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From the Editor's Desk

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Barron H. Harvey
Founding Editor-in-Chief

THE ENABLING BUSINESS ENVIRONMENT AND BUSINESS FAILURE AMONG START-UPS: A CROSS COUNTRY ANALYSIS

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ABSTRACT

There is an extensive literature on the establishment of new firms or new venture creation as the entrepreneurship literature likes to call it. However, much less is known about the failure of these start-up firms. The sparse literature on the failure of start-ups generally focus on the firm specific factors that contribute to failure and not on the macro-factors such as the legal and regulatory business environment or the macro-economic variables in the business environment. This study has extended the literature on business failure by analysing the impact that the doing business score and selected macro-economic variables will have on the failure rate among start-up firms. Using a sample of 43 countries studied in the GEM 2008 Jamaica Report, the data on business discontinuation rate were analysed using multiple regression model. The results revealed that a strong enabling business environment as manifested in a low ease of doing business score is important to reduce failure among start-ups. The study presents some implications for policymakers at the firm level as well as at the national level.

Key words: Failure, Discontinuation Rate, Start-up, Enabling Environment

INTRODUCTION

Economic growth requires more than just merely starting a business. A critical element of the growth plan is the continuation of businesses that have started, and have moved from mere start-ups[1] to become established enterprises that can employ large numbers of people and contribute substantial outputs to the gross domestic product (GDP) of a nation (GEM, 2008, Williams, 2009). However, it appears that the fundamental challenge to spur economic growth in most economies is the inability of the firms that have started up, to progress and become established businesses. Most firms seem to remain small and make a miniscule contribution to GDP and exports. Indeed, data have suggested that in most economies, over 90 percent of the

[1] Start-ups here refer to firms that are established and between the age of 1-5 years old- see definition from GEM 2008.

firms are small, and only a few large firms are making a substantial contribution to economic growth and transformation (Economist, 2012 - see articles on “Big is back”). Start-ups are important to provide employment especially in a time of economic downturn (Campbell et al., 2012). However, these employments are not always sustainable if these start-ups do not move to become established operations and increase their chance of survival. Start-ups that remain small and have weak organisational structures are generally at greater risk of failure when the economic environment becomes unfavourable (Chen & Williams, 1999). This appears to be one of the major reasons for the encouragement of start-ups to move from their nascent stage to become established operations with stronger organisational structures and processes that can help them to withstand a downturn in the economic environment.

Scholars have shown that both in the developed and developing world, the business environment in which firms are started and operate, does have an impact on their long-term survival (Campbell et al., 2012; Lee et al.; 2012; Wint, 2003; Blair & Miller, 2010; Williams, 2008; Chen & Williams, 1999). The characteristics of the business environment such as the ease of starting a business, the ease of signing contracts, the macro-economic stability as measured by low inflation, low interest rates, stable exchange rate, sustainable external balance among other things; and the location are generally referred to as the enabling environment in which to do business (Wint, 1998). These factors can enhance the longevity of the start-up or they can contribute to the start-up firm failing after a short period of time. It is this observation that has motivated the analysis that is carried out in this study. The paper tries to understand how the *doing business* score - a good proxy measure for the kind of enabling environment that exist in a country, impacts on the discontinuation rate among start-ups. The specific question that will be addressed is: What is the impact of the doing business scores of a country on the level of business discontinuation among start-ups in that location?

Providing answers to this question will be very useful in helping the public policymakers to determine how best to improve their external environment to make it more enabling in order to reverse the level of failure among start-ups and to encourage them to become more established operations. The work will also add to the literature on business failure among start-ups as hitherto, not many studies focused on the role of the business environment in determining business failure or success (Strotmann, 2007). The majority of works have focused on the international environment of the business and its impact on business failure (Edelman et al. 2008; Kirby, 2004; Katz, 2003, Parker & van Praag, 2006; Acs & Armington, 2004). While internal strategies and operations are important determinants as to whether or not a business survives or fail, it is equally important to focus on the external environment as well. The policies in the external macro-economic environment will no doubt impact on the types of strategies a business can pursue in order to survive. The work presented in this paper will undoubtedly complement the rich literature on strategy and business failure by focusing more on the external macro-economic environment in the business failure discourse.

To answer the question at the heart of this study, the remainder of the paper is organised as follows: the next section will present a review of the works on business failure and the role of the enabling environment. As far as possible, the work will review the doing business survey and other critical variables in the macro-economic environment such as the per capita income rate, the interest rate and the economic growth rate. Following this review, the paper will then present the method that is used to derive answers to the research question. The subsequent sections will present the results and a discussion of these results. The paper will end with some concluding remarks.

The Business Environment and the Impact on Business Failure/Survival

The business environment in an economy consists of the political, the economic, the social, the technological, the environmental and the legal and regulatory facets of the society (Porter, 2008). Indeed, these very broad headings have more granular factors that business persons have to deal with in order to carry out their business operations. Some of these factors include but are not limited to the following: in the political environment: there is the need for the rule of law, political stability; in the economic environment: the interest rate, the per capita income, the rate of economic growth are important; in the social environment: the life expectancy rate, the family structure are important; in the technological environment: the Internet penetration rate, the number of patents generated are critical factors; in the environmental environment: there is the issue of disposal of waste, carbon emission as important considerations, and in the legal and regulation environment: there is the issue of workers' rights, trade laws, tax laws as important considerations. All these various issues will impact on the way business is carried out in an economy. Some of them will have negative impacts while others will have positive impacts.

However, given the plethora of factors that are involved in doing business in an economic environment, it will be difficult to discern in a serious way, the impact that all these variables will have on the business success or failure, without bringing some order to the multiplicity of factors involved. While not as comprehensive as Porter's five forces analysis of industry competition, which is a neat framework to analyse the business environment in an economy (Porter, 1990, 2008), the doing business survey provides a useful tool to measure the impact of some critical aspects of the environment on the failure or survival of the business. Indeed, the use of indices to study the impact of macro policies on firm survival has been increasing since Chen & Williams (1999). While indices have their drawbacks (see Campbell et al, 2012: pg 91 for a good critique), they can be used to provide a clearer picture of the large number of factors that impact firm performance in the macro-environment.

The doing business score is an aggregation of a quantitative set of indicators on business regulations and property rights (Doing Business Report- DBR, 2008). The final score that a country gets is comprised of regulations that affect different stages of the business life. In the 2008 Report, which is the most relevant to this study, there were 10 stages that affect the business life. These include: starting a business, dealing with licences, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and closing a business. Although the data is more concerned with registered limited liability companies operating in the largest business cities in the countries studied, it is important to note that the regulations that are studied do impact on start-ups as well. For example, the ease of starting a business, the ease of employing workers, ease of registering a property, will all determine whether or not a start-up moves to become an established operation with much hassle. The score that a country gets on this ease of doing business ranking gives a good indicator of the reforms that have taken place in order to make the business environment more enabling for firms to operate in.

The ranking a country receives also has spin-off benefits for the wider economy. A higher rank (which means a lower number on the scale) is generally associated with more growth, more jobs and a smaller share of the economy in the informal sector (Djankov et al., 2006). For example, in Mexico where the reforms to ease of establishing a business was positive, that economy saw an increase in the number of registered businesses, reduction in unemployment, and reduction in prices due to increased competition (DBR, 2008). Critically, also, the stronger the ease of doing business, the greater the likelihood of reducing the gender divide, a variable that often impacts on the failure rate of start-ups. Women-owned businesses are generally seen to be more susceptible to failure than male-owned businesses due mainly to their inability to access resources (Brush, 2002). Countries with higher ranking in the ease of doing business generally have larger share of women in both the field of entrepreneurship and the labour force (DBR, 2008). An example of the correlation between higher rank and greater access to women in business can be found in Uganda. When Uganda undertook reforms that simplified business start-ups, there was an increase in first time business start-ups. Critically in this increase, the start-ups among women were 33 percent higher than for men (DBR, 2008).

There is no doubt that the doing business scores, which compare how countries are transforming their business environments in order to make it more hospitable to carry out business operation motivates reforms among countries. The fact that governments are able to compare their scores across locations will inspire them to make changes to the obstacles that are preventing businesses to function effectively in their environments. Indeed, in 2008, the DBR claimed that since its inception in 2003, the Report has inspired 113 reforms to make doing business around the world much easier. This is very significant as these reforms no doubt have helped to make the enabling environment in which businesses operate, much more hospitable, and thus reduces the risk of failure among firms.

Although the doing business rankings are critical to bring some sort of order to the multiplicity of factors that are at play in the business environment in which firms operate, the rankings still have some limitations which do not give a full account of the business environment in which the firm operates. For example, the doing business scores do not include other key areas such as: market size, macro-economic conditions, the quality of the country’s infrastructure for domestic business operations, and the rule of law as it relates to government procurement, theft and looting of businesses etc. It is for these reasons that merely looking at the doing business score will not give a good indication of the enabling nature of the business environment in which start-ups have to operate and transform to become established operations.

A critical part of the enabling business environment that is absent from the doing business score is the macro-economic environment. Macro-economic variables however, are very essential for the operations of business and can have huge impacts on whether or not firms fail or succeed. Further, in the literature on firm failures, these variables are rarely discussed (Strotmann, 2007; Campbell et al., 2012). Macro-economic variables are however even more important in small, developing economies where there are weak governmental and economic institutions (Henry & Miller, 2010). A large number of the countries in the Global Entrepreneurship Monitor (GEM) Report are developing economies with very weak institutions and unstable macro-economic framework. This unstable macro-economic environment can have negative consequences for the survival of businesses especially start-ups. It is for this reason that this paper will also include in the analysis, critical variables that capture the macro-economic environment of the countries. This will help us to get a better understanding of the nature of the enabling environment for doing business in the economies studied in this sample.

The critical economic variables of interest in this study are: the interest rate in the local economy, the economic growth rate of the local economy, and the level of disposable income (per capita income) of households in the local economy. The importance of the study is to test the impact of these variables on the survival or failure of the business.. It must be noted that these variables are not within the control of the firm but can impact whether or not a firm remains open or closed, and so, public policymakers and managers will have to be motivated to set the correct policies and strategies in order to ensure these variables move in the right direction.

In the external environment, the level of interest rate that firms are charged for borrowed fund is critical in determining whether or not they can survive. Economic theory suggests that the higher the interest rate (real or nominal), the greater is the cost of borrowed money. When the cost of borrowing is high, it will eventually lead to an increase in the cost of doing business. With the cost of business being too exorbitant, this can negatively impact on the longevity of the firm (Hall & Taylor, 1997). Indeed, this variable is even more important in developing country environments where the interest rate on borrowed funds are general high and in double digits. In more developed economies like the United States and Western Europe, the interest rate on borrowed funds for business purposes is generally in single digit and is very low. As such, the cost of borrowing may not be crucial for firms in these locations. However, for developing economies which normally suffer from unstable macro-economic environments, the cost of borrowing is usually high and as such, interest rate may become a significant determinant of whether or not a firm continues its operation. In essence, the economic context will help to determine whether or not interest rate is indeed a critical variable in determining business discontinuation rate.

Another important set of variables that are generally studied in the business life cycle are: the level of per capita income in the population, and the rate of growth of the country's output. The higher the level of per capita income, the greater will be people's purchasing power. With a higher level of per capita income, all other things being equal, the more they will spend consuming the products which firms have to offer (Frank & Bernanke, 2004). With increased activities for businesses, it is expected that it is less likely for them to discontinue operations. Directly linked to the per capita income rationale is the issue of economic growth. As a country's output increases, that is, increased output growth otherwise referred to as economic growth, it is expected that per capita income will be higher as well. With a growing economy, there will be more opportunities for businesses and therefore, a slower discontinuation rate or lower levels of business failure is expected. In other words, there should be a positive relationship between the growth of the economy and business discontinuation. That is, as the economy expands, more businesses are expected to remain open or survive. Further, with greater economic expansion, there will be more opportunities for new start-ups. As such, it is also expected that more new businesses will come on stream as a result of the economic expansion. This economic expansion will lead to more business opportunities and therefore; entrepreneurs can diversify their operations in order to fulfil their company's objectives.

Summarily, the doing business survey, which ranks countries on the ease of conducting business in their location, along with macro-economic variables such as economic growth, interest rate, per capita income, provide a good indicator of the nature of the business environment within which firms are operating. The PESTEL analysis, a comprehensive framework for looking at the environmental analysis in which firms operate, provided the theoretical lens through which this study extrapolate the variables that are critical for the analysis. The next section of this paper will look at the method used to analyse the data and provide answers to the research question.

THE RESEARCH METHOD

The aim of this study is to understand the impact of doing business score on business success or failure. The wider issue however, is the impact of the enabling environment on the survival or failure of new start-ups. This enabling environment is comprised of the doing business scores along with variables that capture the macro-economic environment of the local economy. Therefore, to motivate this study, a general framework which captures the relevant variables that determine discontinuation rate among start-up firms has to be established. As such, the general expression for the model that will be tested in this research is as follows:

$Y_j = \int (X1, X2, X3 \ldots. Xn) + \varepsilon j$ **(1)**

Where:

Y is the dependent variable representing business discontinuation rate among start-ups

$_J$ is each country from 1- 43

X1….Xn represent the vector of variables that impact on the discontinuation rate of start-up businesses. These include the doing business aggregate scores, economic conditions, social conditions etc.

εj = The error term

In order to operationalise the theoretical model, specific variables that relate to the research question under consideration were identified. The variables selected from the vectors will have to be a function of what is theoretically robust but also empirically feasible. Taking these issues into consideration, the choice was made to focus on variables that reflect the macro-economic conditions of the country along with the doing business survey scores. These specific variables were used to build a variant of the general theoretical model presented above. The estimated model therefore became:

$Y_j = \beta 1 \quad \log \gamma + \beta 2 \log \delta + \beta 3 \theta + \beta 4 \varphi + \varepsilon j$ **(2)**

Where:

γ = Interest rate

δ = per capita income

θ = GDP growth rate

φ = doing business score

εj = error term

When this theoretical model is estimated, the degree of significance of the variables will determine which of the factors identified above is most responsible for the discontinuation rate of start-up enterprises from the countries in this study.

The Research Data

Cross sectional data for 2008 on 43 countries that are studied in the Global Entrepreneurship Monitor Report were collected on the four independent variables (interest rate, per capita income, GDP growth rate and doing business scores) and the dependent variable (business discontinuation rate of start-ups) were used to estimate the theoretical model in Equation 2 above. It must be noted that the countries represented in this study represent all continents and also different stages of economic development, that is, factor driven, efficiency driven, innovation driven and, wealth driven. This helps to make the study quite international.

The statistical data for 2008 on each of the variable were collected from various sources such as the International Financial Statistics and the World Economic Outlook published by the IMF, World Development Indicators published by the World Bank, and the Global Entrepreneurship Monitor, Jamaica Report 2008 and the World Bank 2008 Doing Business Report. Table 1 below shows the variables, their measurements, and the source of the data.

Table 1: Regression Variables

Variables	**Measurement**	**Data Sources**
Business Failure (Discontinuation Rate)	Percentage of businesses that do not move from start-up to established firms	Global Entrepreneurship Monitor Jamaica Report 2008
Interest Rate	Prime lending rate in the country	International Financial Statistics
Per Capita Income	Average income per persons in the population	World Development Indicators
GDP Growth Rate	Percentage change in GDP from one period to another	World Economic Outlook, World Development Indicators
Doing Business Score	Quantitative indicators on business regulations and protection of property rights	World Bank– Doing Business 2008

RESULTS

The aim of this paper was to test to see whether or not the enabling environment in the local economy has any significant impact on the business discontinuation rate among start-up firms. This business environment was captured by the doing business score, which looks at the legal and regulatory framework for conducting business in a country, and also the macro-economic environment of the country which the doing business score does not capture. In order to test the analytical model, the correlation among the variables was looked at to ensure that there is no multi-collinearity in the model. If multi-collinearity exists, it can distort the findings by allowing the incorrect variable to be accepted.

A test of the correlation among the variables revealed that there is no serious threat of multi-collinearity. Table 2 below reports the results of this analysis.

Table 2: Pearson R Correlation among the Variables

	Discontinuation Rate	GDP Growth Rate	Per Capita Income	Interest Rate	Doing Business Scores
Discontinuation Rate	1	.30 .05	-.47** .00	.11 .50	.47** .00
GDP Growth Rate		1	-.59** .00	.40* .01	.70** .00
Per Capita Income			1	-.53** .00	-.77** .00
Interest Rate				1	.44** .00
Doing Business Scores					1

**= correlations sig at 1% level
*= correlation sig at 5% level

The highest correlation of 0.77 is between the rate of doing business and per capita income. The other is between economic growth rate (GDP growth) and doing business score. The correlation co-efficient is 0.70. While these correlation scores may seem high, they are not really a cause for concern since, statistically; scores of 0.9 are normally the threshold for consideration of multi-collinearity (Ramaseshan & Patton, 1994).). Further, to test the robustness of the Pearson R correlation co-efficient, a more subtle test of multi-collinearity was carried out. We used the tolerance statistics and the variance inflation factor to test for multi-collinearity. Table 3 below reports on these results.

