intentions and motivations for starting a small business. In empirical research on this topic, “subjective norms” has been conceptualized as the attitudes toward the business venture of those in one’s closest social circles as well as one’s relative adherence to those people’s views on the matter. This research has found that these social norms account for nearly 40 percent of the variance in entrepreneurial intentions (Kautonen, van Gelderen, and Fink 2015).

Intentions and motivations are inherently linked concepts, both theoretically and empirically. Expectancy theory (also known as VIE theory) explains motivation as a result of three beliefs: (1) that engaging in a particular effort will produce a particular performance (expectancy); (2) that this outcome is sufficiently desirable to be worth the performance (valence); and (3) that the performance will result in a particular preferred outcome (instrumentality) (Van Eerde and Thierry 1996; Vroom 1964). When these three

beliefs are present, individuals will have sufficient motivation to pursue their intentions. Furthermore, motivations have been empirically shown to be strongly associated with nascent entrepreneur's business intentions which subsequently impacted their business-related outcomes (Edelman et al. 2010).

### *Social and Cultural Influences on Entrepreneurial Motivations*

Previous research has demonstrated the differing effects of socio-cultural influences on entrepreneurial motivations, intentions and outcomes, particularly at the intersections of race and gender. In particular, while most tend to pursue this course for financial reasons, whites are more likely to expect large monetary gains from their ventures than African Americans are (Edelman et al. 2010). Furthermore, blacks are also more likely to pursue less profitable enterprises, perhaps seeking stability but not wealth or continued growth after a point (Bates and Robb 2014).

Yet other research shows that motivations and goals can have differing effects on both perceived success and actual financial gains. While these results do not always fall neatly along racial lines, findings do indicate some categorization can be linked to the effects of racial/ethnic social group status. Cardon et al. (2008) found that whites and African Americans seemed to pursue small business ventures primarily due to ambition or a desire for a preferred lifestyle and were more likely to be motivated by intrinsic factors. Other minority groups, in contrast, were more motivated by extrinsic factors or a mix of the two. They found substantial variation both within and among the racial groups they studied, indicating that an assumption of homogeneity would likely be flawed.

Social norms can also produce gendered motivations for entrepreneurship. Carter, Gartner, Shaver and Gatewood (2003) found that men "rated financial success and

innovation higher” than women did when reporting their reasons for their career choices (2003:15). Men have also been found to have higher entrepreneurial expectancies than women (Gatewood et al. 2002). There are a number of ways that socio-cultural influences can lead to disparities such as these. Traditional beliefs primarily restricting women to household duties can limit their expectation of entrepreneurial opportunity (Akhter and Sumi 2014). On the flip side, traditional beliefs which insist on men being primary breadwinners could be impacting the higher financial success rating and entrepreneurial expectancy of men.

Previous research on entrepreneurship, race and gender has primarily focused on the influences of external factors such as funding availability, opportunities for gaining business experience, education and family tradition (Blanchard, Zhao, and Yinger 2008; Fairlie 1999; Fairlie and Robb 2007). However, this analysis focuses primarily on the less-studied factor of motivation for starting an establishment. Based on the relationship between social norms and intentions/motivations detailed in the theoretical model above, my first two hypotheses are as follows:

H1: Due to the divergent social norms among various racial and ethnic groups, financial motivations for starting a new business venture will be different among whites, blacks and Hispanics.

H2: Due to the gendered social norms, financial motivations for starting a new business venture will be different for men and women.

### *Effect of Entrepreneurial Motivations on Small Business Outcomes*

Motivations and goals for pursuing entrepreneurship have been shown to be strongly related to outcomes of the efforts. One study identified six different types of

business owners based on their motivations and characteristics of their enterprises and work lives (Jayawarna, Rouse, and Kitching 2013). The findings have important implications for considerations of business survival. Some business owners, labeled “reluctant entrepreneurs,” have little or no desire to own their own establishment rather than work as an employee. These people undertake such ventures because of a lack of alternatives. Despite the lack of emotional attachment, reluctant entrepreneurs often work long hours but see little growth. The “social entrepreneurs,” in contrast, are invested in their business venture and usually desire growth and profit, but see little of either. Jayawarna et al. found that the majority of this group consisted of ethnic minorities (2013). This may reflect the findings of Edelman et al. (2010) and Bates and Robb (2014) that minority entrepreneurs do expect financial stability but are less expecting of huge profit margins and often operate in less-profitable areas and industries. While it was not the main focus of Jayawarna et al.’s study, the racial/ethnic differences found give further indication of potential socio-cultural effects.

This adds support to the growing body of research looking at intrinsic factors in entrepreneurial outcomes. Edelman et al. (2010) demonstrated how motivations can affect profit and growth intentions. Through interviews with firm owners, Mathias, Williams and Smith (2015) observed how early “imprints” on entrepreneurs can affect the life course of the business start-up. Family influences, exposure to technology and work experiences affect entrepreneurs’ motivations and subsequent business decisions. Furthermore, earlier imprints have more profound impacts on success or failure.

While these aforementioned studies have demonstrated associations between motivations and outcomes, the data used is limited. The research Mathias et al. (2015)

yielded rich qualitative information, but the small sample size limits the generalizability and the potential quantitative findings on the effect of these factors on business survival. Edelman et al. (2010) analyzed data from the first Panel Study of Entrepreneurial Dynamics, which was conducted between 1998 to 2003. This was the most recent data available on entrepreneurial motivations at the time, but there has since been a second Panel Study of Entrepreneurial Dynamics. This analysis utilizes that data, which was gathered from 2006 to 2011 and consisted of a larger sample size than the prior study. With previous research in mind and based on the relationship between intentions/motivations and business outcomes detailed in the theoretical framework above, my third hypothesis is as follows:

H3: Among all entrepreneurs, stronger motivations for financial gain will be associated with a higher business survival rate.

#### Differing Effects of Motivations on Small Business Outcomes by Race and Gender

Having examined how social norms and entrepreneurial motivations may affect small business success rate, I would now like to consider how these effects can vary in strength and direction. The focus in previous research on external influences on small business survival has yielded important findings which may inform our expectations of how internal influences like motivation affect this survival rate. Prior studies on these factors seem to indicate that the various socio-cultural effects may not only impact entrepreneurial motivation directly, but may also moderate the effect of motivation on business survival. The strongest external effects which usually vary with race and gender seem to come from education, start-up financing, family tradition and industry.