Table 3: Correlation using VIF and Tolerance Statistics

	VIF	Tolerance Statistics
GDP Growth Rate	2.011	.497
Per Capita Income	1.358	.736
Interest Rate	2.601	.385
Doing Business Scores	1.000	1.00

Statistically, the results in Table 3 show that the level of multi-collinearity is not an issue in this model. The VIF is below 10 and the tolerance statistic is above 0.1. It means that the variables have passed this rule of thumb for the consideration of multi-collinearity (Myers 1990; Menard, 1995).

Having identified that multi-collinearity is not a problem in this model, the data were analysed in order to test the impact of the enabling environment on business discontinuation rate. Table 4 below shows the result from the regression model.

Table 4: Regression Results for Discontinuation Rate

	B	SE	T
GDP Growth Rate	-.08	.21	-.37
Per Capita Income	-2.05	2.34	-.88
Interest Rate	-.080	.070	-1.13
Doing Business Scores	.040	.01	3.42*
Constant	2.45	.77	3. 19
R^2	.22		
Adjusted R^2	.20		
F(4,38)	11.67**		

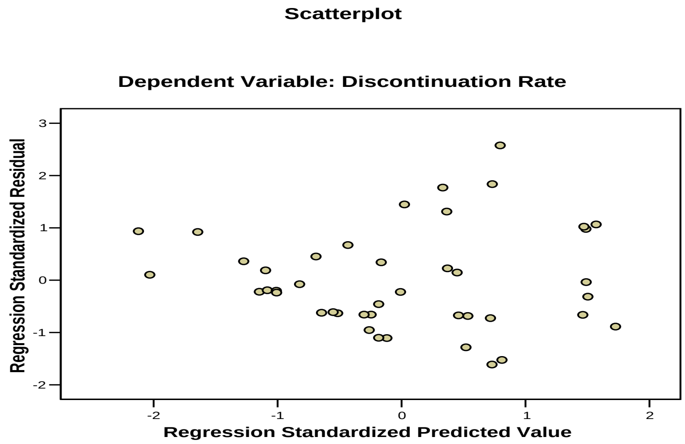
Dependent Variable = Business Discontinuation Rate
*= Variable significant at the 5% level
**= variable significant at the 1% level

The results in Table 4 suggest that it is the doing business score that is most significant in determining the rate of failure among start-ups and not the macro-economic conditions per se. The only statistically significant variable from the regression model was the doing business score. Further, it has a positive sign which means that there is a direct relationship between doing business ranking and business discontinuation. In other words, the interpretation behind the result is that the higher the doing business score that is a lower ranking, the higher will be the failure among start-up firms.

Based on the configuration of the index of doing business, a higher score means a lower ranking. Therefore, the results could be interpreted as, the lower a country ranks on the ease of doing business scores, the higher will be the failure rate among start-up firms. This result is different from Campbell et al, 2012, who found that greater economic freedom can lead to greater failure among firms. However, it finds concert with aspects of the work by Gohmann et al., 2008, which found that increases in economic freedom lead to the growth in the number of firms in some industries, while in others, it leads to failure. That is, the impact of the enabling environment on firm survival varies by industry. The next section below will get into a deeper discussion on the findings from this study.

Further, to ensure that the model is not being biased by any outlier variable, and the assumptions of the model are met, a scatter plot of the residuals was done. The result as reflected in the Figure 1 below shows that indeed, the data did not break the assumptions of linearity. The model seems to be a good representation of the reality.

Figure 1: Scatter Plot of the Model Residuals.



Discussion of Results

The results from this study suggest that higher ease of doing business scores lead to higher failure among start-up firms. Higher score on the index means lower ranking and lower scores mean higher ranking. Therefore, the results can be stated differently. Put differently, the result suggests that a lower ranking on the ease of doing business score implies that the business environment, especially relating to the elements of regulation for starting a business, dealing with contracts, paying of taxes among other things that the doing business index measures, is not very hospitable towards the operations of firms. With an environment that is not enabling towards the operation of start-ups, then it is expected that firms will fail. Intuitively therefore, the results make sense.

When a country is ranked highly on the ease of doing business index, it means that it is easier for entrepreneurs to: start a firm, pay their taxes, license their property, trade across borders i.e. engaged in international business, get credit, employ workers, enforce contracts, and also, close down their businesses without much cost such as redundancy costs. This type of environment makes it very attractive for firms to carry out their operations as the cost of doing business is cheaper. With an environment that is hospitable towards the operation of enterprises, once there is demand for the goods and services that firms sell, these firms will find it easier to move along the business life cycle and become more established operations. This is even more so when the consumers in the environment have the ability to spend and consume the goods produced by these firms. Indeed, the results from this analysis also showed, although not statistically significant, that there is an inverse relationship between per capita income and the failure of start-ups. In other words, the higher the per capita income of a nation, the lower the failure rate among start-ups. The likely reason for this is that people will have money to buy the goods and services of the firm and as such, the demand for the firm's product will grow, therefore, keeping it in operation.

With a strong enabling environment which makes it less costly for doing business, start-ups need to now formulate good business strategy in order to ensure their survival. There is no doubt that some firms will fail even with a strong and hospitable business environment (Schumpeter, 1942). Once it is easy to start a new firm, it means that there will be more competition in existing industries and with stronger competition; weak firms will fail (Campbell et al., 2012). However, this failure will be exacerbated if the business environment is not supportive and makes it easier for firms to carry out their operations. However, what will differentiate between those that fail and those that remain open is how the managers of the firm develop strong business strategy to take advantage of the benign environment in which they operate (Zou & Stan, 1998). Therefore, while other works have found that the enabling environment can hinder business survival; this study argues that business failure will be exacerbated without a strong enabling environment.

A strong takeaway from this study is that policymakers have to reform their business environment in order to make it less costly for enterprise to operate. They need to improve on the ease of starting a business, the ease of paying taxes, the ease of settling contracts, the ease of closing a business, among other regulatory mechanism that impact on doing business. These reforms will make it easier for firms to operate and therefore, reverse the discontinuation rate among start-up firms. However, these alone will not lead to a reduction of business failure. Having a strong and hospitable enabling environment is necessary for business success but not sufficient. Managers in the enterprise will have to derive good business strategy in order to compete effectively in the market. For, with a strong enabling environment, entrepreneurs will find it easier to establish businesses and as such the environment will become more competitive. It is business effective strategy that will differentiate between those firms that remain open and those that have to exit the market, when the business environment is enabling and competition is strong.

CONCLUDING THOUGHTS

The research presented in this paper has extended the sparse literature on business failure especially as it relates to the macro-environment. The few works on business failure have generally focused on the internal firm determinants of business failure. Very few of the works have focused on the impact of macro-factors such as the regulatory environment for doing business and also the macro-economic environment. This study has extended this work by testing empirically, the impact of the macro-economic environment and the legal and regulatory environment on business failure among start-ups. The results suggest that a strong enabling business environment as captured in the doing business score is necessary to reduce the rate of failure among start-ups. However, while it is acknowledged that a strong enabling business environment is necessary for business survival, it is recommended that managers in the firms also design effective business strategies in order to remain open. This is so because in an environment that is supportive of businesses, entrepreneurs will find it easy to open new firms and as such increase the level of competition in the market. When competition is strong, it is business strategy that will differentiate between those who survive from those who fail.

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ASSESSING TRANSITIONS: PRESIDENT BARACK OBAMA'S FIRST YEAR

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ABSTRACT

Successful presidents have highly effective transitions, transitions that last their first year in office. In the end their success should be measured in democratic and political terms in this most disaggregated, intransigent, and nearly ungovernable political system.

Such transitions involve an entrepreneurial approach that is predicated on nimble governance, shrewd implementation, and effectiveness as a national leader. The term "entrepreneurial" concisely fits the necessity for newly elected presidents to make choices and take risks for later "profit" or success in the ongoing negotiations of the presidential enterprise. An entrepreneurial approach requires cold-blooded politics and eschews inordinate concern for specific individuals, issues, and policies which might become an impediment to the incoming government. That is, presidents must protect their reputation for effectiveness and freedom to maneuver.

Nimble governance means choosing among alternative priorities and avoiding blunders. Shrewd implementation means that new policies and programs are announced early, lobbied energetically, enacted swiftly, and executed boldly.

The most effective presidents have the reputation of highly creative leaders. That is, they are a blend of nimble lions and shrewd foxes, both carefully coated with a benign, puppy-dog-like exteriors. That is, presidents as lions frighten off those who would prey on their administration, as foxes recognize traps, and as puppy dogs are adroit and lovable so as to sustain the necessary elite and mass support to achieve their ends.

INTRODUCTION

A favorite preoccupation of all who are interested in organizational leadership is assessing presidential performance. Such an endeavor is enormously complicated by a range of factors. First, each president faces his own unique challenges that grow out of the era and issues confronting the nation. As Karl Marx (1852) observed 150 years ago:

> Men make their own history, but they do not make it as they please; they do not make it under self-selected circumstances, but under circumstances existing already, given and transmitted from the past. The tradition of all dead generations weighs like a nightmare on the brains of the living.

Not only do presidents face unique circumstances, they also are confronted by a host of other constraints. These include decisions by their predecessors; precedents in law and tradition; the actions and preferences of other governmental institutions, such as the Congress, the Supreme Court, the Washington bureaucracy and state and local governments; and the ever-intrusive press (Walker and Reopel, 1986; Cronin, 1980; and Neustadt, 1980).

A number of scholars and presidents have observed that the transition period is not only crucial to the success of the president, but also sets the tone for the Washington establishment as well as national elites, whose vantage points and opinions influence his success. The issue of course is the length of the transition period. Some have argued that the first hundred days is an appropriate period. But the challenge for the 100-day model is that current political appointments take many weeks for congressional review, and the extensive agenda of modern presidents requires months to implement. (Lovvorn and Walker, 2010; Walker, 1993; and Neustadt, 1960).

Some might argue that the length of the transition is the so-called honeymoon, in which the administration is held in high esteem by national elites and mass publics. Quite often this honeymoon is measured by presidential approval scores in opinion polls and indicates that the president still dominates his election coalition and is thus able to promote his priorities. As Richard Neustadt has observed, approval ratings are important in the Washington community in gauging a president's prospects for success. When those ratings are above 55% or even 50%, the administration can expect its programs to receive serious attention from Congress and national elites (Neustadt, 1980).

For example, President Jimmy Carter’s honeymoon is said to have lasted until September or October of his first year; Ronald Reagan’s lasted until January or February of his second year; and, George H.W. Bush’s also appeared to last until early in his second year (Walker, 1993 and Jones, 2009). As a result we see the transition as a president’s post-election period and his first full year in office. Thus a presidential transition lasts from Election Day until January 31st of his second year. By then, most presidents find their popularity has begun to wane, Washington and national elites have become critical, and Congress becomes preoccupied with the upcoming midterm elections (Haider, 1981). As President Lyndon Johnson observed: “You have to give it all you can that first year. Doesn’t matter what kind of majority you came in with. You’ve got just one year when they treat you right and before they start to worry about themselves (As quoted in Hess, 1976, 22).”

There is much to be done in the transition period. Not only must the president and his team recover from an exhausting campaign, they must shift gears from campaigning to governing. And governing includes many weighty challenges to include: healing wounds within the winning party; reaching out to the Washington community; deciding on priorities, policies, and appointees; and writing the inaugural address.

Some presidents have begun the transition period even before the election. The Reagan administration’s efforts began years before the transition as conservative think tanks generated ideas for a supportive administration. Many of these ideas were codified into specific policy recommendations by the Heritage Foundation's 1980 book *Mandate for Leadership* (Bonifede, 1982). Even before Reagan was nominated in the spring of 1980, advisors were assembled to propose initiatives for the first 100 days of the administration and an executive search group was established (Kirschten, 1980).

JUDGING TRANSITIONS

Criteria to assess transitions are also complicated and multiple. That is, no single measure is sufficient. To be specific, some argue that the measure of a successful transition is efficient machinery for decision making. Others argue that the prompt appointment of political executives is the correct measure. Still others measure success by the administration's adherence to its platform, or if the national interest has been served by their actions (Clinton and Lang, 1990).

Unfortunately although these measures are much to be desired, they are inconsistent with the realities of the presidency and the fractured American political system with its checks and balances and federalist structure. American politics is not about efficiency, but rather liberty and access of all citizens to the government. And capable executives are increasingly hard to find as the confirmation process grinds many appointees to exhaustion. The national interest is impossible to operationalize. Holding an administration to its platform presupposes that there are no changes in the political system during and after the election and that the incoming administration fully understands the many policy systems it will confront.

Another impossible expectation for any administration is satisfying all the interested political claimants in the extended government community. Thus, presidents cannot be expected to reconcile the many interests that extend from federal appointees, to career public servants, the legions of interest groups and lobbyists, and extending still further into diplomatic missions and to state and local governments.

So we assert that the only way to measure the success is in democratic and political terms. That is, incoming presidents should be **entrepreneurial**, **nimble** in governance, shrewd at **implementation** of their priorities, and effective as a **creative national leaders**.

Their approach should be **entrepreneurial** in character (Doig and Hargrove, 1987). The term "entrepreneurial" concisely fits the necessity for newly elected presidents to make choices and take risks for later "profit" or success in the ongoing negotiations of the presidential enterprise. An entrepreneurial approach eschews inordinate concern for specific individuals, issues, and policies which might become an impediment to the incoming government. That is, presidents must protect their reputation for effectiveness and freedom to maneuver (Neustadt, 1980).

Entrepreneurial presidents look to the future of the administration as a marathon to be endured and completed rather than a sprint to be won. Consequently, they must not squander their transition period in any of the following ways: protecting supporters, friends and contributors; advocating for issues not yet ready or ripe for action; or blindly promoting policies advocated by electoral allies. Thus, an entrepreneurial approach requires cold-blooded politics.

During the transition, administrations should be **nimble**. Nimble leadership means choosing among alternative priorities and avoiding blunders. That is, effective presidents will select three or four dominant issues for their attention (Heineman and Hessler, 1980). These issues must be sorted out from the many campaign promises made over the course of lengthy campaigns. Presidents may delegate to their cabinets six or seven more to be championed and shepherded through Congress with little more than the president's blessing. Presidents also recognize that the actual details of new policies and programs will be modified by domestic and international realities, so they avoid immersion in details and claim credit when policies and programs resemble their promises.

Blunders must be assiduously avoided. Public comments, the background of newly appointed political executives, and a new Congress may all ignite firestorms which detract from the administration's message. All too often presidents misunderstand and underestimate their opponents and the power centers on Capitol Hill and in Washington. Such fumbling costs political capital.

Shrewd implementation means that new policies and programs are announced early, lobbied energetically, enacted swiftly, and executed boldly. These many challenges entail internal White House requirements to hammer out new policies, the details of programs, and the administrative machinery to insure these policies are implemented. Thereafter, these policies, programs, and machinery must be codified into bills, and supportive members of the legislature must introduce them.

Once introduced the administration begins the coaxing, cajoling, and logrolling that characterize presidential-congressional negotiations. These activities demand considerable presidential attention in meeting with members of Congress from both houses, public speeches, and visits to key constituencies. Such activities drain any president and administration of valuable political capital and attention. To neglect them is to lose the initiative in the crucial first year of any administration, when other political elites would prefer to turn to their own agendas. (Light, 1983).

Since the president and his advisers have campaigned throughout the nation during the preceding months, domestic affairs are more intelligible to incoming presidents and their staff. But new administrations must also attend to national security affairs that involve foreign, military and intelligence issues. Here the number of actors, as well as the subtleties and nuances of diplomacy are much less well understood by most presidential candidates. Additional challenges include the precedents of relationships with other nations and extensive U.S. alliances. Thus, activity in this realm must be approached with caution and care.

The most effective presidents are also **creative national leaders**. In essence they should be mongrels. That is, they are a blend of nimble lions and shrewd foxes, both carefully coated with a benign, puppy-dog-like exteriors (Burns, 1956). That is, presidents as lions frighten off those who would prey on their administration, as foxes recognize traps, and as puppy dogs are adroit and lovable so as to sustain the necessary elite and mass support to achieve their ends. As Niccolo Machiavelli (1910) noted:

> A Prince should know how to use the beast's nature wisely; he ought of beasts to choose both the lion and the fox; for the lion cannot guard himself from the toils, nor the fox from wolves. He must therefore be a fox to discern toils, and a lion to drive off wolves.
>
> To rely wholly on the lion is unwise; and for this reason a prudent Prince neither can nor ought to keep his word when to keep it is hurtful to him and the causes which led him to pledge it are removed (60).

We are also indebted to former cabinet member and Washington insider Elliott Richardson for our understanding of national leaders as puppy dogs. As Richardson (1987) noted, effective American politicians are not attack dogs. Rather they are puppy dogs who everybody loves and therefore are highly effective in building coalitions.

Thus, the hard-boiled politics of the entrepreneurial presidency are wrapped in a genial shell for easy digestion by both national elites and mass publics. A non-threatening public style is crucial to success in the Byzantine maneuvering that characterizes workaday Washington, in creating supportive coalitions, and in disarming opponents. The opposition party, especially those in Congress, also should be acknowledged, consulted for their concerns, and soothed. Once charmed, members of his own party, the opposition, and powerful outsiders can then be enticed into coalitions that later must be constantly recast and then recreated issue-by-issue.

Thus effective presidents successfully maneuver in the face of overwhelming opposition, woo supporters and mollify opponents in Congress, the Washington community at large, and the nation. They are agile in creating an environment of order and congeniality with both the old and new centers of power within the government. For example, as some of his opponents said of President Ronald Reagan, they did not agree with him on much, but they sure did like him (Brody and Page, 1975 and D'Souza, 1999).

This charm, grace and style are also crucial in communicating beyond the legislature. Recognizing that political missteps will occur in every administration, and especially during the transitional period, the most successful presidents are adept at graceful exits from ill-considered judgments and are proficient at redirecting attention to new issues (Nathan, 1983). Finally, the president's communication skills must channel the nation's mood by national speeches, visits throughout the nation, and interaction with the press.

To illustrate our model of the entrepreneurial president, we will apply it to the Obama administration's first year in office. To summarize our criteria, we consider whether Barack Obama has been entrepreneurial, nimble, shrewd at implementation and a creative national leader. Thereafter, we will consider the utility of this model for other chief executives.

THE OBAMA TRANSITION

Were President Barack Obama and his administration **entrepreneurial**? That is, have they practiced cold-blooded politics and eschewed inordinate concern for specific individuals, issues, and policies which might become an impediment to them?

The administration's performance here was uneven. On the positive side, Obama engineered the financial rescue early, something that many observers feel was essential to stabilize an economy in free-fall. The TARP and stimulus bills were crucial actions in his first few months to stabilize the economy (Alter, 2011).

Obama created a fine cabinet by wooing Senator Hillary Clinton, his principal adversary for the Democratic nomination, to be Secretary of State. In the midst of the Iraq and Afghanistan wars, he held over the widely-admired Robert Gates as Secretary of Defense. For Treasury Secretary, he appointed Tim Geithner, who had helped President George W. Bush engineer the early rescue efforts of large financial firms. Other appointees included David Chu to be Secretary of Energy and Army General Richard Shinseki, himself a wounded veteran, to be Secretary of Veterans Affairs (Watkins, 2009 and CQ, 2009).

Obama also added a number of advisors, called by outsiders as "Czars" to oversee major initiatives from the White House. The record of these appointees was less effective. Many were named, but most seemed to disappear in the White House.

The nomination of Sonia Sotomayor to the United States Supreme Court was inspired. As the first Hispanic to ever be nominated for the Supreme Court, administration opponents could not easily object, especially given the rising prominence of Hispanic voters. She was easily confirmed (Alter, 2011).

Other issues that the new President took on early were consumer credit card reform and the huge bonuses earned by executives in the financial sector. All voters could easily support credit card reform; after all credit card use is high among both the middle and upper-class economic sectors. And who could possibly object to taking on the credit card companies, who were widely seen as whimsical in what appeared their unending alteration and increase of fees (Alter, 2011). Most observers and columnists had also complained about the very large bonuses earned by financial executives, executives that were seen as having engaged in questionable financial practices and risky loans. Thus, as these same executives appeared to be lined up at the Department of Treasury for bailout funds for their investment and commercial banks, the news was rife with stories of excess and apparent skullduggery (Solomon, 2009).

The administration's performance was more mixed in the General Motors and Chrysler loans. To be sure the President made a strong case that such loans were necessary given the economic prominence of these firms, but other economic sectors, particularly mid-sized and smaller firms, were also heavily impacted by what has come to be called the Great Recession (Clinton, David and Lang, Daniel, 2010). And these firms were often the local firms that were in the aggregate the principal employers in the nation.

Turning to what must be cited as errors in entrepreneurial governance, a number come to mind. First, many Republicans and others who were politically unaligned complained loudly about the huge bloat of the financial rescue package. In fact, it appears that the new President was much too reliant on House Speaker Nancy Pelosi and Senate Majority Leader Harry Reid for the details of this rescue package. Pelosi and Reid were seen as larding the package with huge numbers of additions that suited Congressmen and Senators' home district needs and not the nation as a whole (Barnes, 2009 and Gerson, 2009).

The same charge can be made in the area of health care reform. The President's agenda recognized the huge inequities and inefficiencies in the health care system, but seeking to learn from the mistakes of the Carter Administration, he left the details to Speaker Pelosi and Majority Leader Reid. The scope and perceived intrusiveness of the early reform bills met huge resistance in the Senate, resistance that almost killed the planned health care reforms (Adamy, 2009). Only when the President intervened was a law passed.

Another major error for the President was over-reliance on what many called the "Chicago crowd," that is, the major advisors the president brought in with his administration (Draper, 2009). This group of advisors tended to idolize him and cut him off from advisors outside his immediate circle. Many criticized his close relationship with White House Chief of Staff Rahm Emmanuel, whose style was caustic and unrelenting (Alter, 2011 and Weisman, J., King, N., and Adamy, 2009). Some said that Emmanuel himself was to blame for the extended debated on the health care reform bills in the Congress. Another example was Social Secretary Desiree' Rogers's apparent lack of attention to the details of a White House event, in which a couple not on the cleared list met the President. Many were surprised at how long Rogers lasted after the affair (Alter, 2011).

To summarize, President Obama's entrepreneurship – that is, his willingness to practice cold-blooded politics and eschew concern for individuals, issues and policies – has to be considered mixed and at best a "B-." Although he was effective in the financial rescue efforts, the constitution of his Cabinet, and the successful nomination of Supreme Court Justice Sonia Sotomayor, the bloat of the financial stimulus bills, the arduous effort to pass health care reform, and his heavy reliance on the "Chicago crowd" were substantial missteps.

Was the Obama Administration **nimble**? Did Obama and his team choose among alternative priorities, avoid blunders, successfully maneuver in the face of overwhelming opposition, and woo supporters and mollify opponents in Congress, the Washington community at large, and the nation?

During the transition, there were a number of very positive initiatives on his announced priorities. He announced early four key priorities: rescue the economy, reform health care, increase America's reliance on renewable sources of energy and improve education. During the Great Recession, not only did he play a prominent role in stabilizing the economy, but he also worked effectively with congressional leaders to provide funding for state and local governments that were hard-pressed by reduced tax revenues. Although critics could point to the high unemployment rates into January 2010, most thoughtful observers found that the federal government had done about all it could do given the deficit and the fact that economic indicators lag large infusions of federal money (Wilson, 2009).

In the area of education, Obama and his Secretary of Education Arne Duncan campaigned for a huge increase in federal funding for education, in fact more funding than any Education Secretary had ever had at his disposal. Obama and Duncan were often photographed visiting elementary schools and emphasized the importance of charter schools. Indeed this emphasis on charter schools was contrary to the view of most teacher associations, who had been very supportive of Obama during his campaign (Alter, 90-2).

In the area of national security affairs, Obama moved quickly to insure the phased withdrawal of American troops from Iraq, an initiative that was popular with his party and most Americans. After some initial fumbling around the Christmas, 2009 airline bomber attack, the administration recovered quickly with the president prominently taking responsibility and demanding accountability from his national security team (Broder, 2010).

Yet, overall in spite of these positive developments, there were a number of prominent mistakes that detracted from the effectiveness of the new administration. First, his vision was not clear (Pfeffer, 2010). Second he was not effective in winning over the Congressional Republicans or independent voters. Third to name but a few policy realms, his efforts in domestic legislative arenas, national security and foreign affairs policies, and various domestic stumbles have not been successful.

First in terms of vision, the White House seemed to announce a new initiative almost daily. In spite of his four priorities, new matters seemed to crop up almost daily that detracted from his efforts. For example, within ten days, he discussed health care, “then he’s lobbying for a cap and trade plan to reduce carbon emissions, and then he’s out there trying to re-regulate the financial world or sell a new treaty to the Russians (Bai, 2009. Also see Van Dyk, 2009 and Sherman, 2010.).” One must conclude that in spite of what President Obama saw as many areas needing urgent attention, an administration about everything ends up being an administration that is fumbling and jumping from issue to issue. Such issue-jumping damages the president’s reputation and thus his power.

Throughout his first year and in spite of efforts to bring the Congressional Republicans along, that party voted almost unanimously against his initiatives in most economic and domestic realms. His support ratings, especially among independents – the very voters who had given him so much support during the campaign, declined such that by July or August, it was clear that whatever honeymoon he had enjoyed ended (Weisman, July 2009). And the rise of the so-called Tea Party Movement reinforced the sense that the administration had lost the support of those who had been very critical of the actions of the George W. Bush Administration (Johnson and Sidoti, 2010). To ice the cake, although the Obama Administration held several highly-publicized meetings with the leaders of large business firms, it was not able to translate this outreach to much support from the business community.

In domestic legislative areas – and especially in the areas where the Obama Administration had indicated its highest priorities – new legislative initiatives bogged down. Health care was an especially volatile area. Obama was not able to persuade Republican legislators that his proposals to reform the health care system were appropriate, and he was able eventually to carry none of the opposition along with him, in spite of a number of high-profile efforts to woo a few Republican senators (Schulz, 2009).

His administration was also not nimble in energy reform. Although the administration did issue several executive decrees in energy reform, no legislation was forthcoming in his first year. Finally what perhaps inflamed independents and the Tea Party movement the most was the lack of any serious reform of the financial sector after the dramatic failure of many banks and financial institutions. Small business leaders (what many call Main Street) were very unhappy that government lending was almost wholly dedicated to large financial institutions (what is often called Wall Street). Thus the Administration's efforts in domestic reform were seen as stunted.

There were other apparent errors. Obama relieved the commander in Afghanistan, replaced him with General Stanley McChrystal, and declared that he would completely support his new commander's strategy for operations in Afghanistan. Within several months after his initial assessment, McChrystal asked the Administration for more troops to achieve the nation's goals there. This request seemed to take the Administration by surprise, and it fumbled for what seemed weeks trying to make up its mind on how to respond. Though it eventually did respond, the request was not fully supported; indeed the build-up was slow and relied on new NATO troops, troops that in some cases such as the Germans could not be fully used in every contingency (Whitaker, 2009).

Even though Obama won the Nobel Peace Prize for his pre-Inauguration vision for the United States and was widely recognized for a thoughtful speech to accept the prize, there were other apparent missteps that detracted from the administration's reputation (Klein, 2010). For example, efforts to win peace between the Israelis and Palestinians and to reconcile Afghanistan and Pakistan appeared to be going nowhere by the end of the first year. In addition, Obama was much criticized for bowing to the Japanese Emperor, a display that suggested somehow among these two heads of states, one was inferior to the other (Noonan, November 2009, A15). Furthermore his deference to Chinese leaders was seen as suggesting that the United States was somehow a beggar state to the Inner Kingdom.

Finally, there were several widely reported gaffes in the first year. First, on April 27, 2009 a decision by the Director of the White House Military Office to fly an Air Force One look-alike over New York City to take pictures high above the harbor caused local uproar. As there had been no announcement of the flight, it caused momentary panic in some quarters and led to the evacuation of several buildings in Lower Manhattan and Jersey City. By the afternoon, the situation had turned into a political fuse box, with Mayor Michael R. Bloomberg saying that he was "furious" that he had not been told in advance about the flyover. The White House apologized for the error, and the director resigned (Weisman, July 2009).

A second gaffe on July 16, 2009 was Obama's offhand remarks at a press conference about the arrest on July 16, 2009 of Harvard scholar Louis Gates by Cambridge, Massachusetts Police Sergeant James Crowley. In essence, Obama jumped off-message on this matter and immersed himself in a purely local dispute that appeared to have racial overtones. His remarks spawned wide-spread press coverage and endless editorials (Williamson, 2009). Both of these gaffes interfered with the Administration's efforts to dominate press attention about the administration's legislative agenda during the crucial first few months of Obama's honeymoon year.

What then are we to conclude about the Obama Administration's ability to be nimble? To be sure, there a number of successes on the economy and education, but errors outweighed these achievements. That is, the lack of a clear vision, the frequent jumping from issue to issue, the fumbling around in dealing with Afghanistan, and the lack of movement on financial reform indicate that the administration has not been supple. Indeed Obama was not nimble in many areas to include wooing independents and other of his supporters and mollifying opponents in Congress, the Washington community at large, and the nation.

Was the Obama Administration **shrewd implementers** of new policies and programs? That is, were these policies and programs announced early, lobbied energetically, enacted swiftly, and executed boldly?

In the area of administration, Obama has been more effective. To be sure, there were areas where the president and his team did not perform well. Although he promised to close the prison at Guantanamo, the challenges proved to be too large. Among the many issues surrounding this military prison in Cuba were the handing of the cases of terrorists held there as well as finding an alternative site to locate them in the continental United States. The apparent differences among the White House staff and Attorney General Holder and his aides caused considerable fumbling. And the efforts to locate a military prison in several states invariable ended up with senators and governors loudly objecting to placing the prisoners in their regions. By January, 2010 the issue had not been resolved (Manel, 2010).

Another implementation challenge was the spending of stimulus funds. Although Vice President Joe Biden made it clear that the administration would only accept "shovel-ready" projects, the reality was that most of the projects were months away from ground-breaking (Factor). As a result the hoped-for financial stimulus from the huge outlay of money was very slow in coming and the economy remained in the doldrums with unemployment at 10.6% in January, 2010 (Radnovsky, 2010).

Two other implementation challenges were in foreign affairs and the domestic housing market. Although the administration had made substantial promises to engage Iran and North Korea, nothing came of these promises in the administration's first year (Boot, 2009). In addition, the efforts to help with huge number of foreclosures did not have much of an impact. The unemployed simply did not have the funds or the employment prospects to be helped by the Obama administration's program.

Yet, the Obama administration's successes were impressive in implementing its agenda. In the area of health care, Obama and his team quickly removed restrictions on stem cell research imposed by the George W. Bush Administration (Watkins, 2009). Obama also was able to expand the children's' health insurance program as well as move more forcefully on tobacco regulation. Finally, the EPA declared carbon dioxide a threat to human health (Meckler, 2009).

Obama's list of achievements in implementing a number of foreign policy initiatives was striking. Obama's performance in persuading foreign leaders at the G-20 summit in April and again at the December climate change conference in Copenhagen resulted in considerable success. He successfully wooed the Pakistani government to work with the United States to engage Al Qaeda and the Taliban who were using Pakistan as a sanctuary from the fighting in neighboring Afghanistan (Alter, 2011).

Obama was also very effective in approving force. After persuading the Pakistanis to cooperate on finding and killing terrorists in Waziristan and other of its Federally Administered Tribal Areas, he ramped up the use of the Predator unmanned aerial drone. He also approved using Navy Seals to save an American cargo-ship captain who was held hostage in the Indian Ocean off the coast of Somalia. The SEALs successfully rescued the captain, killed three of his captors, captured the rest, and put pirates on notice about boarding American-flagged vessels.

Obama and Secretary of State Clinton were very effective in improving the nation’s image abroad with their speeches and travel (Boot). Obama’s June, 2009 speech in Cairo, Egypt as well as his Nobel acceptance speech in December were widely lauded both domestically and abroad. Clinton traveled extensively in the administration’s first year. For example, she was in Asia in February, in the Middle East, Europe, and Mexico in March alone; her travel schedule for the rest of Obama’s first year was equally impressive.

Two other policy areas where the Obama administration was successful in implementation were in civil rights and the domestic auto industry. In January, 2009, Obama signed the first bill of his administration with a ceremony for the Lilly Ledbetter Act, which makes it easier for people who believe they've been discriminated against to sue employers. In June, he signed an executive order that expanded federal benefits to same-sex partners of Foreign Service and executive branch government employees.

The so-called bailout for the automotive industry was more controversial, but highly effective in resuscitating it from bankruptcy. Both General Motors and Chrysler were loaned money from the Troubled Assets Recovery Program and saved from possible disintegration. Although the Bush administration had passed the program, it was up to Obama to implement it, and he did so with energy and enthusiasm.

Overall, Obama and his administration have been effective in implementation of their policies. As with all circumstances that presidents face, there have been some failures, but the successes have much outweighed the shortfalls. His willingness to work assiduously on health care and civil rights, to make inroads in foreign policy and to use force needed to keep America safe from terrorist attacks have all given him a good reputation for implementation.

Was Barack Obama a **creative national leader** at the end of his first year in office? Was he a blend of the nimble lion, the shrewd fox, and a lovable puppy dog?

Barack Obama and his administration came to office facing huge challenges, and challenges more perplexing than many incoming presidents. As Karl Marx noted above, the circumstances that each president faces are unique and laden with precedents by former presidents as well as other institutional actors.

Obama faced a financial meltdown with growing unemployment, which had been only partially confronted by the exhausted, outgoing administration of George W. Bush, two ongoing wars, and an electorate aroused to believe that hope and change would be the hallmarks of the new administration. In addition, Obama was convinced that the outgoing administration had failed to address such issues as the apparent fall of world approval for America, the lack of health care for a huge proportion of the population, education reform, the decline of civil rights actions for women and minorities, and inattention to a well-defined energy plan.