Education has been strongly linked with a higher rate of business survival (Bates 1990). This is particularly relevant to understanding the survival rate for minority-owned enterprises, as their educational experiences tend to differ substantially from those of non-minorities. In fact, in one recent study of minority youth entrepreneurs, the “perceived inadequacy of traditional income and educational pathways” was one of the primary generators of interest in pursuing a entrepreneurship over traditional employment (Jennings et al. 2015). Unfortunately, considering the positive effect that education has on business survival, it is possible that this perception partially explains to the gap in the survival rate between white and minority-owned enterprises. If less educated minorities are more motivated to start a business due to the failure of the educational system to provide them with other financial opportunities, this may contribute to the lower survival rate.

This also demonstrates how a socio-cultural factor (in this case present in a particular racial subgroup) can have a double-barreled impact on eventual business outcomes. The cultural perception of traditional pathways to financial success being insufficient leads to entrepreneurial motivation as predicted in the original theoretical model. Yet it may also lead to a lower business survival rate among those who do attempt a small business venture. This is in line with another study that examined entrepreneurial income among different racial groups. The author found that while social capital was influential in motivating entrepreneurial activity, it was human and market capital that more strongly predicted success in the venture (Valdez 2008).

Education also affects financing opportunities for minorities which are critical to the start of a new establishment (Bewaji, Yang, and Han 2015). Lending discrimination is

also a critical component to understanding the effects of financing for minority and female business owners, as both groups face substantial discrimination (Blanchard et al. 2008). Women have more difficulty in obtaining loans, from both banks and private sources, and are more likely to be charged higher interest rates (Becker-Blease and Sohl 2007; Bellucci et al. 2010; Muravyev et al. 2009). Public policies and initiatives to target disadvantaged groups with financial help for business start-ups have also failed to be effective for some minority groups, particularly African Americans (Nopper 2011).

Family tradition is another external factor which can affect business survival. Although there is less research focused on gender differences in this area, family tradition has been shown to have a profound effect on business survival for minorities (Fairlie 1999). Whites are more likely to have a self-employed father or other close family member, which gives them an advantage in business. Blacks in particular do not often have this example of entrepreneurial success to emulate nor do they have the experience of working in the family firm to draw on (Fairlie and Robb 2007). In a study of employees at minority-owned restaurants, researchers found that even this experience does not translate into entrepreneurial aspirations for most workers (Ram et al. 2001). Minorities also tend to have less exposure to wealthy and successful individuals due to segregation, which has been shown to affect employment outcomes (O'Regan and Quigley 1996). This could conceivably affect business outcomes as well.

Both race and gender often affect the entrepreneur's choice of industry (Harvey 2005). The opportunities with the lowest barriers to entry are often their best options. These include locations in minority neighborhoods and industries such as retail and

service. Oftentimes, these choices relegate them to areas of low profitability or low chance of long-term business survival (Bates and Robb 2014).

Previous research has identified several contributing mechanisms to the differences in business outcomes between whites and minorities and men and women, but none that fully explain the observable disparities. Fairlie (1999) found that differences in resources and self-employment family history explained whites choosing to start a business at a greater rate than blacks, but did not explain the greater rate at which they stayed in business. In a later study, Fairlie and Robb (2007) found that it was primarily lack of previous experience that led to less success among black entrepreneurs, which explained “5.6%-11.6% of the gaps in small business outcomes.” This is certainly an important finding. However, a substantial portion of the gap remains to be explained.

Clearly, it has been well established in previous literature that female and minority entrepreneurs are less successful with business ventures in comparison to whites and males. This disparity has been linked with a number of factors, including lending discrimination, lack of example and opportunity to gain experience in family-owned firms, restricted market access, less financial capital and less education. Motivation and growth expectations have also been shown to be positively associated with business survival and profit. While social norms and cultural factors often affect motivations to start a new business venture, there is also reason to believe that they may moderate the relationship between motivation and outcomes for small enterprises.

The ultimate research question I will be examining in this study is: How do differing entrepreneurial motivations affect the disparity in small business outcomes among different racial groups and among men and women? I hypothesize that the



motivations leading to business survival are different for men and women and for whites and minorities, particularly blacks. What leads to survival among one group may have no effect or a negative effect in another group. Therefore, my fourth and fifth hypotheses are as follows:

H4: Among non-minority and male entrepreneurs, stronger motivations for financial gain will be associated with a higher business survival rate.

H5: Among minority and female entrepreneurs, stronger motivations for financial gain will lead to a lower business survival rate due to structural barriers and financing constraints that are disproportionately faced by these groups.

Finally, I will also examine the duration of business survival based on these variables to see if there are effects on length of time of business survival. The effects on survival duration may reveal patterns distinct from survival likelihood. Entrepreneurs may differ not just on whether their business survives or not but also on how long it survives. Therefore, my final two hypotheses are as follows:

H6: Among non-minority and male entrepreneurs, stronger motivations for financial gain will be associated with a longer duration of business survival.

H7: Among minority and female entrepreneurs, stronger motivations for financial gain will lead to a shorter duration of business survival due to structural barriers and financing constraints that are disproportionately faced by these groups.

## CHAPTER THREE

### Data and Methods

Data for this analysis will come from the Second Panel Study of Entrepreneurial Dynamics (PSED II). The PSED II is a longitudinal study containing six waves of data from a representative sample of new business owners. Potential respondents were screened in 2005 and then eligible respondents were contacted for the first wave in 2006, which was then followed up each year until 2011. The PSED II offers an extensive range of details on new business owners and specifics about their establishments such as start-up activities, success/failure, motivations, goals and particulars challenges faced.

The sample of eligible participants for the survey was compiled through a telephone survey which resulted in the identification and initial participation of 1,214 new business owners. Individuals were considered new business owners during the screening interview if they indicated that they had intentions to start a new enterprise, had engaged in some start-up activities, would be owners or part-owners and did not currently own a business. By this sampling method, only new entrepreneurs who had not yet established an operational firm were included. In each follow-up survey, respondents were asked if they were still engaged in their business venture. If they indicated that they were not, they were not re-contacted for the subsequent waves. Some presumably still eligible respondents dropped off and did not respond to follow-ups in the later waves. Between those who ceased business activities and those who ceased responding, the sample number for the final wave of data collected in 2011 was 375. For further

information and a detailed overview on the PSED II dataset, please refer to Reynolds and Curtin (2008).