Given these challenges, The Rasmussen poll gave the new administration a 65% approval rating. By the end of January 2010 this number had fallen to 47%. To be sure such falls are large, but this administration fell faster than most in its first year. And clearly the ongoing financial meltdown and rising unemployment contributed substantially to this decline (Rasmussen and Brooks, 2009 and Rasmussen and Schoen, 2009).

In fact by late July, 2009, the warmth and hope that Obama had engendered seemed to be broken. In fact the decline in his approval rating began in June and continued well into November (Gerson, 2009 and Krauthammer, 2009). Yet, Obama had managed to extend his honeymoon for about nine months from his election on November 4, 2008 to July, 2009. And a honeymoon of nine months seems about normal for most presidents (Jones, 2009).

There were a number of reasons that Obama lost public support. First, his public persona was not one that endeared him to the Washington establishment or to mass publics. Clear to all was that Barack Obama was extremely bright and well-educated. But too many found him passionless, too rational and aloof, and not really lovable (Noonan, November 2009).

At times Obama even appeared to be a bit petulant as he was with the large banks that had to depend on the federal government for loans to stanch their huge losses on mortgage bets. In addition, he was not the self-effacing leader that many long for. Instead he appeared egocentric and failed like many successful presidents before him to put his appointees out in front to deflect some of the dissatisfaction with his decisions and directions. Only Hillary Clinton as Secretary of State seemed to be a highly public figure, and even she was hemmed in by presidential decisions on the larger questions (Elliott and Wagner, 2010).

Second the administration had overexposed Obama. He seemed to be on television and in the newspapers daily with a speech, a new program initiative, or another announcement. His promises struck many as too big, too ad hoc, and too ambitious for a government and economy reeling from a sea of troubles. All this exposure made the administration appear a bit amateurish by Washington standards (Henninger, 2009). Furthermore, for all the communicating that Obama was doing, he appeared "tone deaf" to the challenges of many citizens who were facing bankruptcies and layoffs. Many thought he was not really aware of the burdens everyday Americans were facing.

Third, Obama was not able to carry the opposition in support of his many initiatives. Indeed the Congressional Republicans found the administration and its allies on Capitol Hill steamrolling and bullying its way to the passage of legislation (Barnes, 2009). Even his Democratic allies were tired of the lack of civility, generosity, and dignity in partisan politics. All this was punctuated by the Democratic leadership in the House and Senate. Speaker Pelosi was often dismissive of the opposition, and some of her supporters called protestors and some Republican legislators as industry-funded, right-wing operatives.

Finally, a large segment of the public was clearly unhappy with the Obama administration and its policies as evidenced by the rise of the Tea Party movement and the ongoing celebrity of former vice- presidential nominee Sarah Palin. In February, 2010 she seemed to capture the feelings of many when she asked in front of the first Tea Party Convention in Nashville, “How is that hopey-changey thing working out?” (Gonyea, 2010)

What then is the bottom line on the Obama persona, a reputation crucial for governance in any administration? Obama in his first year was too much the lion with his ongoing roars on a wide range of issues, not enough the fox in leading his own party and the opposition, and clearly not the puppy dog who could endear himself and his administration to the nation.

CONCLUSION

Our model of successful presidential transitions concludes that they can best be judged in the administration’s first full year in office. Four criteria provide a framework for assessing presidential success. These criteria are predicated in political and democratic terms and are needed for leadership in this highly disaggregated and nearly ungovernable political system.

First, a new president must be entrepreneurial and cold-blooded; that is, he must make choices and take risks for later "profit" or success in the ongoing negotiations of the presidential enterprise. Presidents cannot show excessive concern for specific individuals, issues, and policies which were crucial to their elections, but might become an impediment to the incoming government. Presidents must also protect their reputation for effectiveness and freedom to maneuver.

Second incoming presidents must be nimble. They do so by choosing carefully a few initiatives for immediate attention and recognize that these may be substantially modified as they wend their way along the routes to enactment and implementation. New presidents must avoid blunders by carefully controlling their messages as well as the messages of their appointees.

Third, presidents must also be shrewd in implementing new policies and programs. New administrations must insure that new initiatives are announced early, lobbied energetically, enacted swiftly, and executed boldly.

Finally the most effective presidents recognize that their national leadership must be creative and a blend of nimble lions and shrewd foxes, both carefully coated with benign, puppy-dog-like exteriors. That is, presidents as lions frighten off those who would prey on their administration, as foxes recognize traps, and as puppy dogs are adroit and lovable so as to sustain the necessary elite and mass support to achieve their ends.

The Obama Administration was not very effective in its first year in office. To be sure, the administration faced huge challenges in the economy and national security affairs (CQ, 2009). But at the same time, Obama and his administration made many mistakes. First, Obama was not highly entrepreneurial as evidenced by the bloat of his financial stimulus, the initial stumbling on health care reform, and over reliance on the "Chicago crowd."

Second, the administration was not very nimble. Obama's lack of a clear vision, frequent leaps from issue to issue, fumbling on Afghanistan, and lassitude in dealing with financial reform impeded the administration. However, the Obama administration was successful in implementation. He quickly removed restrictions on stem cell research, expanded the children's' health care program, wooed foreign leaders in Copenhagen and Pakistan, intervened with drone attacks and the rescue of an American hostage, improved civil rights, and resuscitated the automotive industry. Finally, as a creative national leader, Obama was not very successful. He was too much the lion, too little the fox, and clearly not a puppy dog who endeared himself to the nation.

Judging United States presidents in these political terms would also seem to work for any chief executive officer. Too often, CEOs are judged in other terms, terms such as their ability to raise their organizations' stock price, open new markets, or innovate with new products. All these measures are useful, but in the end all senior executives must be political animals who must be entrepreneurial, nimble, effective implementers, and creative leaders, whose influence should spread well beyond their immediate organization.

We seldom read of CEOs being judged in political terms, but students of leadership have recognizing this reality. For example, Lee Bolman and Terrence Deal (2003) have found the political frame an effective tool for assessing leaders. Their frame or model sees power, conflict, bargaining, and building coalitions central to organizational analysis and thus to leadership. These insights are imbedded in our model to assess effective presidential transitions.

Max DePree in his classic book *Leadership is an Art* (1989), sees artful leaders as engaged in tribal exercises that are based on defining reality, weaving relationships, leaving a legacy, maintaining momentum, and establishing effective administration (3-22). All these ideas are used in our conception of entrepreneurial, nimble, and creative presidents who are also effective implementers.

Another book that captures these ideas is Warren Bennis and Burt Nanus *Leaders: Strategies for Taking Charge* (1995). Bennis and Nanus use four strategies for effective leaders. That is, such leaders create a vision, communicate effectively, position themselves to build trust, and deploy themselves with confidence and energy. Although we designed our model of effective presidents from other resources, we are struck by the similarities with all these authors.

Some may find fault with our model. For example, one observer asked, "What is magic about one year for the transition?" Well our answer is that as Lyndon Johnson noted in the quote above, the Washington community has a limited attention span. After the first year of any presidency, the Congress begins gearing up for the mid-term elections. The government bureaucracy and interest groups have also learned in the transition year. By then, they have taken the measure of the new president and have decided how to proceed in finding support within the new administration.

Another fault may the lack of clear specificity of our model which calls for scholars to measure a president or any CEO as entrepreneurial, nimble, effective as an administrator and a creative leader all at once. Such demands may well be beyond the capacity of any leader. But we are convinced that an ideal for presidential leadership needs to be established, and in the end all leaders must be political animals. And although these measures may overlap on any one presidential initiative, one can still apply them effectively. Thus for President Barack Obama, we found that in national security affairs, he may have been entrepreneurial, but not always nimble or creative as a leader.

Finally, the model does not easily recognize that agendas, crises, and new issues come at a president all at the same time. There is not one matter at once, but many cascading upon a leader each day. And he cannot decide to use all four measures on each issue. Thus President Obama found himself confronting the Great Recession, and he could not decide to apply all four of our criteria at once. In most cases all leaders find matters dogging them in rapid order, and careful consideration of how to react to each using our criteria is impossible. Still, leaders can decide to approach the daily questions and issues by using our criteria serially or in combination, thereby deflecting their many critics inside their organizations and in the environment that envelops them.

Despite these criticisms, we are convinced that measuring leaders in political terms recognizes the reality of politics, power and pressures for all organizational leaders. It is well beyond the scope of this short article to apply these criteria to corporate, not-for-profit, and military leaders. But we are delighted with this model as an agenda for further work and invite our readers to join us.

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FINANCIAL LITERACY: AGE AND EXPERIENCE AS THE DETERMINANTS

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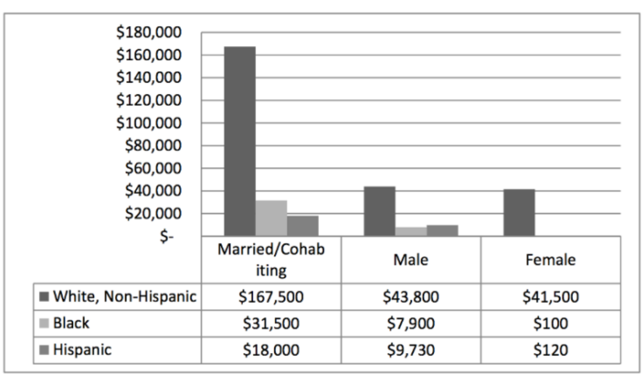
ABSTRACT

This topic is important because of the growing disparity in wealth building. Financial illiteracy is conceptually distinct from low income, being a vulnerable minority, or lack of higher education. An aging population and shifting demographics has created a surge in government interest in financial literacy. This qualitative exploratory study was chosen due to the growing disparity in minority wealth accumulation that has expanded over the past 30 years. The minority sample consistently outperformed the national study in five of five topics. The basic assumption that the poor and uneducated is a major determinant of financial literacy or the lack of financial literacy; the assumption is challenged in this study. Financial education studies have primary focused on high school and college students. This study focused on older adults in the workforce. The focus of this study was to compare a sample of minority respondents to the FINRA financial capabilities national study. To address the challenges of financial literacy and capability, this study proposes a number of strategies. Broader financial education programs are needed, not just programs that are focused on high school students. Additional financial capability research should address the needs of adults in the workforce.

Keywords: Financial literacy, minority wealth, financial capabilities, financial illiteracy, wealth disparity.

INTRODUCTION



This topic is important because of the growing disparity in wealth building. The disparity is most often in minority populations. Bucks, Kennickell, and Moore (2006) concluded that the disparity did not improve from 1995 to 2004. This trend continues today, especially with the crash of the housing market. It is possible that financial literacy or lack of financial literacy is the major force widening the gap in net worth. This study examines the influence of age and education within a section of the minority population, as the poor and the uneducated are normally associated with financial illiteracy. Additionally, the study will investigate a cross-section from high school to postgraduate consumers. Shambare and Rugimbana (2012) studied college students to determine the nature and extent of financial literacy amidst educated consumers. Assumptions by the financial services community appear to assume that consumers are financially literate in their promotion of services (Shambara & Rugimbana, 2012).

Yao, Sharpe, and Gorham (2011) surmised that differences in spending patterns and debt management might contribute to wealth disparity between races. Hanna and Lindamood (2008) determined that changes in demographic and economic characteristics could not explain the drop or disparity in stock ownership or wealth. Additionally, Rowley, Lown, and Piercy (2011) noted a lack of research on how to motivate financially vulnerable Americans, particularly minorities, to take advantage of the resources available for consumers to improve his or her financial knowledge.

Financial illiteracy is conceptually distinct from low income, being vulnerable minority, or lack of higher education. Financially literate individuals may have low incomes and be classified as vulnerable minorities using other indicators; while others with high incomes who enjoy a high standard of living may be financial illiterate. Making appropriate financial decisions and understanding how to manage credit and debt are the major concerns of financial literacy (Taylor, 2010).

An aging population and shifting demographics has created a surge in government interest in financial literacy. In 2002, the Department of the Treasury established the Office of Financial Education; in 2003, the Financial Literacy and Education Commission were formed (Knoll & Houts, 2012).

THE WORKING DEFINITION OF FINANCIAL LITERACY

Houston (2010), in a review of 71 financial literacy studies, found that more than 50 of them failed to define the concept of financial literacy. In this work, Houston observed eight separate meanings for financial literacy in the 20 studies that did provide a definition. Hung, Parker, and Yoong (2009) also found a wide variety of definitions across studies. For the purpose of this study, the Program for International Student Assessment's (PISA) 2012 definition for financial literacy was adopted as quoted below.

"Financial literacy is knowledge and understanding of financial concepts and risk, and skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial wellbeing of individuals and society, and to enable participation in economic life" (PISA, 2012, p. 13).

THE IMPORTANCE OF FINANCIAL LITERACY

The Organization for Economic Cooperation and Development (OECD) (2012) found lack of financial literacy was rampant and contributed to slow economic growth in many countries, including the United States and the European Union (Shambara & Rugimbana, 2012).

In a study by Lusardi and Mitchell (2007), women in the United States and Australia appear disproportionally financial illiterate compared to men. In similar studies, women were often marginalized and excluded from economic activities (Johnson, 2004; Mayoux, 1999; Yunus, 1995, 2008).

Beverly and Chancy (2001) found that parents' lack of financial knowledge was a major factor that prevented them from providing their children with adequate financial education. Bowen (2002) concluded that the way in which young citizens learn about financial matters varies and is likely a combination of intentional and unintentional strategies by key adults in their lives. This research appears to support the need for financial education outreach that targets not only students, but also their parents. Parents' financial behaviors, financial education, and personal financial experiences are major influences on the financial literacy competency within societies globally (Chinen & Endo, 2012).

The average citizen in the past relied on the government and his or her employer for retirement security; however, today that risk has passed to the individual. Pension plans and health care benefits are reduced or in the process of being reduced across the citizenry. The individual must take on an active role in planning and maintaining his or her retirement. According to a PISA (2012) study, defined contribution plans replaced defined benefit plans, which shifted the responsibility to save for financial security after retirement to the worker. Most workers are unaware of the risks that they face; the required knowledge and skills to manage financial matters are shown by most surveys to be lacking. Americans faced the same retirement risks until the 1930s, when social reforms were enacted. For example, the risks associated with longevity, debt, financial markets, and increased costs of health care were increasing for individuals prior to social reform.

Individuals must adapt to the changing marketplace as the number and types of financial decisions are increasingly becoming more complex. Workers must ensure that their accumulated savings are sufficient to cover a long lifespan during retirement, for example. Citizens must understand the proposed offer or advice when they use the services of financial intermediaries or advisors. Additionally, improved levels of financial inclusion, developments in technology, and deregulation have increased access to financial products. Today, there is an intensifying need for financial literacy for current accounts, remittance products, revolving credit, and equity portfolios (PISA, 2012).

Financial literacy encompasses more than the reproduction of accumulated knowledge; however, measuring prior financial capabilities is important in the assessment process. Literacy is defined as an expanding set of knowledge, skills, and strategies. It is built rather than being a fixed quantity of literacy on one end and illiteracy on the other. The PISA 2012 framework study determined that financial literacy involves a mobilization of cognitive and practical skills, as well as other resources such as attitudes, motivation, and values. More specifically, financial literacy involves the knowledge, understanding, and skills to deal with financial concerns. Additionally, the framework includes non-cognitive attributes such as motivation to seek information and advice to engage in financial activities (PISA, 2012).

RESEARCH OBJECTIVES

Robb and Woodyard (2011) put forward the idea that ethnicity may explain differences in financial behavior. In an earlier study, Lyons (2004) concluded that minority college students are more likely to be at risk from lack of financial knowledge. Financial adequacy and protection against economic risk are the main factors of financial well-being, such as unemployment, bankruptcy, poverty, and retirement (Goldsmith, 2000). Financial well-being is described as a person's perception of his or her financial status, real or perceived, improving their living standards. This includes ability to meet basic needs, as well as feeling comfortable and satisfied with income and retirement (Taft, Hosein, Mehrizi, & Roshan, 2013). With financial well-being as the focus, this study examined a sample of minority respondents with respect to the Financial Industry Regulatory Authority's (FINRA) financial capabilities national sample (69% majority and 31% minority respondents). The research objective of this study was to identify the implications that education and age may have a greater influence on financial capabilities than ethnicity does.

METHODOLOGY

This qualitative exploratory study was chosen due to the growing disparity in minority wealth accumulation that has expanded over the past 30 years. A research design utilizing the survey method for data collection was employed (Calder, Philips, & Tybout, 1981). The questionnaire was created and distributed with the Qualtrics survey assessment tool. The output for this paper was generated using Qualtrics software.

SAMPLE AND SAMPLING TECHNIQUES

The financial capability survey was developed by the FINRA in consultation with the U.S. Department of Treasury and the President's Advisory Council on Financial Literacy. The survey is designed to measure the financial capabilities of American adults and to reveal detailed information about how Americans save, borrow, and plan the future financially (FINRA, 2009).

The sampling process's goal is to identify a pool of well-educated candidates with work and life experiences. Financial literacy research is currently based heavily on college and high school students. This study focused on working adults with life experience. After adjustments for non-usable data, a majority of the respondents were greater than 30 years of age (71.8%). The minority sample was largely African American (93%), with 7% accounting for the balance. The sample group was considered well educated (90.4%), with 52.2% having a postgraduate education (Appendix A illustrates the demographic profile of the 272 participants).

DATA COLLECTION INSTRUMENT

In real-time, it is difficult to explore how individuals process economic data information and make informed decisions; however, it is important to assess how financially literate individuals make choices. Before 2000, very few researchers included financial literacy in theoretical models of saving and financial decision-making, perhaps because of this difficulty. The Lusardi and Mitchell (2004) model is used as the basis for developing the current model. The model contains four basic key principles (Lusardi & Mitchell, 2011):

(1) Simplicity. Basic financial concepts are measured (the abc's of finance).
(2) Relevance. Questions related to the concepts pertinent to individuals' day-to-day financial decisions are included.
(3) Brevity. The number of questions is kept to a minimum to secure widespread adoption.
(4) Perceptivity. The capacity to differentiate questions that can distinguish among financial knowledge levels is critical.

Lusardi & Mitchell (2011) concluded that financial literacy is very low around the world, irrespective of the level of financial market development and type of pension provision. Even among well-educated college graduates, financial literacy is not a certainty. In many current studies, it is assumed that only the poor and uneducated is financial illiterate. However, Shambare and Rugimbana (2012) determined this was not the case by utilizing a scale developed by Lusardi and Mitchell (2007) to measure financial literacy. The results of their study indicated a moderate to high level of financial illiteracy in the college students sampled.

DATA COLLECTION

The sampling pool consisted of four sections, alumni, post-graduates, students' family members older than 40 years of age, and social media. The survey link was e-mailed to 1,327 respondents, as well as posted to social media outlets for 60 days. In total, 309 responses were obtained, with 228 (17.1%) from the e-mail list and 81 from social media. The study evaluated 272 minority respondents.

DATA ANALYSIS

The questionnaire responses, 309 in total, were analyzed in SPSS v.21. In the end, 272 respondents were included in the final analysis. The data is a non-random sample; the data analysis included descriptive statistics and non-parametric tests. Therefore, the sample does not reflect the general minority sector of the population.

Financial Literacy Levels		
Categories	**Literate**	**Illiterate**
Age - Under 30	40.6%	59.4%
Age - 30 and greater	55.2%	44.8%
Some college or less	37.5%	62.5%
College grad or more	55.1%	44.9%
Total sample	51.5%	48.5%

RESULTS

The purpose of this study was to determine the disposition and extent of financial capabilities across a section of the minority population from high school to after graduation. An additive scale was developed using respondents' answers to five financial capability questions. Possible values ranged from zero to five. The financial capabilities scale was used to measure respondents' financial literacy. The respondents were considered financially literate if they answered four or five questions correctly. Those answering three or fewer questions correctly were considered financially illiterate. When respondents selected "don't know" or "prefer not to answer", the response was treated as incorrect.

The questionnaire utilized five questions from a previous study. The first three questions were developed by Lusardi and Mitchell (2004). The final two questions were added during the development of the FINRA financial capability survey (Robb & Woodyard, 2011).

- Compound Interest: "Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?"
- Inflation: "Imagine that the interest rate on your savings account was 1% per year, and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account?"
- Bond Pricing: "If interest rates rise, what will typically happen to bond prices?"
- Mortgages: "A 15-year mortgage typically requires higher monthly payments than a 30-year mortgage, but the total interest paid over the life of the loan will be less."
- Diversification: "Buying a single company's stock usually provides a safer return than a stock mutual fund."

Reliability analysis indicated a Cronbach's coefficient alpha of 0.654 for this measure. All items appeared to be worthy of retention. The greatest increase in alpha would come from deleting the question regarding bond pricing. However, removal of this item would increase alpha by only 0.037. All items correlated with the total scale to a good degree (lowest $r = 0.35$). An alpha greater than 0.600 is acceptable in the case of exploratory studies (Hair, Anderson, Tatham, & Black, 1998).

DISCUSSION

The level1 minority sample consistently outperformed the national study in five of five topics. However, the education level of those in the level1 sample was greater than those in the national study was. Specifically, the level1 sample contained three times as many respondents with college degrees or more when compared to the national study.

One means to compensate for the disparity was to create a weighted sub-set of the data. The weighted sample set was based on the number of respondents with some college or less. The respondents with some college or less (55 respondents) were used as the basis for creating the minority sub-set (74.7%). SPSS was then utilized to select randomly 20 respondents from the remaining college graduate or more sub-set. The weighted minority sample data outperformed the national study in three of the five topic areas (compound interest, bond pricing, and mortgages); however, the weighted group under performed with inflation (-2.7%) and diversification (-2.7%). This information can be found in Appendix C.

The basic assumption that the poor and uneducated is a major determinant of financial literacy or the lack of financial literacy; the assumption is challenged in this study. The level2 respondents scored higher than the national survey in the areas of compound interest (+4.7%) and bond pricing (+7.2%), key areas in developing the skills to build wealth. However, the level2 respondents scored below the national study (-2.7%) in diversifying risk. Perhaps the willingness to accept risk is a key piece of the wealth-building puzzle that requires future research. For example, more than 50% of the level2 respondents did not answer the question correctly or chose not to answer.

FINANCIAL LITERACY

Financial education studies have primary focused on high school and college students. This study focused on older adults in the workforce. The results of the minority study indicate that 51.5% of the respondents were financially literate. However, a major gap appeared among age groups and education level. A more detailed look at the literate respondents indicate that the "greater than 30 years" age group with a college degree or more outperformed the other groups by a wide margin (55% plus) compared to the next closest group. This group represents 70% of all financially literate respondents. Additionally, the respondents with a “college degree or greater” represent 85% of the “financially literate group” regardless of age. The level2 minority study indicates that 15.4% fall into the some college or less group while being greater than 30 years of age. However, this group represents 10% of the financial literate respondents (See Appendix B).

CONCLUSION

The focus of this study was to compare a sample of minority respondents to the FINRA financial capabilities national study. The minority sample consisted of 100% minority respondents; the national sample consisted of 69% majority and 31% minority respondents. The minority respondents outperformed the national sample in five of five topics. Additionally, the weighted minority sub-sample outperformed the national study in three of five topics. The study would appear to indicate that education and age is more of a determinant of financial literacy level than ethnicity.

Shifting financial well-being to the individual has created a need for new financial literacy programs. The greatest opportunity for policymakers is not just with young high school students. According to the most recent census records, 60% of the general population falls into the 30 and older age group. Future financial literacy programs directed to older adults are needed for greater coverage. To address the challenges of financial literacy and capability, this study proposes a number of strategies.

- The creation of new programs to address the needs of the adult population.
- The creation of new employer incentive-based programs.
- The creation of community-based programs

Broader financial education programs are needed, not just programs that are focused on high school students. The high school age group only represents 13.9% of Americans. Broader financial education programs need to be designed for the 73.1% of Americans over the age of 24 (U.S. Census, 2010), both highly educated and less educated. All levels of government have begun to place emphasis primarily on the financial capabilities of high school students. However, financial capability improvements require a broader approach to reach the general population.

Additional financial capability research should address the needs of adults in the workforce. The need for increased financial capabilities requires that the current workforce, as well as young adults just entering the workforce, increase. Financial literacy must become ingrained into today's society. If not, a return to the past well-being situation before the New Deal was enacted during the 1930s is inescapable.

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ENTREPRENEURSHIP EDUCATION AT HISTORICALLY BLACK COLLEGES AND UNIVERSITIES: CALL FOR A NEW MISSION

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ABSTRACT

As the U.S. economy has experienced levels of long term unemployment and income inequality not seen since the Great Depression, concerns for developing programs that have the potential to increase the development of successful entrepreneurial ventures have dramatically increased. Business schools in general and Historically Black Colleges and Universities (HBCUs) specifically, have been involved in the development of programs in entrepreneurship and small business development. HBCUs have a history of successful outreach to the African American Community. The primary goals of this paper are to: (1) review the implications of the changes in technological advancement, globalization and greater income inequality on wealth accumulation, (2) chronicle the national debate critical of the academic performance of Historically Black Colleges and Universities, and (3) review the role that HBCUs can play in developing entrepreneurship programs for assisting the African American business community. We argue that HBCUs are still relevant to the nation in providing world class educational opportunities. Specifically, the racial wealth gap that has developed in the United States is a major problem that needs to be addressed by society. Results from primary data show over the last 10 years, significant changes have taken place in the development of entrepreneurship programs at HBCUs. One area in which HBCUs can increase their contribution to society is to develop entrepreneurship programs that assist the African American business community with wealth creation.

BACKGROUND

Economic Environment

The Great Recession of 2007-2009 has generated debate with respect to the proper role of the federal government in the use of monetary and fiscal policy in stabilizing the national economy. Coupled with financial market deregulation, greater reliance on market forces in allocation decisions, the revolution in technology (information and biotechnology) and globalization have caused major changes in the U.S. economy. A major issue, with respect to the current business recovery, has centered on job growth that has been weaker than anticipated from the fiscal stimulus program and monetary expansion. This result has caused two major concerns: to develop incentives for small business that has been the major generator of net new jobs in the economy and to review government tax and spending policy related to deficit financing. The primary goals of this paper are threefold: review the implications of the changes in technological advancement, globalization and greater income inequality on wealth accumulation; chronicle the national debate critical of the academic performance of Historically Black Colleges and Universities (HBCUs); and, review the role that HBCUs can play in developing entrepreneurship programs for assisting the African American business community.

As the U.S. economy has gone through the agricultural, industrial, knowledge and now creative revolutions, changing trends in education and training to increase worker productivity, enhance small business formation (entrepreneurship) and improve global competitiveness is imminent. Moreover, in order to compete, firms will have to be more innovative, adapt the latest technologies, and acquire a workforce that is abundant in human capital. Greater income inequality is occurring in conjunction with the dramatic shifts taking place in the structure of the economy caused by the knowledge and creative revolutions. Piketty and Saez (2003) show that top 10 percent of the U.S. income earners received about 49.7 percent of the nation's total income in 2007 (Figure 1). The growth in earnings inequality is attributed to changes that are taking place in the labor market pursuant to new technology and enhanced production specialization that is implemented through global supply chain processes.

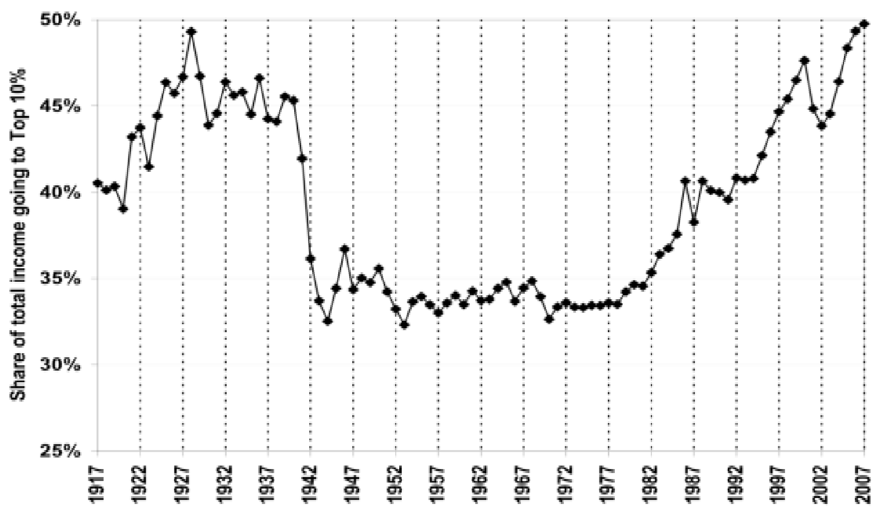


FIGURE 1
The Top Decile Income Share in the United States, 1917-2007

Source: Piketty and Saez (2003), series updated to 2007.
Income is defined as market income including capital gains.
In 2007, top decile includes all families with annual income above $109,630.

While this shift has been significant for the entire economy, it is nowhere more dramatic than in the African American community. This shift has caused what Johnson (2010) refers to as the wealth gap tsunami that is threatening African American families. In further remarks, Johnson (2010) cites a recent study from the Institute on Assets and Social Policy at Brandeis

University, which concludes that the wealth gap between black and white America families has more than quadrupled over the course of a generation. The racial wealth gap has increased by $75,000 from $20,000 to $95,000 with 25 percent of African Americans having no wealth. According to the 2000 U.S. Census data, the median net worth for African America was $11,800 compared to $118,000 for whites. According to the 2007 Pew Charitable Trust study, nearly 45 percent of black children, whose parents were middle class in 1968, grew up to be among the lowest fifth of the nation's earners. Johnson (2010) calls for a major shift in federal tax and investment policy to provide greater incentives for business creation and finding ways to increase wealth for African American families. If the wealth gap is to be closed, the African American community will need to have greater access to financial and human capital for the development of entrepreneurial ventures that generate wealth.

IMPLICATIONS OF GLOBAL ECONOMIC CHANGE FOR HIGHER EDUCATION

The Financial crisis that ignited "The Great Recession" and the shifting world economic order has created an opportunity for reevaluating the higher education mission in the United States. As stated by James Fallows of the Atlantic Monthly in an address to the 2011 Association of Governing Boards (AGB) for Higher Education, the major strength of the United States is not its military, but its system of higher education and the associated ability to attract talented individuals from around the world through immigration. Mark Zandi of Moody's also addressed the conference pointing out the importance of higher education in addressing the problems of structural unemployment and new business formation. The skill mismatch in the labor market has resulted from the shifts in the economy where the supply of skills available such as in the construction industry are different from what is required in the labor market of the future. There is a demand for highly specialized skills and education in industries such as aerospace, financial services, pharmaceutical and medical technologies. Zandi argues that there is a need for education in entrepreneurship development as evidenced by a lack of new start-up firms in the economy, which are the major source of new jobs and employment creation.

This has raised some questions on the role of higher education and its ability to help in the development of entrepreneurship. For example, Peter Thiel (Wang) has developed fellowships that pay $100,000 to students who agree to leave college for two years and work with entrepreneurs to develop their business ideas. Thiel questions the value of higher education in supporting entrepreneurship development and commercialization of new products and services. In essence, the ability and willingness of universities to adjust their policies and provide the types of entrepreneurial services and royalty agreements needed to generate the incentives to encourage new venture creation is seen as problematic.

Ferguson (2011) looks at the changing global economy in terms of the rise of the emerging economies in Asia and other regions especially China. Ferguson lists six institutions which he refers to as killer applications that are the factors that led to the ascent of the western economies. The list includes competition, science, property rights, medicine, consumption, and work ethic. This set of institutions offer societies the best opportunity for creatively solving the economic, social and political problems that the world faces in the 21th century. He argues that over the last half-millennium, no civilization has done a better job of finding and educating the geniuses that lurk in the far right-hand tail of the distribution of talent in any human society.

President Barack Obama has called for the United States which as late as 1995 had the highest percentage of college graduates in the world to again reach this status by 2020.

HBCUs AND THE CALL FOR CHANGE

Hand in hand with challenges facing the U.S. economy, much debate has developed concerning the mission and the future roles of HBCUs in the U.S.'s higher education industry. Much has been written about the need for these institutions to change since Kelder (2010) article in the Chronicle of Higher Education entitled, "White House Adviser Urges Historically Black Colleges to Change How They Are Seen." The author quoted John S. Wilson, the Executive Director of the White House Initiative on Historically Black College and Universities participated stating that, "Historically black colleges are a vital part of the nation's higher education landscape, but they need to change how they are perceived to highlight the positive work they are doing. That means the colleges must not be seen only as plaintiffs in the struggle for civil rights but also as partners in reaching President Barack Obama's goal of having the highest proportion of students graduating from college in the world by 2020." John S. Wilson also indicated the need for more and better data on the successes and challenges in student retention and graduation at historically black colleges. In addition, Wilson indicated that many minority serving institutions are doing great but unheralded work and are worthy of more investment.

While there are calls for change in a positive direction to complement and expand the role that HBCUs can play in the future, others calls are dismissive. Two of the most vocal critics of the current mission and need for HBCUs have been Riley (2010) and Vedder (2010). The former has called for major changes at HBCUs including a new mission and the later has suggested that the HBCUs have performed their historic mission; however, their role in today's higher education market is questionable given relative enrollment declines and weak student outcomes. Riley (2010) states that black colleges are at a crossroads. At one time black colleges were an essential response to racism. They trained a generation of civil rights lawyers and activists who helped end segregation. Their place in U.S. history is secure. Today, however, dwindling enrollments and endowments indicate that fewer and fewer blacks believe that these schools, as currently constituted, represent the best available academic choice.