### *Dependent Variable*

The descriptive statistics for the variables used in this analysis are listed in Table 1. The dependent variables for this analysis were the survival of the entrepreneur's business venture and the duration in years of business survival. The PSED II dataset does not contain a single item that completely captures either variable. For the purpose of this analysis, "business failure" is determined by the responses to items A50 and E51. Item A50 appeared in each of the five follow up waves and indicated whether the respondent had a new firm, a start-up or had quit the business venture. This is later followed up by item E51, which asks if anyone else is still involved in that business venture. Respondents who indicated that they had quit and no one else was still involved in any of the waves were considered to have had a non-surviving new business start-up effort. This group consists of 558 respondents.

The group of business survivors consists of those who either had a new firm or an active start-up in item A50 in the final wave. The total for this group was 320. The remaining subjects are categorized as missing. The missing subjects are made up of those who either ceased responding in one of the later waves (i.e. did not participate in the final follow up interview and did not indicate in any of the previous interviews that they were disengaged from their business venture) or who reported being disengaged but indicated that the enterprise was still being run by others. In the former case, there is simply not enough information provided to determine the business survival status. In the latter, there is no way to determine the final outcome of the business due to the cessation of

participation by the initial respondent. The missing respondents total 336. The resulting variable with missing values removed consisted of binary categories: 0=business failure at any time within five years and 1=business still in operation five years after start up.

The second dependent variable was constructed to measure the length in years of business survival. This was also determined by items A50 and E51. Similar to the first dependent variable, those whose business was still in operation at the final wave were given a value of five, for five years of survival duration. Using responses from the middle waves, other respondents were given values between zero and four. Missing values were determined by the same method described above.

### *Independent Variables*

The first independent variable for this analysis is race. Respondents were asked what the best descriptor of their race was and allowed to offer multiple answers. The sample of respondents with non-missing business survival values is about 56 percent white, 21.3 percent black, 13.8 percent Hispanic and 9.18 percent other or multiple races.

The second independent variable for this analysis is sex. Among the reduced sample, approximately 59 percent are male and 41 percent are female.

The third independent variable for this analysis is an index of financial motivations. The PSED II includes 14 questions regarding respondents' motivations for starting a business. A factor analysis with varimax was run for these variables which produced several factors. The strongest of these consisted of three financial motivation questions (Cronbach Alpha=.80) which were then combined to create the financial motivations index. These three questions are described below.

First, respondents were asked to what extent financial security (for themselves or their family) was an important reason for starting their business. Second, they were asked to what extent earning a larger income was important. Finally, they were asked to what extent building great wealth was important. For each of these questions, respondents answered on a five-point scale ranging from “no extent” to “a very great extent.” The combined financial motivations index has a range of 0 (i.e. those who responded “no extent” to all three questions) to 12 (i.e. those who responded “a very great extent” to all three questions).

### *Control Variables*

Previous research has indicated that education heavily influences new business owner’s chances of success or failure. Thus, education must be included in this analysis as a control variable. The PSED II asks respondents what the last school grade they completed was with seven response categories ranging from eighth grade or less to postgraduate degree.

In addition to race and sex (as an independent variables) and education, other basic demographic controls in this analysis include age and household income. Response categories for sex include male and female. There are 13 response categories for age ranges, starting at “18-20” and ending with “75 and up.” There are 10 response categories for household income, starting at “under \$15,000” and ending with “\$100,000 or more.”

## CHAPTER FOUR

### Results

Descriptive statistics for this sample appear in Table 1. About 60 percent of entrepreneurs were men and about 57 percent were white. Educational attainment for entrepreneurs varied; the categories with the highest percentages were “some college” (24.54 percent) and “Bachelors degree” (25.01 percent). Roughly half were making less than \$50,000 per year at the start of their venture and the median age was between 35 and 39.

As described in chapter three, the five-year business survival rate is based on responses indicating that the firm was still in operation at the fifth follow-up of the survey and responses indicating that the firm was no longer in operation at any point in the first through fifth follow-ups. Missing observations due to survey attrition or non-response were eliminated, an issue discussed in more detail below. In total, about one-third of the non-missing respondents had a firm still in operation five years after start up. Years of business survival duration were also calculated using the same responses with a more detailed breakdown. Approximately 22 percent of new business ventures were no longer in operation by the first follow-up (about a year after start-up). Another 20 percent survived one year but shut down before the second follow-up while an additional 25 percent lasted between two and four years.

The financial motivations index was calculated by adding together responses from three survey items as described in chapter three. Respondents were asked to rate “the extent to which the following were important to you for establishing this new business”,

using a five-item Likert scale (coded 0-4). The resulting financial motivations index variable had a range of 1-12. These three items are: 1) to give yourself, your spouse, and your children financial security, 2) to earn a larger personal income, 3) to have a chance to build great wealth or a very high income.”

Table 1  
*Descriptive Statistics for Variables Used*

| Variable   | Mean/Percentage |
|--|-----------------|
| Five-year business survival rate <sup>a</sup>                | 33.32%          |
| Survival Duration  |                 |
| Less than one year   | 22.05%          |
| One year   | 20.45%          |
| Two years  | 14.36%          |
| Three years  | 5%              |
| Four years   | 4.82%           |
| Still in operation five years from start up                  | 33.32%          |
| Financial Motivations Index Score (Range: 1-12) <sup>b</sup> | 7.44            |
| Gender   |                 |
| Male   | 59.84%          |
| Female   | 40.16%          |
| Race/Ethnicity   |                 |
| White  | 57.03%          |
| Black  | 19.97%          |
| Hispanic   | 13.88%          |
| Other  | 9.12%           |
| Education  |                 |
| Eighth grade or less   | 0.35%           |
| High school incomplete                                       | 6.27%           |
| High school complete   | 21.55%          |
| Some college   | 24.54%          |
| Associates degree  | 9.84%           |
| Bachelors degree   | 25.01%          |
| Postgraduate degree  | 12.43%          |
| Income   |                 |
| Under \$15,000   | 9.77%           |
| \$15,000-\$24,999  | 11%             |
| \$25,000-\$29,999  | 7.61%           |

(continued)

| Variable  | Mean/Percentage |
|---|-----------------|
| \$30,000-\$34,999   | 5.05%           |
| \$35,000-\$39,999   | 5.38%           |
| \$40,000-\$49,999   | 9.67%           |
| \$50,000-\$59,999   | 9.36%           |
| \$60,000-\$74,999   | 12.56%          |
| \$75,000-\$99,999   | 13.6%           |
| \$100,000 or more   | 16%             |
| Age   |                 |
| 18-20   | 4.42%           |
| 21-24   | 8.84%           |
| 25-29   | 17.19%          |
| 30-34   | 12.03%          |
| 35-39   | 12.54%          |
| 40-44   | 13.75%          |
| 45-49   | 9.92%           |
| 50-54   | 10.16%          |
| 55-59   | 5.76%           |
| 60-64   | 2.86%           |
| 65-69   | 1.4%            |
| 70-74   | 0.63%           |
| 75 and up   | 0.5%            |
| <sup>a</sup> Respondents who indicated in any of the five follow-up surveys that they had quit and no one else was still involved in any of the waves were considered to have had a non-surviving new business start-up effort. Respondents who indicated in the fifth follow-up survey that their business was still in operation were considered to have a surviving small business.  |                 |
| <sup>b</sup> The financial motivations index was constructed by summing the Likert scale response values of the following three items:<br>“Please indicate the extent to which the following were important to you for establishing this new business:<br>‘To give yourself, your spouse, and your children financial security.’<br>‘To earn a larger personal income.’<br>‘To have a chance to build great wealth or a very high income.’” |                 |

It is important to note at this point potential issues with missing data. The independent and control variable responses for this analysis were collected at the first wave of data collection. Therefore, there were only a few missing cases resulting from non-response or refusal to answer for these items. The dependent variables, however, were calculated from items in all of the five follow-ups. Thus, this analysis suffers from



the missing data that inevitably results from survey attrition. In total, 246 respondents did not participate fully enough to allow me to determine their five-year survival status. This is about 20 percent of the original sample.

To better understand how the missing respondents differ from the non-missing in ways that may be meaningful to this analysis, I ran a series of t-tests on the independent and control variables. The results are displayed in Table 2 below. The information below compares the averages of the two groups and lists the results of the significance test for the differences.

Table 2

*T-Tests for Significance of Different Averages of Variables of Interest for Missing and Non-Missing Cases*

| Variable   | Missing Average<br>(N=246) | Non-missing Average<br>(N=968) | Significance |
|--|----------------------------|--------------------------------|--------------|
| Education  | 4.02 (244)                 | 4.77 (962)                     | ****         |
| Income   | 5.93 (226)                 | 6.15 (906)                     | NS           |
| Age  | 5.63 (246)                 | 6.43 (952)                     | ****         |
| Male   | .71 (246)                  | .61 (968)                      | **           |
| Black  | .14 (244)                  | .11 (955)                      | NS           |
| Hispanic   | .11 (244)                  | .05 (955)                      | **           |
| Financial Motivations  | 7.89 (245)                 | 6.95 (966)                     | ****         |
| + $p < .10$ * $p < .05$ ** $p < .01$ *** $p < .001$ **** $p < .0001$ |                            |                                |              |

My first and second hypotheses address differences in financial motivation by race and gender. They are restated below:

H1: Due to the divergent social norms among various racial and ethnic groups, financial motivations for starting a new business venture will be different among whites, blacks and Hispanics.

H2: Due to gendered social norms, financial motivations for starting a new business venture will be different for men and women.

To test this, I ran an OLS regression on the financial motivations index. Results are displayed in Table 3. Education, income, age and, to an extent, race all have strong and significant effects on one's financial motivations for starting a business. Education and age both have negative effects; higher educated and older people tend to have lower scores on the index than those with less education and younger. Income has a positive effect.

For race, white entrepreneurs are the reference category. Hispanic entrepreneurs and those of other racial groups do not differ significantly from whites on the financial motivations index. Black entrepreneurs, however, score higher than whites do. On average, the responses of blacks' on the financial motivations index is 1.59 points higher than that of whites. There are no significant differences between male and female small business owners.

There do not seem to be differences in financial motivations for starting a business between men and women nor between whites and Hispanics or other racial groups. However, there does seem to be a difference between whites and African Americans, with blacks having the higher average score on the financial motivations index. Therefore, my first hypothesis is partially supported and my second hypothesis is rejected. Non-minority and male entrepreneurs do not appear to have stronger or weaker financial motivations than most minority and female entrepreneurs. The only difference of note is between black and white entrepreneurs, with blacks having stronger financial motivations than whites.

Table 3

*OLS Regression of Financial Motivations (n=893)*

| Variable                                    | Regression Coefficient |
|---|------------------------|
| Education                                   | -.36****               |
| Income                                      | .10**                  |
| Age   | -.23****               |
| Male  | .30                    |
| Black <sup>a</sup>                          | 1.59****               |
| Hispanic <sup>a</sup>                       | .16                    |
| Other <sup>a</sup>                          | .26                    |
| R <sup>2</sup>                              | .114                   |
| +p<.10 *p<.05 **p<.01 ***p<.001 ****p<.0001 |                        |
| <sup>a</sup> White is reference group       |                        |

My third hypothesis states:

H3: Among all entrepreneurs, stronger motivations for financial gain will be associated with a higher business survival rate.

This was tested using a binary logistic regression model with the business survival variable where a value of one meant that the small business was still in operation after five years. The results of this analysis are displayed in Table 4. Among the whole sample, education, age, sex and race (blacks compared to whites) affect the odds of business survival. For each unit increase in education, these odds increase by 15.3 percent. For each unit increase in age, the odds increase by 6.9 percent. Male entrepreneurs appear to be about 36.9 percent more likely to have a surviving business than female entrepreneurs are, though this is only significant at the  $p<.10$  level. Black entrepreneurs are 52% more likely to have a surviving business than white entrepreneurs are.

The financial motivations variable did not have a significant effect on business survival. The extent to which one is motivated by financial reasons to start a business

venture do not appear to impact the odds of one's business surviving. Therefore, Hypothesis 3 is rejected.

Table 4

*Binary Logistic Regression of Business 5-Year Survival Rate (n=810)*

| Variable   | Regression Coefficient | Odds Ratio |
|--|------------------------|------------|
| Education  | .15**                  | 1.153      |
| Income   | -.02                   | .988       |
| Age  | .07*                   | 1.069      |
| Male   | .30+                   | 1.369      |
| Black <sup>a</sup>   | .39*                   | 1.520      |
| Hispanic <sup>a</sup>  | -.27                   | .77        |
| Other <sup>a</sup>   | -.007                  | .973       |
| Financial Motivations  | .03                    | 1.035      |
| $R^2$  | .042                   |            |
| + $p < .10$ * $p < .05$ ** $p < .01$ *** $p < .001$ **** $p < .0001$ |                        |            |
| <sup>a</sup> White is reference group                                |                        |            |

Hypotheses four and five are stated below:

H4: Among non-minority and male entrepreneurs, stronger motivations for financial gain will be associated with a higher business survival rate.