The article by Vedder (2010) that reviewed the performance of HBCU in terms of educational rankings, graduation rates, and efficiency concluded by calling for an end to subsidies and any preferential funding to HBCUs based on racial criteria and advised HBCUs administration to ***enroll more non-black students. In the article, there is an observation that some HBCUs, notably two in West Virginia, are in fact no longer predominantly black. Just as all-male bastions like Harvard and Yale started accepting women quite successfully 40 years ago, so the HBCUs would benefit from expanding their client base.***

Baskerville (2010) responded to these attacks on the performance of HBCU and their role in the higher education system by stating that one wonders why these arguments are surfacing at this time in which President Obama has established a goal of having roughly 60% of Americans with a 2-or 4-year degree by 2020. To achieve this goal requires HBCUs to educate roughly 500,000 additional Americans by that time. Baskerville (2010) questioned the motives of the authors of the two articles, both of whom work for respected mediums for shaping public opinion. Baskerville (2010) concludes that now it is not a time to call into question the need for HBCUs, otherwise the gravamen of these positions is just misinformation. The contents of the argument are that there is a shift in the higher education landscape such that proprietary and two-year institutions are the fastest growing segment of the market. Also, online education has opened up an entirely new world in higher education. Moreover, in the U.S., just 56 percent of entering college students across the board is graduating in time and the nation has dropped to 10th among OECD nations in terms of graduation rate. Therefore, there is a shake up for the entire higher education system. It is perplexing that these attacks would scapegoat HBCUs for more complex issues. The complexities of the issues in higher education dictate constructive, factually based exchanges.

Although HBCUs are just 4% of American colleges and universities they are conferring 22% of all bachelor degrees earned by African Americans, 24% of all bachelor's degrees awarded to African Americans in science and engineering and nearly 35% of all bachelor's degrees in astronomy, biology, chemistry, mathematics and physics. Among known U.S. baccalaureate-origin institutions for African American science and engineering doctorate recipients, the top 8, and 20 of the top 50 are HBCUs. Fifty percent of African American teachers graduated from an HBCU. These facts paint a vastly different picture than that cast by opponents of HBCUs. Contrary to their recommendations that the nation stop funding HBCUs, these data demonstrate the prudence and wisdom of investing more public resources in these equal educational opportunity institutions (Baskerville, 2010).

Wilson (2011a) also responded to the negative reviews that the media has leveled at the HBCUs. In one of his address he refers to the 1917 study by Jones who was highly critical of the quality of the education that these institutions provided. In the address Wilson discusses the role that Anson Phelps Stokes, Secretary of the Phelps-Stokes Trustees at the time ascribed to dignified publicity in shaping public opinion. He was highly critical of the media and its coverage of the issues facing the HBCU community. To quote: "But like the proverbial squeaky wheel, our HBCU deficiency list seems to receive the majority of what little airtime we get. You know it well, and the American public is given regular doses of it. I am reminded of a point Jesse Jackson made during his 1984 run for president, and I paraphrase: If HBCUs were to walk on water, the headline would read: "HBCUs can't swim! HBCUs cannot seem to get a fair shake from the media. But deficiency in American colleges and universities is common. Nobody feels they have enough. Nobody! And yet it seems like the face of institutional deficiency – just like the face of welfare used to be, and just like the face of Pell Grants now tends to be – the face of institutional deficiency is usually ours. And this is the real danger of undignified publicity. We get defined by and then we become the definition of: small endowments, high attrition, needy, less-well-prepared enrollments, limited financial aid, deferred maintenance, less competitive faculty salaries, thin advancement teams, anemic alumni support, and a fragile, if not broken connection to the transformational sectors of the philanthropic marketplace."

Labor Market Returns to HBCU Graduates and Declining Relative Enrollment Concerns

Recent research by Price, Spriggs and Swinton (2011) found that HBCUs provide their graduates with superior long-run labor market outcomes relative to African American that do not attend HBCUs. These positive results compliment the findings of Mykeresi and Mills (2008) who concluded that HBCUs have a positive impact on the long-run labor market earnings of

African American males. This finding contradicts the findings of Fryer and Greenstone (2010) who suggest that the relative returns on graduating from an HBCU are negative. Price, Spriggs, and Swinton (2011) also concluded that HBCUs have a comparative advantage in developing and nurturing self image, self-esteem and identity among their graduates which complements research by Fleming (1984) and Allen, Epps, and Haniff (1991). They indicate that developing and building self-esteem is one reason why HBCUs produce a high percentage of their students that pursue graduate and professional education.

Hill (2011) cites several reasons for the relative decline in HBCUs enrollments of African American students. First, beginning in the 1960s with Affirmative Action, there were expanding opportunities for African American students at Ivy League schools and other non-HBCU institutions. Hill suggests that many of today's students and parents see black colleges as secondary or tertiary alternatives to Ivy League schools and elite liberal arts colleges. The second factor leading to enrollment decline is the strict cultural conservatism such as mandatory chapel service and homophobia. Third, historically, the HBCUs were able to attract and retain cutting edge intellectual faculty such as George Washington Carver, Ralph Bunche, W. E. B. DuBois and E. Franklin Frazier. Today, leading scholars prefer to work at prominent research institutions where the emphasis is on research associated with lower teaching loads. In addition to being a historical signpost of highbrow Black intellection; in the future, the HBCUs must play a vital role in creating a self-sustaining Black community.

Call for Change, Leadership and Governance

While the research results by Price, Spriggs and Swinton (2011) are good news for the HBCUs in terms of the outcomes for their students, the Great Recession and slow recovery are having an adverse impact on state budgets. State budget reductions have adversely effected the funding of higher education especially, the HBCUs. At this critical period, the HBCUs needs to focus on the national debate that demand improved student outcomes in terms of improved retention and graduation rates and organizational efficiencies. As public opinion shapers such as Riley (2010) and Vedder (2010) call for a new mission and question on why should the government continue to support, administrators in these institutions should have concerns about the future viability of these institutions.

Wilson (2011b) in his commentary states that HBCUs iceberg is melting as an analogy to the challenges confronting these institutions. The statement revolve around four main issues: the vision that the historic founders set for these institutions, the competitive landscape in which higher education exits today, the need for institutional renewal in terms of processes that result in best practices in areas such as admissions, financial aid and public relations, and administrative leadership for financial health. The commentary calls for the Boards and Presidents to work together in developing plans and priorities to insure the financial health of their institutions.

Leadership and Governance in the HBCU community has been identified by Ezzell and Schexnider (2010) as a critical problem for the growth and sustainability of these institutions. According to these authors, effective leadership in the presidency and strong board governance, along with a commitment to work together to fulfill the mission of the institution, are essential to the success of a college or university. A president who dominates his or her board or a board that usurps its president will invariably lead to failure. This is especially acute at public HBCUs where board appointments are for the most part in the hands of elected officials, thus appointments can be made on the basis of political and not necessarily educational experience and expertise. Given the contentious environment in which HBCUs have had to operate since their birth and development in a low resource and highly political environment, they can ill afford to have second class leadership that is not aware of the vision and mission under which these schools have been constrained to operate and yet produce accredited programs with outcomes satisfactory with their non-HBCU peers.

Collins (2005) found that the one critical difference between the good companies versus the great companies was that all the great companies had a level five leader. A level five leader is an individual that has placed the institutional mission above his or her own personal goals and is willing to carry out the decisions that are best for the accomplishment of the institutional mission. A mistake in the leadership roles can mean the death of the institution in the safety first environments in which we must operate today. Second class leaders that are concerned only about their own executive authority and develop a culture that promotes themselves as the great leader being solely responsible for the institution's success, this ultimately leads to less than great outcomes for the firm. According to Collins (2005), organizations whether public or private have to develop a hedgehog concept. For the social sector, the hedgehog principle revolves around three circles: what you are deeply passionate about, what you can be the best in the world at, and what drives you resource engine. A level five leaders have to develop the resource engine component of the hedgehog concept, given that if you do not have a positive cash flow you have no mission. Leadership in the area of higher education, especially public higher education is more difficult and requires an individual that understands the academic and political cultures associated with the institution. The Chief Administrative Officer in these institutions must have the ability to be both a transactional and transformative leader in order to accomplish the institution's mission. The leader must realize that he or she may not have executive power but must use legislative leadership models to form a consensus to get the best decision made to accomplish the organizational mission.

NEW REALITIES FOR MINORITY BUSINESS

Just as HBCUs are facing tremendous challenges, so are minority businesses. In October of 1999, the Minority Business Development Agency of the U. S. Department of Commerce hosted a meeting to discuss a briefing paper entitled: "New Realities for Minority Business." This paper highlighted the major changes that were taking place in markets, government, technology and demographics. The use of information technology and its impact on minority business were reviewed. The paper makes the following seven recommendations for advancing minority business in light of the new business realities: leverage government resources available to minority businesses, build a stronger case for minority business enterprise development, develop new business structures using partnership, alliances, etc., access and expand into new markets, develop new sources of capital, support and encourage the use of technology, and support the universities that support minority business. With respect to the last recommendation, the paper calls for an expanded business school curriculum to consider the needs of minority business enterprise development, which can differ from majority businesses. Entrepreneurship is seen as a viable option for minority managers that are not satisfied with their career progression in corporate America.

In April of 2003, Clark Atlanta University hosted the Second Annual Dean/Faculty Development Seminar for HBCUs offering MBA degrees. The topic of the seminar was "Bridging the Entrepreneurial Gap." This program provided presentations by individuals that are experts in developing entrepreneurship curriculum and programs. The program was developed and funded by the Opportunity Funding Corporation (OFC) Venture Challenge. OFC has a primary mission to be a risk taker, which tests various models for the stimulation of minority business development. One component of its program provides for the following activities in Atlanta Georgia during April of each year: a National Policy Forum on Minority Entrepreneurship Education, business plan competition for HBCUs, and HBCU Dean/Faculty development conference on entrepreneurship education.

In response to the concern to develop a greater appreciation for the changes taking place in the business, academic and government sectors of the economy, Southern University in Baton Rouge, Jackson State University and Clark Atlanta Universities hosted the first "Minority Serving Institutions Research Partnership (MSIRP) Conference" in October of 2003. The conference was sponsored by the NASA Dryden Space Research Center; U.S. Department of the Interior, its Offices of Small and Disadvantaged Business Utilization and Educational Partnership; Environmental Protection Agency, Office of Small and Disadvantaged Business Utilization; and Southern University Center for Information Technology Innovation and the Southern University Baton Rouge College of Business. This conference attracted over 200 attendees from business, government and academia. The goal of the conference was to provide an avenue for increasing the knowledge and understanding among minority serving institutions on how to compete effectively in completing the contracting circle in developing greater opportunities in entrepreneurship, education and research. The sessions included discussion on the development of entrepreneurship curricula, careers and venture capital, with involvement by students, faculty, business, and government.

While there is concern for meeting performance goals regarding minority businesses in taking advantage of the programs that have been established by various government agencies, one approach to solving this problem is for the minority serving institutions to play a greater role in developing minority businesses and for the minority serving institutions to be considered as small minority businesses by all federal agencies. The MSIRP conference was held at Jackson State University in 2004; University of Texas Pan American in 2006; Dillard University in 2008; and Morgan State University in 2010. This conference rotates each two years between minority serving institutions.

State of Minority Business

In the "State of Minority Business Enterprises: An Overview of the 2002 Survey of Business Owners" (August 2006), it is estimated that the number of minority owned firms was 4.10 million in 2002, with 1.57 million Hispanic American owned firms, 1.10 million Asian American owned firms and 1.19 million African American owned firms. The report indicates that since 1997, Hispanic, Asian and African American owned businesses have grown in number by 31.0, 24.0 and 45.0 percent, respectively. The average gross receipts generated by all minority-owned business were $163,000 per firm. For specific minority groups, the data show that Asian American firms lead with an average gross receipt of $295,000 followed by Hispanic Americans with $155,242 and African Americans with $74,127. The average gross receipt for non-minority firms was $442,000 in 2002. This report demonstrates that minority business is growing in absolute and relative terms compared to firms in general. However, it provides information that is relevant for minority firms and the Africa American community in particular with respect to the gap in annual gross receipts. There is clearly a need for additional research on the challenges that this community faces, relative to other minority groups given the statistics presented in this report.

A review of the minority business data at the state level provides interesting information on the distribution of minority firms. One striking statistic observed in the data, is that 23.30 percent of all minority businesses in the U. S. are located in California. The states of Texas, New York, Florida, and Illinois rank second, third, fourth and fifth with 12.30, 11.00, 10.30 and 3.80 percent, respectively. Thus, the top five states for minority business account for 60.70 percent of all minority businesses. The top states for African American businesses are New York (10.80%), California (9.40%), Florida (8.50%), Georgia (7.60%), and Texas (7.40%). African American businesses in these states as a percentage of all African American businesses for the nation are included in parentheses. The five states listed account for 43.70 percent of all African American owned businesses.

If we look at the states in the Deep South, which have a high concentration of African Americans in their population, we find relatively fewer African American owned businesses in this region with the exception of Georgia. As an example, the states of Louisiana, Mississippi, South Carolina, Alabama, and Arkansas have 3.36, 2.08, 2.38, 2.39 and 0.74 percent of all African American businesses in the nation. These states account for 10.95 percent of all African American businesses and 15.00 percent of the African American population. It should be pointed out that these states all have HBCUs with business schools that can serve as a resource for assisting in the development of entrepreneurship curricula, training, incubation and research to assist African American owned businesses.

The report, “Characteristics of Minority Businesses and Entrepreneurs: An Analysis of the 2002 Survey of Business Owners” (published by the MBDA March, 2008) provides information on the impact of business owner’s education on business performance. According to the report, business owners with a college education had companies that were more likely to be operating after four years. In the Hispanic community, 13 percent of the business owners had a college degree and 10 percent had a master’s degree, while the business owners in the Asian community had 27 percent with a bachelor’s degree and 24 percent with a master’s degree. In the African American community, 17 percent had a bachelor’s degree and 15 percent had a master’s degree. Minority business owners on average were more educated than the general minority community as a whole.

Entrepreneurship Development and the Inner City

Much has been written about the problems of the nation’s inner city communities. Porter (1995) calls for a change in the policies directed toward the inner city in moving from a welfare model to a business model based on the profit potential associated with locating in this underserved market area. The author has advanced his thesis in the Harvard Business Review and other publications on the competitive advantage of the inner city and calls on the national corporate community to recognize the profit potential in this market and to make the required investments. While the general framework for advancing to a business model is sound, according to Butler (1996), a major issue of debate has been the role that the inner city residents will play in the transformation of these economies. Inner city residents themselves will have to replace the social welfare model, which is so much a part of the inner city, with the creation of entrepreneurial enterprises; they must become owners of major enterprises in the inner cities. Entrepreneurship and ownership of business enterprises has to be placed on the center stage of these communalities.

Butler (1996) provides an historical review of the success that African Americans have experienced as entrepreneurs in the United States. The author suggests that one only has to consider the model that Booker T. Washington developed, for self-help in the African American community. This article provides citations on the literature that is available on entrepreneurship and the Black community and gives examples to counter what he refers to as the “failure model” in demonstrating the success that blacks as entrepreneurs have had in several areas of the country, including Atlanta, Georgia; Austin, Houston and Dallas, Texas; and Jackson, Mississippi. There are also listing of neglected works, including those by W.E.B. Du Bois and Booker T. Washington that he recommends for those that are reviewing the African American entrepreneurship experience. For those who want a better understanding of the relationship between community building and the development of business enterprise, he recommends the 1947 book by Joseph Pierce entitled “Negro Business and Business Education.” The article concludes by suggesting that the reconstruction of education in the inner city must have a strong emphasis on business education and entrepreneurship.

ROLE OF THE HBCUS AND THEIR BUSINESS SCHOOLS

HBCUs were developed in a society that was undergoing dramatic social and economic change. They were established as a second best solution for providing higher education opportunities for individuals that society had historically exploited and failed to educate. The contribution of historically black land grant college and universities is outlined in the book edited by Christy and Williamson (1992) that chronicles the contributions that these institutions have made to the nation in teaching, research and service. Information is provided on the struggle that was required to establish these institutions, the problems of long-term under-funding, and the successes that these institutions have had in contributing well-educated professionals to mainstream society, in spite of the resource and political barriers that were encountered. This work also provided a section on the role for these institutions in the 21st Century. One of the book’s chapter authored by Payton (1992) calls for the establishment of centers of excellence for educating scientists, managers, educators and professionals needed for enhancing the nation’s competitiveness. One of the areas specifically mentioned is the establishment of centers of excellence in business management.

Among the HBCUs, Jackson State University is an example of an institution that has undergone dramatic change. Jackson State University was honored in receiving the BlackVoices.com Spotlight on Excellence Award presented by General Motors. The accomplishments of Jackson State University are presented in an article appearing in the Fall 2003 edition of The Black College Quarterly, entitled “Home to Dreamers and High Achievers by Maurice Weaver. Jackson State University has developed a strategic plan to transform the university into a student-centered technology-driven global institution. In order to fund this effort, the university has become number two among all black colleges in research development funding. The university is among the fastest-growing producers of black students earning doctorate degrees in all disciplines. Based on all the accomplishment in the academic environment, former Jackson State President and current Southern University System President Ronald Mason realized that the university had to seek the support of the business community. He is quoted in the article as follows, “Part of our challenge is to bridge the wall of racial perception between the African-American community and the business community.” As part of this effort, Jackson State University has developed a degree program in entrepreneurship.