H5: Among minority and female entrepreneurs, stronger motivations for financial gain will lead to a lower business survival rate due to structural barriers and financing constraints that are disproportionately faced by these groups.

These hypotheses were tested with a binary logistic regression model with all of the variables discussed thus far. In addition, interaction terms for race, sex and the financial motivations index were included as well as a three-way interaction variable. Two separate models were run. The first uses a binary variable for blacks. For this variable, black entrepreneurs are assigned a value of one while white, Hispanic and other races are assigned a value of zero. The second uses a binary variable for Hispanics, where

Hispanic entrepreneurs are assigned a value of one while the rest (white, black and other races) are assigned a value of zero. This allows us to observe how the effect of financial motivations on business survival is moderated by race and gender. The results are listed in Table 5.

Table 5

*Binary Logistic Regression of Small Business Survival with Three-Way Interaction of Race, Gender and Financial Motivations (n=810)*

| Variable                                    | Model 1                |            | Model 2                |            |
|---|------------------------|------------|------------------------|------------|
|   | Regression Coefficient | Odds Ratio | Regression Coefficient | Odds Ratio |
| Intercept                                   | -2.75****              |            | -2.05****              |            |
| Education                                   | 0.16**                 | 1.156      | 0.17**                 | 1.157      |
| Income                                      | -0.01                  | 0.991      | -0.03                  | 0.982      |
| Age   | 0.08*                  | 1.072      | 0.06*                  | 1.058      |
| Financial Motivations                       | .11*                   | 1.105      | 0.04                   | 1.030      |
| Male  | 1.00*                  | 2.778      | .35                    | 1.246      |
| Financial*Male                              | -.11+                  | 0.899      | -.003                  | 1.013      |
| Black                                       | 2.24*                  | 9.389      |                        |            |
| Financial*Black                             | -.24*                  | 0.798      |                        |            |
| Male*Black                                  | -2.99*                 | 0.040      |                        |            |
| Financial*Male*Black                        | .39**                  | 1.503      |                        |            |
| Hispanic                                    |                        |            | -4.22*                 | 0.012      |
| Financial*Hispanic                          |                        |            | .59*                   | 1.818      |
| Male*Hispanic                               |                        |            | 3.87+                  | 92.198     |
| Financial*Male*Hispanic                     |                        |            | -.61*                  | 0.508      |
| R <sup>2</sup>                              | .056                   |            | .056                   |            |
| +p<.10 *p<.05 **p<.01 ***p<.001 ****p<.0001 |                        |            |                        |            |

Hypotheses six and seven are stated below:

H6: Among non-minority and male entrepreneurs, stronger motivations for financial gain will be associated with a longer duration of business survival.

H7: Among minority and female entrepreneurs, stronger motivations for financial gain will lead to a shorter duration of business survival due to structural barriers and financing constraints that are disproportionately faced by these groups.

Further analyses examine the effects of the same independent variables above on the duration of business survival. Here, rather than looking only at whether the small business survived at least five years or not, the dependent variable is years of business duration ranging from zero to five. The results are listed in Table 6.<sup>1</sup>

Table 6

*Poisson Regression of Small Business Survival with Three-Way Interaction of Race, Gender and Financial Motivations (n=893)*

| Variable                                      | Model 3            |                       | Model 4            |                       |
|---|--------------------|-----------------------|--------------------|-----------------------|
|   | <u>Coefficient</u> | <u>Standard Error</u> | <u>Coefficient</u> | <u>Standard Error</u> |
| Intercept                                     | 0.31*              | 0.13                  | 0.59*****          | 0.13                  |
| Education                                     | 0.05**             | 0.02                  | 0.05**             | 0.02                  |
| Income  | -0.01              | 0.01                  | -0.02*             | 0.01                  |
| Age   | 0.03**             | 0.01                  | 0.02*              | 0.01                  |
| Financial Motivations                         | 0.03*              | 0.01                  | 0.01               | 0.01                  |
| Male  | 0.33**             | 0.12                  | 0.05               | 0.12                  |
| Financial*Male                                | -0.03+             | 0.02                  | 0.01               | 0.01                  |
| Black   | 0.89*****          | 0.21                  |                    |                       |
| Financial*Black                               | -0.08***           | 0.03                  |                    |                       |
| Male*Black                                    | -1.38*****         | 0.32                  |                    |                       |
| Financial*Male*Black                          | 0.16*****          | 0.04                  |                    |                       |
| Hispanic                                      |                    |                       | -1.05***           | 0.31                  |
| Financial*Hispanic                            |                    |                       | 0.14***            | 0.04                  |
| Male*Hispanic                                 |                    |                       | 0.91*              | 0.38                  |
| Financial*Male*Hispanic                       |                    |                       | -0.16***           | 0.05                  |
| +p<.10 *p<.05 **p<.01 ***p<.001 ***** p<.0001 |                    |                       |                    |                       |

<sup>1</sup> OLS, Poisson and Negative Binomial models were all run for models 3 and 4. No substantial differences were observed for Model 3 (with black dummy variable). No substantial differences between the OLS and Poisson models were observed for Model 4 (with Hispanic dummy variable). Some variables were not significant in the negative binomial model, which may be due to the small sample size of Hispanic entrepreneurs.