Renewed Mission and HBCU Business School Entrepreneurship Development

Colleges of business at historically black institutions have a similar experience in their development as that documented for HBCU universities by Christy and Williamson. These colleges in many cases started out as education programs for teaching bookkeeping, typing and office administration. From these meager beginnings, two HBCU business schools (Morgan State University and Jackson State University) have evolved into doctoral degree granting programs. Atlanta University, Tuskegee Institute and Fisk University were pioneers in the development of business education for the African American Community. Atlanta University played a major role in the development of Atlanta’s African American business community. Green and Pryde (1990) give a review of education and entrepreneurial and develop the case for Black Entrepreneurship in America and how HBCUs have historically provided leadership for the African American community.

HBCU business schools can help minority business in making the gains needed to improve the economic conditions in their communities. This is evidenced by a quote from Pierce (1947) concerning the work of the Department of Economics and Business at Atlanta University. According to Pierce (1947), it is no accident that Atlanta became a Mecca for black business development. The following is an example of the influence that Atlanta University’s Department of Economics and Business Administration had on the community, to quote Pierce (1947, page 275) **“**an evaluation of the manner in which the Department of Economics and Business Administration has achieved these aims is not a part of this work. Mention should be made, however, of the fact, that the departments possess a history of close co-operation with the business community. This fact was recognized by a speaker at the First Annual Conference on the Negro in Business, sponsored by the United States Department of Commerce, in the following statement:

“…There is no department of business administration that has developed close ties with local business even in cities like Durham, Nashville, Baltimore, and others. The only exception to this rule has been Atlanta, for reasons quite obvious to everyone. Under the leadership of Professors Blayton and Milton, not only has the business administration department prospered, but Negro business, as well as civic life, in Atlanta has materially improved.

Not only are some of the teachers actively connected with business enterprises in Atlanta, but the students, particularly those who are accounting majors, regularly serve internships in local businesses.”

Major efforts are taking place to enhance HBCU business schools. These schools have the potential to be major players in the diversity efforts for corporate America. HBCUs produce approximately 30 percent of all black business school graduates (Jackson and Nunn, 2003). Therefore, corporations in an effort to achieve diversity look to these institutions as a source for talent. In his article, Merritt (2002) presented advancements being made at these school. The article points out that the corporate sector has been a major supporter of the process to enhance Business Schools at HBCUs.

Today, HBCU business schools have invested in continuous improvement for faculty development, curriculum enhancement, and instructional technology and enhanced physical facilities in order to achieve and maintain AACSB-International and ACBSP business school accreditation. These colleges have only recently been recognized for the contributions they have made in providing business education to the African American community. The work of Dr. Sybil Mobley, retired dean at Florida A&M University is one of the outstanding success stories in HBCU business school program development. The Kauffman Foundation awarded a $3.1 million grant to Howard University as part of its efforts to enhance entrepreneurship education across the entire university in the areas of teaching, research and service. The Kauffman Foundation believes that entrepreneurship is the lifeblood of the American economy and colleges and universities offer an invaluable opportunity for reaching the nation's future entrepreneurs.

ENTREPRENEURSHIP PROGRAMS AT HBCUS

As the U.S. economy has undergone major changes in the last 25 years with respect to the shift from an industrial economy to a knowledge and now creative economy, the role of universities and business schools in particular to provide the educational curriculum that will provide the necessary intellectual capital for students to successfully navigate the new and uncharted environment is critical. This is nowhere more critical than in the African American community where unemployment rates are double digit and the outlook for a rapid decline in these rates is weak at best. As the economy has gone through the agricultural, industrial, knowledge and now creative revolutions, authors such as Richard Florida (The Rise of the Creative Class) and Bob Johansen (Get There Early) have pointed out the increased role of entrepreneurial and creative thinking for venture creation and employment generation for now and the foreseeable future. This level of tectonic shift in the economic landscape calls for a review of the changes taking place in the academic institutions that will provide the educational programs to develop the talent needed for generating the employment opportunities in the creative economy. As thought leaders such as C.K. Prahalad (The Fortune at the Bottom of the Economic Pyramid) have pointed out, future economic opportunities will require individuals that can provide new and innovative ideas to solve problems in the emerging markets that will provide profit, protect the environment, and accomplish this all within a socially responsible manner, the so called triple bottom-line (Profit, Planet and People).

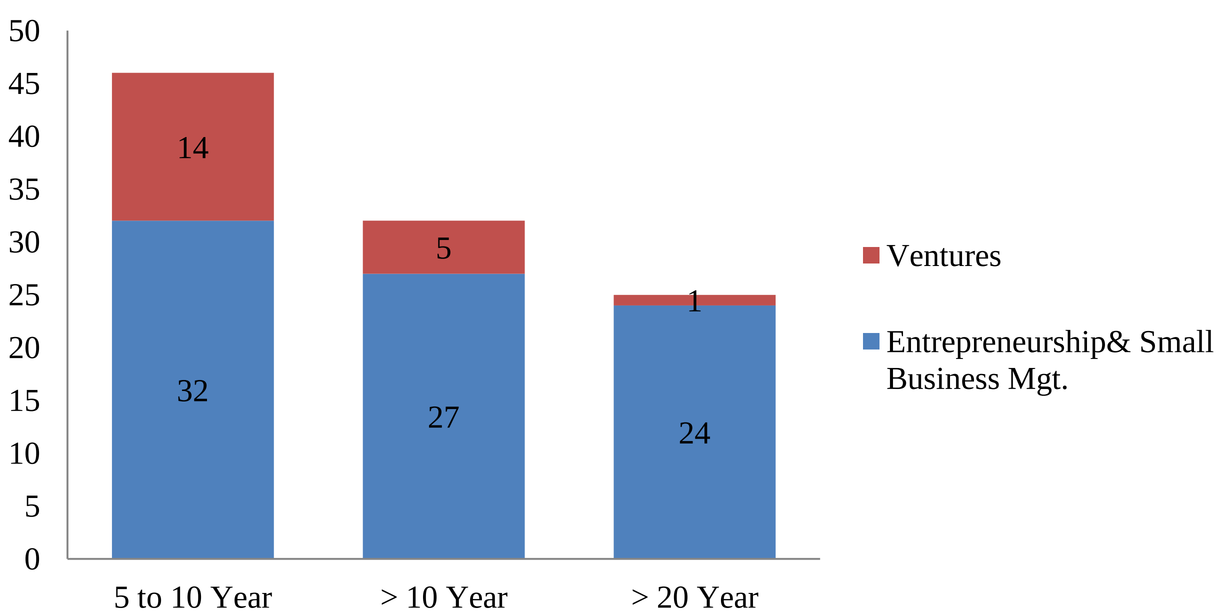
The academic institutions that can make this transition are likely to thrive as students seek those programs that will prepare them for the challenges in operating entrepreneurial ventures in the creative economy that are global and technologically linked. The African American community needs academic institutions that can rise to the challenge to provide the curriculum needed to support students that will be operating in the creative economy. One measure that can serve as an indicator of the adaptation of HBCUs is the ability of their business schools to make the changes needed for their students to be competitive in the revolution taking place in the demand for entrepreneurial education.

In an effort to understand the changes taking place in HBCU business programs, a survey was conducted on the HBCU Business School Deans to review the status of their programs with respect to entrepreneurship education in the Spring 2010. The survey asked questions in the areas of curriculum, funding, enrollment, instructional support, outreach and business development. A total of 41 HBCU business school deans responded to the survey. The full report entitled, "New Realities in Entrepreneurship Education at Historically Black Colleges and Universities" provides the findings from the survey and is available at the website www.donaldrandrews.com under the research on entrepreneurship link.

Curriculum and Level of Funding

The deans were asked to respond to questions relating to the number and types of courses that they offer in their programs that relate to (1) entrepreneurship or small business management and (2) venture creation. A graphic of the deans' responses to the courses offered in the two categories and the period of time over which they have been offered is provided in Figure Two. In asking this question, double counting is possible in that a school could have both a course in entrepreneurship and small business management. Three courses were considered in the venture category: New Venture Creation, Technology/Innovation and Venture Capital. As shown in Figure Three, there has been a dramatic increase in course offerings over the last 20 years. There is an increase in the total number of course offerings from 25 in the greater than 20 years category, to 46 in the 5 to 10 years category. Thus, there is an 84 percent (21/25) increase in the number of courses being offered in entrepreneurship/small business and venture creation at HBCU business schools for this period. In the 5 to 10 years category, the number of courses offered in the entrepreneurial and small business category is 32 and 14 in the venture category compared to 24 and one respectively for the greater than 20 year category. In the case of the venture courses, the growth has been exponentially increasing from five offerings in the over 10 years category to 14 in the 5 to 10 years category or an increase of 160 percent (8/5).

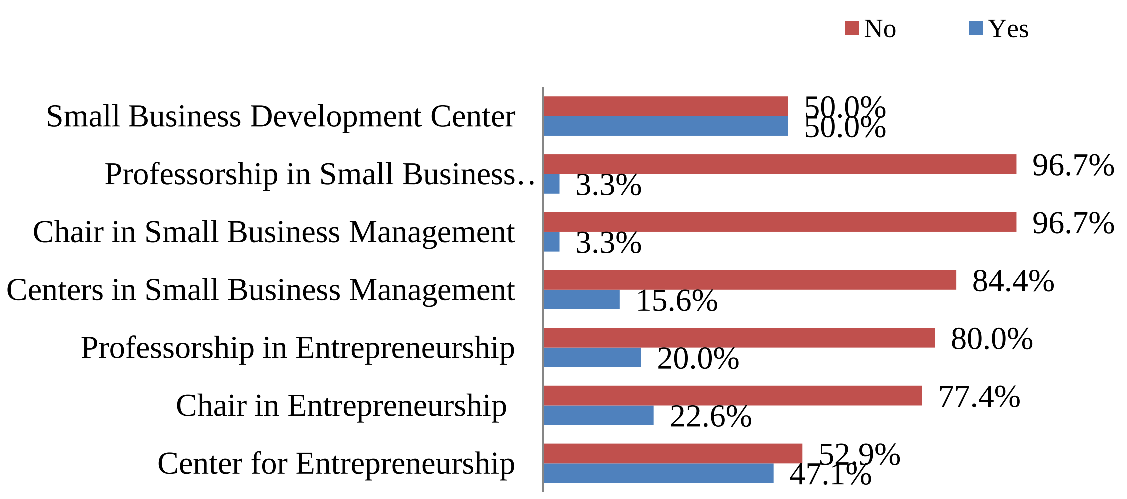
Figure 2. How Long Have You Been Offering the Following Courses



In order to provide the curriculum in entrepreneurship, the number and availability of qualified faculty is important. For those schools accredited by AACSB International this is a significant challenge in that strict guidelines for judging faculty members academic and professional qualifications must be established and followed. In the case of academic qualifications, this normally requires the terminal degree and research in the field. Since entrepreneurship is a relatively new discipline, the supply of academically qualified faculty is low. The survey results indicate that 2.03 full-time faculties and 1.11 part-time faculties on average provided the entrepreneurship curriculum during the academic year. This result would be expected given that entrepreneurship is a new curriculum area and the number of faculty trained in this area that meet accreditation criteria is limited.

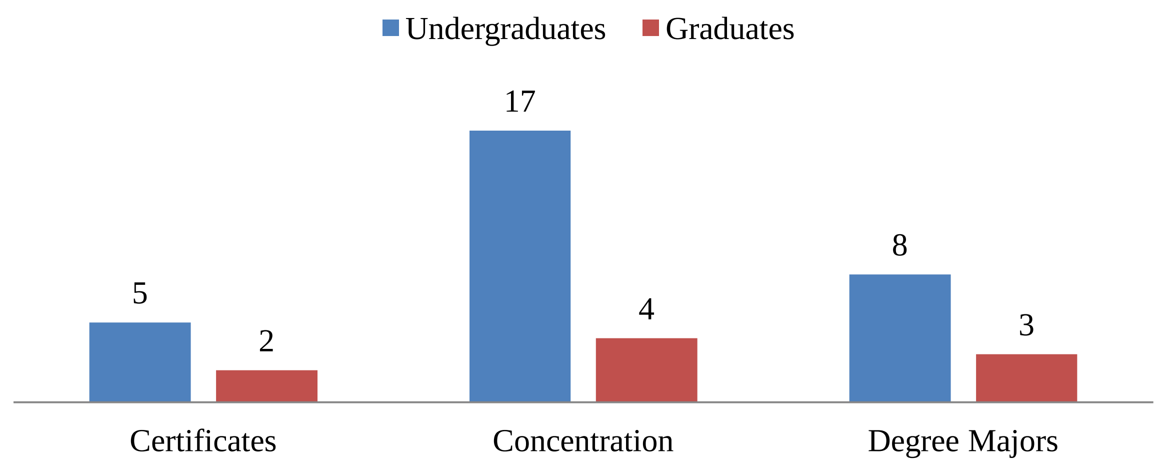
Deans were asked to indicate the programs/positions/centers they had available to support their entrepreneurship efforts. As can be seen in Figure Three, 47.1 percent indicated that they have a Center for Entrepreneurship and 50 percent have a small business development center (as we have indicated, schools may use the terms entrepreneurship and small business management interchangeably which can result in some double counting, thus, approximately 50 percent of the school would have a center for entrepreneurship and/or small business development center). About 22.6 percent of the respondents indicated that they have a chair in entrepreneurship and 20 percent have professorships in entrepreneurship. Information was obtained on the available support for the entrepreneurship programs/positions/centers in terms of endowments. In the survey, only six percent of the centers for entrepreneurship and small business development centers were endowed and 16.7 percent of the chairs in entrepreneurship were endowed chairs.

Figure 3. Does your school offer the following programs/positions/centers?



Information on the course/learning opportunities available to the undergraduate and graduate programs with respect to degree majors, concentrations and certifications were obtained from the survey (Figure Four). In response to the question on program offerings at the undergraduate level, eight deans responded that they offer a degree major in entrepreneurship or small business management, 17 offered concentrations and five offered certifications. In these programs, venture courses, internships, directed research and interdisciplinary course are provided, as part of the program. At the graduate level, three schools offer a degree program in entrepreneurship, four offer a concentration and two offer a certificate. Enrollment in the entrepreneurship programs averaged 41 students at the undergraduate level and 14 for the graduate programs.

Figure 4. Courses/Learning Opportunities: Entrepreneurship & Small Business Mgt.



As a relatively new discipline, it can be difficulty to start a curriculum when funding is not available for new program development. Several foundations and government agencies provide funding in the area of small business development and entrepreneurship. Deans were asked if they received funding support from grants in support of their entrepreneurship programs. Based on survey responses presented in Figure Five, 54 percent of the Deans indicated they had received grant funding in support of their programs. Table one provides details on those programs that had received funding based on the date, source of the funding and number of grants received. In the case of support from local, state and federal sources, approximately 43 percent of the deans report that they had received support from government agencies (Figure Six).

Figure 5. Has your school received grants or other funding in support of Entrepreneurship or Small Business Management?

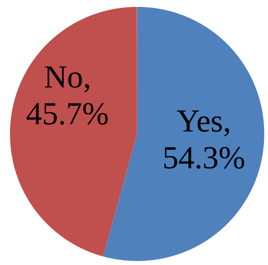
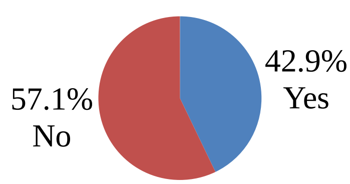


Table 1. Grant Funding If yes, please indicate from whom and what year.

Name of Funding Source	The Number Received	Year Funding Received
Coleman	2	1996, 2000, 2009
Kauffman	4	1999-2003, 2003, 2004
Ford	1	2006
Kellogg	2	2007
Others	12	1986, 1992, 2005, 2006-2010
Total	**21**	

Figrure 6. Does your school/center work with and receive support from local, state, or federal agencies in support of entrepreneurship?



Outreach and Business Development

In the survey**,** deans were asked if they provide outreach in entrepreneurship or small business programs to elementary or secondary students. The response in Figure Seven indicates that approximately 52 percent of the programs provide outreach to elementary or secondary students in entrepreneurship. One of the major elements for advancement of strong entrepreneurship programs is the development of networks to provide and facilitate the sharing of information on curriculum, scholarship and outreach activities taking place in the discipline. Deans were asked about their participation in the Opportunity Funding Corporation Venture Challenge and Morehouse Business Plan Competition. Approximately

78 percent of the deans in the survey indicated that they participated in these programs (Figure Eight). When the deans were asked if they have relationships with major entrepreneurial programs such as Babson or Syracuse they responded with 74.2 percent indicating they have not developed these relationships (Figure Nine).

Figure 7. Is your school involved with any outreach entrepreneurship or small business programs targeted at secondary and elementary students?