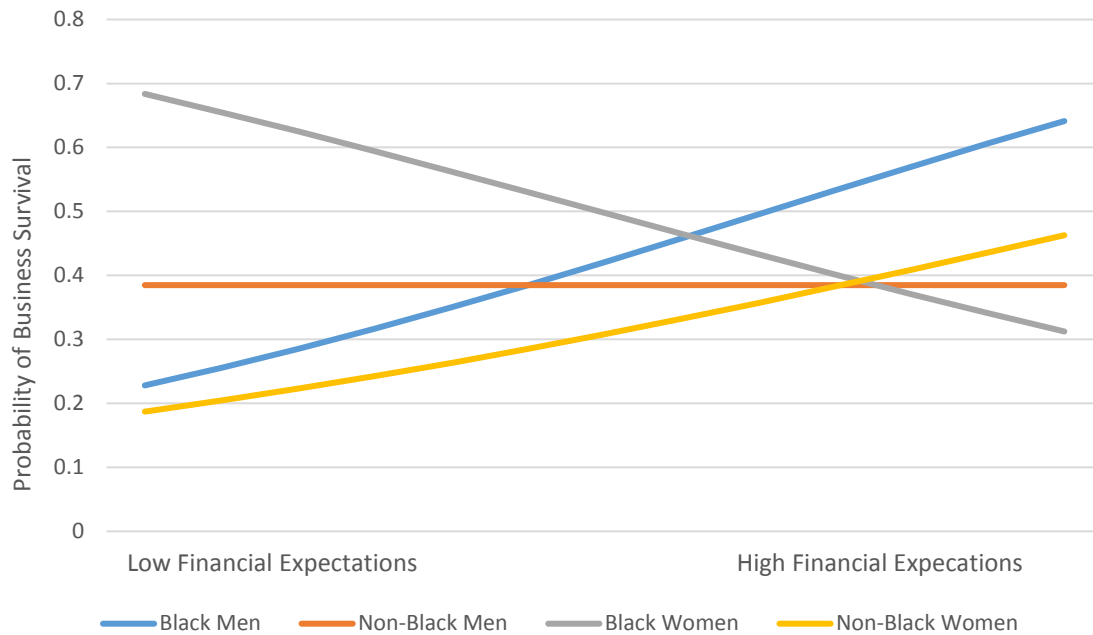
*Analysis of Models 1 and 3 (Interaction of Black Dummy Variable, Gender and Financial Motivations)*

Among non-blacks, the interaction between financial motivations and sex is  $-.11$  (.899). Among women, the interaction between financial motivations and being black is  $-.24$  (.798). Among those with no financial motivations, the interaction between sex and being black is  $-2.99$  (.04). Among non-black women, for each unit increase on the financial motivations index, the odds of business survival increase by 10.5 percent. Among non-blacks who have no financial motivations for starting a business, the odds of a male entrepreneur succeeding are 2.78 times greater than the odds for female entrepreneurs. Among women who have no financial motivations, the odds of a black entrepreneur succeeding are 9.39 times greater than for non-black entrepreneurs. These findings demonstrate the interactive effects of these variables on small business survival. They are illustrated visually in Figure 1 below.

Having financial motivations for starting a business has different effects on the odds of business survival for each of the four groups examined here. A higher score on the index increases the odds of survival for both black male owned and non-black female owned enterprises, but at a greater rate for black men. In contrast, there is no significant effect for non-black men and for black women, the effect is negative and quite steep. The odds of business survival for a black woman with no financial expectations are almost 70 percent, but this figure drops to almost 30% for those with high financial expectations.

The results of the Poisson regression reveal patterns similar to the binary logistic regression analysis. Figure 2 displays the varying effects of financial motivations on years of small business survival by gender and race using a binary variable where black equals one. As before, financial motivations are shown to have a positive effect on black

men and non-black women (with a stronger effect for black men) while having a steep negative effect for black women.

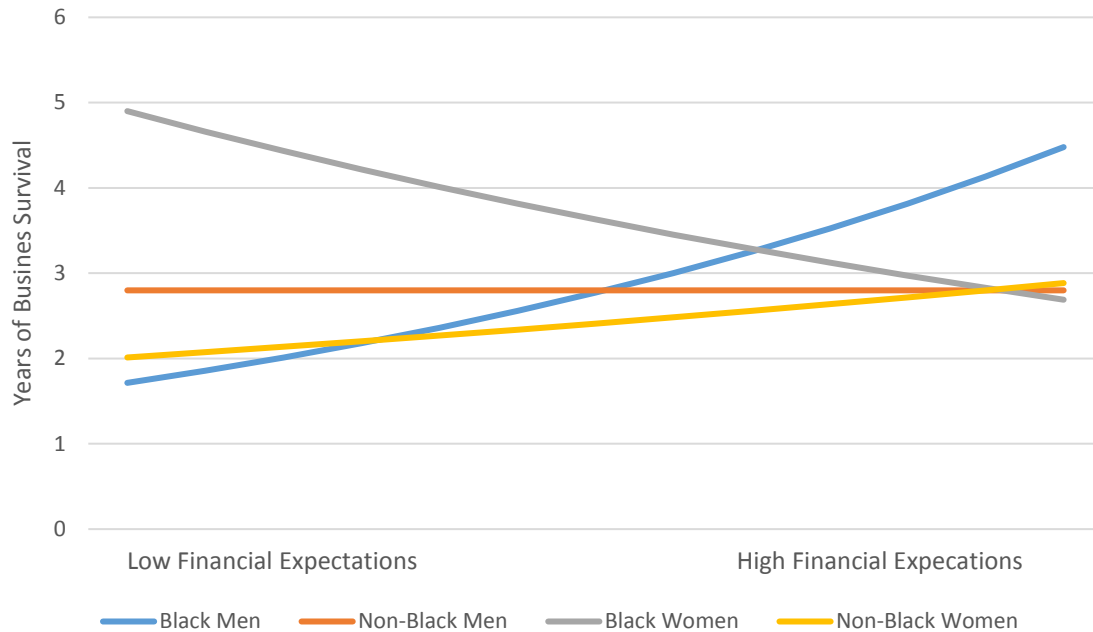


*Figure 1*

Effect of Financial Motivations on Probability of Business Survival by Gender and Race (Black).

Comparing the results of binary survival model with those of the years of duration model, there are some slight differences. When looking at overall survival in Figure 1, black men appear to have better odds of business survival than non-black women at all levels of financial expectations. The gap is slight among those with low financial expectations but grows wider at the higher end. Yet when looking at years of duration in Figure 2, the effect for non-black women seems smaller. Among those with low financial expectations, the predicted years of duration was actually slightly higher than for black men. However, the predicted number grows from less than two to more than four for black men, while only rising from two to just under three for non-black women.





*Figure 2*

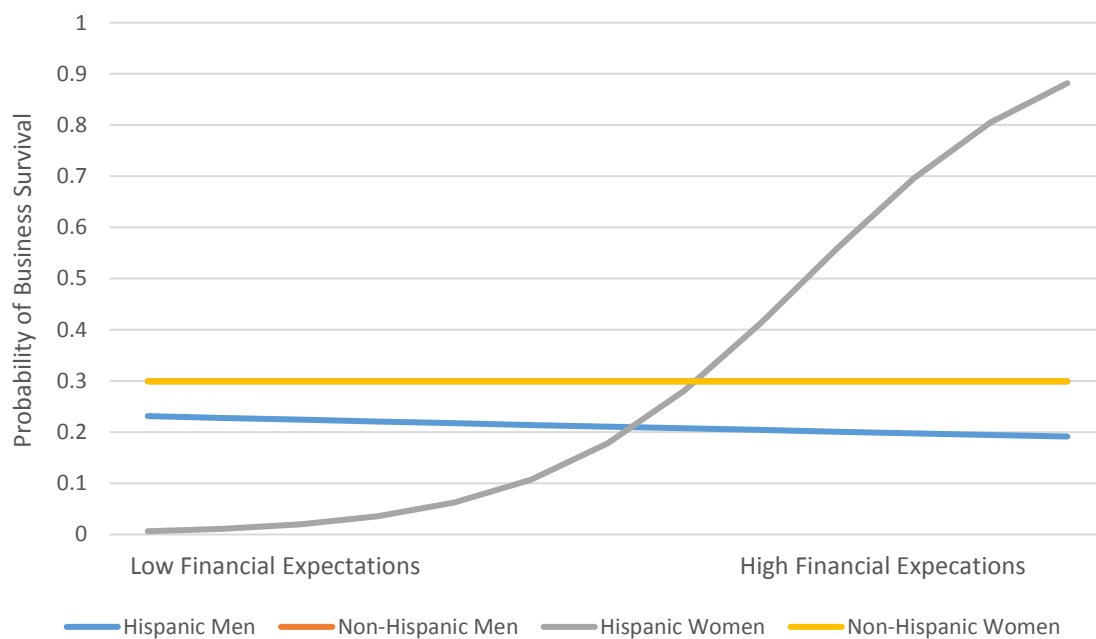
Effect of Financial Motivations on Duration of Business Survival by Gender and Race (Black).

The results in both models for non-black men and black women seem to be very close in direction and strength. The slight differences appear only in the effects for black men and non-black women. Overall, the general patterns of effects are quite similar.

*Analyses of Models 2 and 4 (Interaction of Hispanic Dummy Variable, Gender and Financial Motivations)*

Figure 3 displays the results of the binary logistic regression using the Hispanic dummy variable. Among non-Hispanics, the interaction between financial motivations and sex is not significant. Among women, the interaction between financial motivations and Hispanic ethnicity is .60 (1.818). Among those with no financial motivations, the interaction between sex and Hispanic ethnicity is 4.52 (92.198).

Among non-Hispanic women, financial motivations do not have significant effect on business survival. Among non-Hispanics who have no financial motivations for starting a business, there is no significant difference in odds of business survival between men and women. Among women who have no financial motivations, the odds of a Hispanic entrepreneur succeeding are 98.8 percent lower than for non-Hispanic entrepreneurs. These findings are illustrated in Figure 3 below.



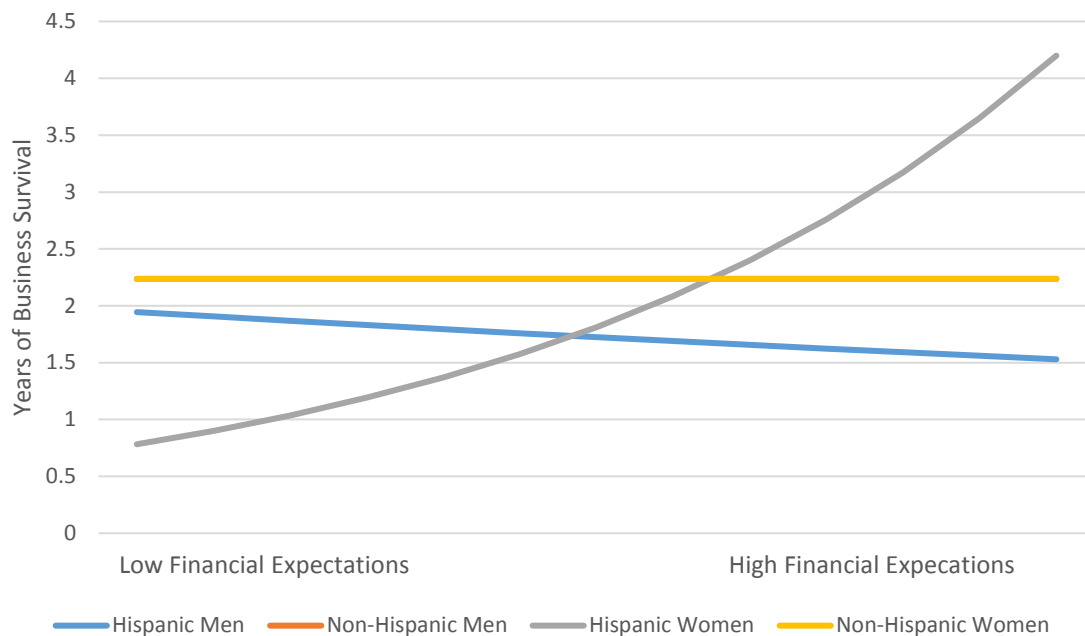
*Figure 3*

Effect of Financial Motivations on Probability of Business Survival by Gender and Race (Hispanic).

The effects of financial motivation vary for Hispanic men and women. For non-Hispanic men and women, financial motivations have no effect on business survival. For Hispanic men, there is a negative effect, with the odds decreasing from about 23 percent among those with no expectations to just under 20 percent for those with high expectations. For Hispanic women, the effect of financial motivations varies, but is

consistently positive and very steep. The odds of business survival among those with no expectations is almost zero while the odds among those with high expectations is 88 percent.

Figure 4 displays the effects of financial motivations on years of small business survival using the Hispanic dummy variable. As before, financial motivations are shown to have a negative effect on Hispanic men while having a positive effect for Hispanic women. No significant effect is seen for non-Hispanic men or women. The patterns seen in these results do not appear to be substantially different from those seen in the results of the binary survival model.



*Figure 4*

Effect of Financial Motivations on Duration of Business Survival by Gender and Race (Hispanic).

### *Support for Hypotheses 4-7*

Hypotheses 4 and 6 are rejected. Stronger motivations for financial gain do not appear to be associated with a higher business survival rate for non-minority and male entrepreneurs. In fact, there is no significant effect at all for non-black and non-Hispanic men.

The results for Hypotheses 5 and 7 are mixed. Stronger motivations for financial gain does appear to have a negative effect on business survival rate for black women and Hispanic men. No significant effect was found for non-minority men and non-Hispanic women. However, for black men, non-black women and Hispanic women, the effect seems to be positive. This effect is particularly strong for black men and Hispanic women.

## CHAPTER FIVE

### Discussion

Previous research on entrepreneurship, race and gender has primarily focused on the influences of external factors such as funding availability, opportunities for gaining business experience, education and family tradition (Blanchard et al. 2008; Fairlie 1999; Fairlie and Robb 2007). The inclusion of educational attainment in this analysis, which has a strong and significant effect in each model, offers further indication of the importance these factors and continuing research in this focus. However, this analysis focuses primarily on the less-studied factor of motivation for starting a new establishment. The findings contribute to the ongoing literature in several ways.

Results indicate that, for many people, the extent to which one is financially motivated in the decision to start a business affects the eventual product of that venture. This adds support to the growing body of research looking at intrinsic factors in entrepreneurial outcomes. Using data from the first Panel Study of Entrepreneurial Dynamics, Edelman et al. (2010) outlined the “effort-performance-outcome model” for small business ventures and demonstrated how motivations can affect profit and growth intentions. Through interviews with entrepreneurs, Mathias, Williams and Smith (2015) observed how early “imprints” on entrepreneurs can affect the life course of the business start-up.

This analysis expands that line of research by looking at the effect of financial motivations on business survival at the intersection of race and gender, using recent data from a nationally representative sample of small business start-ups. The results show that

financial motivations do affect the odds of business survival at five years. In doing so, it provides further understanding of the reasons why some enterprises fail while others succeed. The implications of this are explored in more detail below.

This study also adds to the ongoing literature by exploring a possible contribution to the differences in business outcomes between whites and minorities and men and women. Previous research has identified several contributing mechanisms, but none that fully explain the observable disparities (Fairlie 1999; Fairlie and Robb 2007). This study indicates that entrepreneurial motivation may offer another piece of that puzzle.

Interestingly, the findings in this study indicate that black entrepreneurs actually have greater odds of business survival than do white entrepreneurs. Additionally, Hispanic-owned business survival rate was not significantly different from that of whites, although it is important to note the limitation of the small sample size of Hispanic entrepreneurs in this study. This divergence from previous research may be the result of changing demographics of entrepreneurs in the United States small business landscape. From 2002 to 2007, the growth rate minority-owned establishments quadrupled the same rate for non-minorities (Obuko and Planting 2015). The screening of nascent entrepreneurs for the PSED II took place in 2005, right in the middle of this surge. Growth continued in the years after this time period as well (Lichtenstein 2014).

Another possible reason for this finding is the onset of the Great Recession, which also fell within the time frame of the data collection for the PSED II. The Great Recession began in December 2007 and did not end until the middle of 2009 (National Bureau of Economic Research 2008). The financial impact on the United States population was severe. Unemployment rose, spending decreased and savings were

strained (Hurd and Rohwedder 2010). These circumstances could have pushed some people into entrepreneurship who may not have chosen it otherwise and could also have limited the resources available. The recession could have altered the small business landscape through these and a myriad of other potential factors. Since the finding that black-owned small businesses have greater odds of survival than white-owned businesses goes against previous literature, further research is needed to see if this is a persisting pattern and what the causes and consequences of the trend may be.

Finally, this study adds to the ongoing literature by demonstrating the heterogeneous effects of a singular influencing factor on different groups of people. In the initial analysis testing the effect of financial motivations on business survival for the whole sample, it is found to be insignificant. However, when looking at the interaction between financial motivations, race and gender, various significant effects are found. In this research, minorities cannot be viewed as a monolithic group. There are important differences to be observed between blacks and Hispanics and men and women within those racial categories.

The survival rate of black women's small businesses appears to be the most vulnerable to financial motivations. Whereas higher levels of financial motivation seem to increase the odds of business survival among black men and non-black women (including Hispanic women), it has a negative effect for black women. Although not as severe, it also has a negative effect on Hispanic men. The effect is minimal or insignificant for non-minority men.

### *Conclusion*

This study did suffer from some limitations. Most notably, the relatively small sample size makes it difficult to draw solid conclusions on so many different subsamples. Due to the attrition of respondents between the first and final wave as well as a few missing values on the variables of interest, the final sample size came out to be 810 for the binary survival model and 893 for the years of duration model. The majority of the sample was white and the minority subsamples were broken down further by gender.

Another limitation of this study is that it did not account for the geographical setting in which the entrepreneurs in this survey were operating. Some business-related associations and outcomes are highly contextualized by location. This is certainly true for research on motivations. White entrepreneurs in poor rural areas in particular may be much more likely to pursue small business ownership as a matter of survival than a fairly affluent, well-educated white entrepreneur in an urban area who is interested in financial success or following a family tradition. In this way and others, certain white small business owners may resemble their black or Hispanic peers more so than other whites. This study did not account for either metropolitan status or regional divides. Future research could explore the potential effects of these factors further.

Despite these disadvantages, the alternatives were limited because so few surveys of entrepreneurs include items on motivation. Indeed, the PSED II has a broad array of variables to explore this issue and its longitudinal nature makes it particularly valuable for examining business survival. The present study uses these strengths to reveal an understudied topic that would be well-worth further exploration and expansion in future research.



Future research can also examine the reasons for the observed results, which would be crucial for any policy implications or community initiatives seeking to use this information. The results of this analysis indicate that financial motivations are helpful for black men and non-black women's business survival, but seem to be hindrance to that of Hispanic men and black women. The reasons for this are unclear. It is feasible that higher financial motivations would decrease business survival chances for minority and women entrepreneurs due to the increased structural barriers faced by these groups. Perhaps that is the reason or part of the reason for the Hispanic men and black women effect, but does not explain the opposite effect for black men and non-black women. This study also does not account for immigrant status which could be a contributor to the results for Hispanic men. But this too fails to account for the differing effect of Hispanic women. The lack of uniformity opens up various avenues for further hypothesizing and future research.

The positive effects of small business success for both communities and individuals has been well established. Understanding what helps and hinders these efforts is important for tapping into its actual and potential benefits. This study adds to the small but growing body of research into certain intrinsic factors that can influence an entrepreneur's chances of success.

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