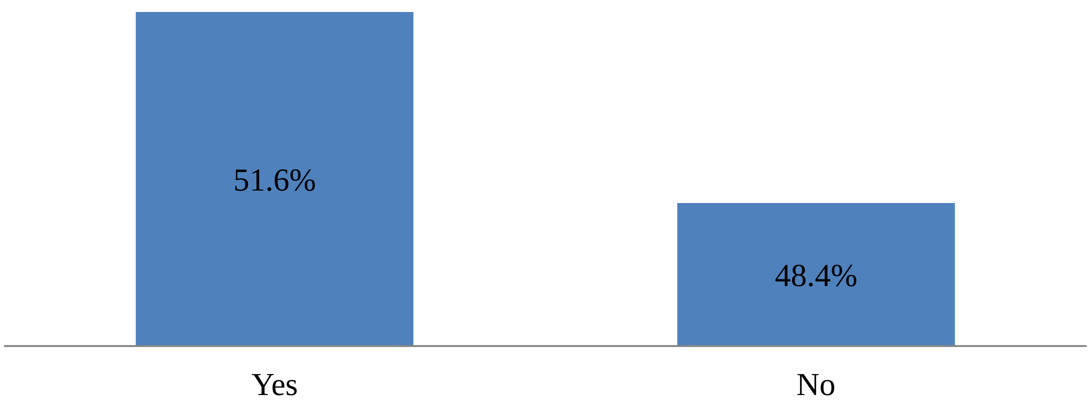


Figure 8. Does your school participate in business plan competitions such as OFC Venture Challenge, Morehouse Business plan Competitions, etc.?

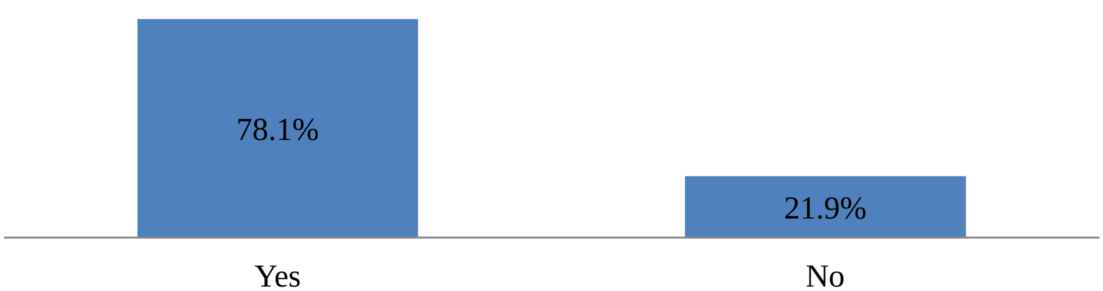
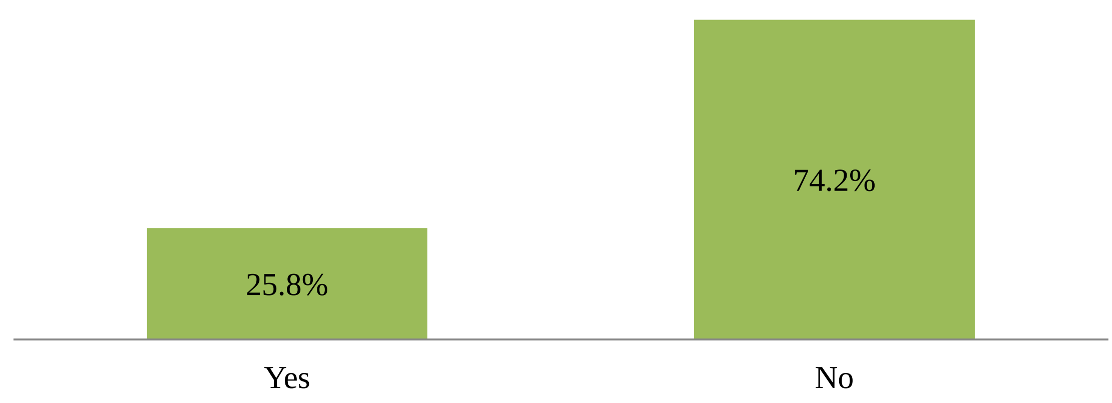


Figure 9. Does your school have a relationship with major entrepreneurial programs such as Babson, Syracuse, etc.?



One of the goals of entrepreneurship education and outreach is the development of a business plan that has the potential to lead to the launch of a new business enterprise. In the case of the HBCU Business Deans, 68.8 percent indicated that this was one of the goals of their program (Figure 10). In response to this question 22 deans indicated that this was a goal of their program while 10 deans said that a business launch was not a goal for their program. The 22 deans that answered in the affirmative that their goal was to have a business launch were asked to indicate the number of businesses they have been able to launch over the last 10 years from their entrepreneurship programs. The responses provided in Figure 11 were as follows: four schools or 17.4 percent had not been able to launch any businesses, six schools or 26.1 percent had launched one to two businesses, five schools or 21.7 percent had launched three to five businesses and seven or 30.4 percent had experienced six to 10 launches.

Figure 10. Is one of the goals of your entrepreneurship program to launch new businesses?

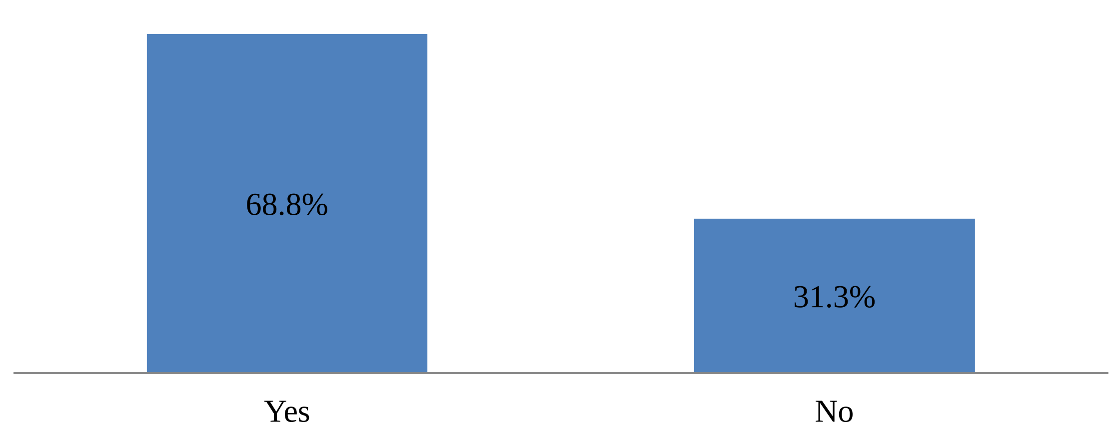
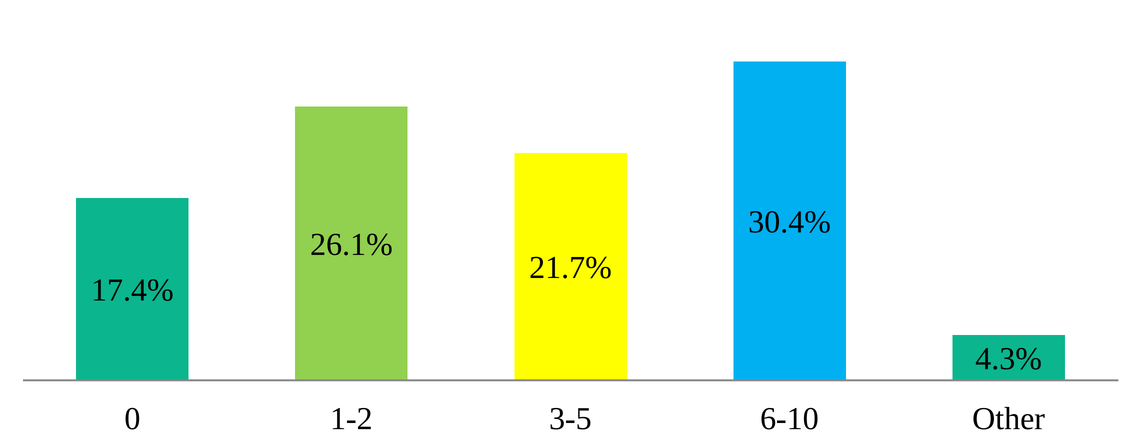


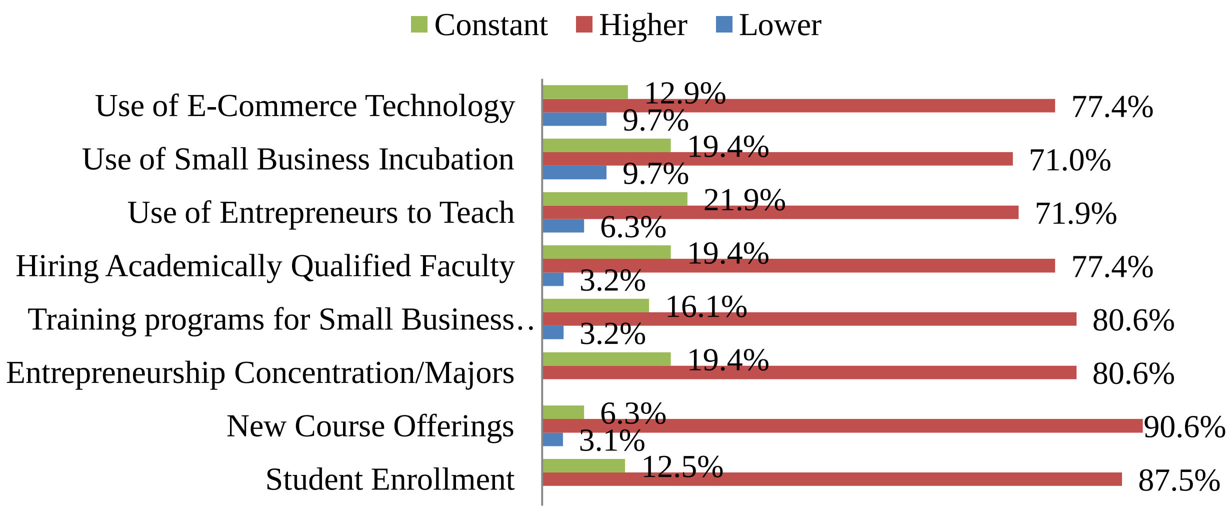
Figure 11. If yes, how many businesses have been launched from your Entrepreneurship program in the last 10 years?



Trends in Entrepreneurship Education, Business Incubation and MBA Programs

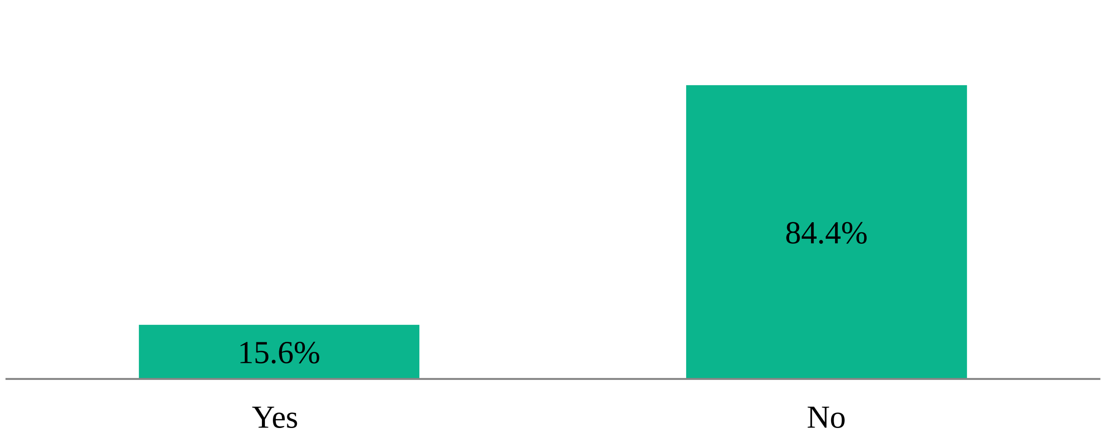
Deans were asked to indicate their forecast of the trends in entrepreneurship education with respect to student enrollment, new course offerings, concentrations/majors, training programs for small business owners, hiring academically qualified faculty, use of entrepreneurs to teach, use of small business incubation and use of E-commerce technology. Deans could respond that these elements in their programs would be higher, lower or constant. The deans responded (Figure 12) that each of these elements would increase in importance over the next five years with a range from 90.6 percent for increases in new course offering to a low of 71.0 percent for increases in the use of business incubation.

Figure 12. Select the trends in Entrepreneurship education you see that will evolve in the next five years with respect to course demand and supply of qualified faculty.



The schools in the survey were asked to indicate if they have business incubators and MBA programs. As was expected, only five schools or 15.6 percent of the respondents indicated that their program had a business incubator (Figure 13). Business incubation can be expensive and requires the need for experienced support staff and funding to advance and maintain the program. Finally, the deans were asked if they had an MBA program. The respond was evenly split with 51.6 percent (16 schools) having an MBA program and 48.4 percent (15 schools) not having an MBA program. The MBA program provides an added dimension to the business school and can serve as a support system for graduate assistants to help with business plan development and incubation.

Figure 13. Does your school have a Business Incubator?



SUMMARY AND CONCLUSIONS

The primary goals of this paper are to: (1) review the implications of the changes in technological advancement, globalization and greater income inequality on wealth accumulation, (2) chronicle the national debate critical of the academic performance of Historically Black Colleges and Universities (HBCUs), and (3) review the role that HBCUs can play in developing entrepreneurship programs for assisting the African American business community. This study has provided a review of the state of entrepreneurship curriculum development at HBCUs and outlined some of the important issues in the debate concerning the enhancement of academic programs in this area. Based on the information available for review, much work has been done in responding to the demands on the part of students for a greater understanding of the changing educational requirements for success in today's economy. As the pace of technological innovation advances, the need for a closer working relationship between academia, business and government has been recommended. The minority business community and the HBCU community can reposition its curriculum to make sure that no sector of the minority business community is left behind.

As societies have gone through the agricultural, industrial and now the knowledge and creative revolutions, their institutions (including colleges and universities) have adapted by developing new curricula and programs to meet the challenges posed by the creation of new technology and business systems. As the survey confirms, several HBCU business schools have already recognized the need for change and should be commended for taking the risk of being first adopters. As pointed out in the work by Payton and also by Butler, there is a history of response on the part of the HBCU community to develop the programs needed to meet the challenge that new technologies may present to the African American community. As Butler suggests, this may indeed be a return to the model that Booker T. Washington helped develop, which is similar to the agricultural land grant model that brought the nation out of agrarian poverty by bringing the technology out of the university laboratory and into the hands of the rural farm community. The cooperative extension service has acted as the equivalent of small business development centers in providing consultation and advice in helping to transfer new knowledge to the small farm firm. This model was so successful that today less than three percent of the U.S. population is engaged in agricultural production at the farm level. Today we face similar challenges as the shift to the creative economy calls for greater involvement and support from higher education in the development process in creating new industries and jobs for the future.

In order for HBCUs to continue to be effective institutions, they will have to understand the changes that have taken place in the business world and become more entrepreneurial in developing their faculty resources for enhancing the institution's instructional, research and service capabilities. Enlighten leadership in establishing human resource performance and evaluation policies and processes that reward faculty and staff for output delivery, will have to be enhanced and implemented, in order to achieve the high performance levels needed for remaining competitive in the changing environment.

The conferences that have been developed, such as the Opportunity Funding Corporation (OFC) Venture Challenge can point the way in terms of understanding the new realities in business and position the HBCUs for continued service in the 21st Century as they have served the nation so well in the past and present. Recently, concern has been expressed about the need for black colleges to take on a new mission (Riley, 2010). As the roles of HBCUs have recently been challenged, the development of "Center of Excellence in Entrepreneurship Education and Incubation" is one strategy for closing the income and wealth gaps that the African American community has historically and currently experiences.

Recent meetings have highlighted the need for HBCUs to change their mission. At a two day symposium celebrating the North Carolina Central University Centennial as reported by Kelderman in his June 27, 2010 Chronicle of Higher Education article entitled, " Black Colleges See a Need to Improve Their Image," Roderick J. McDavis, President of Ohio University said, "his and other traditionally white institutions are in competition for the best minority students, who once would have automatically enrolled at black colleges. Yet if most historically black colleges are going to survive, they need to reclaim their role as the best place for black students to succeed. At this same meeting John S. Williams stated the "one solution is to change the message and mission of historically black colleges from a focus solely on accepting the least prepared students to a focus on graduating students who are well prepared for the workforce. Based on our research, a focus on entrepreneurial education as a mission will serve to provide a solution to problems in developing students and businesses for the creative industries and workforce for the future.

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BLACK ENTREPRENEURSHIP: FORMAL VERSUS INFORMAL ECONOMY EXPLOITATION

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ABSTRACT

This exploratory study examines formal and informal economy exploitation to better understand the disparity in the entrepreneurial founding rates between black and white entrepreneurs. The conceptual discussion explores pre-theoretical relationships for various black entrepreneurship topic areas that might facilitate better research and understanding of black entrepreneurship. The discussion draws on knowledge from the broader management, entrepreneurship, and sociology literature that is currently available on black entrepreneurship; and that highlight peculiarities on the subject in that literature. Certain factors are identified that may lead to the underrepresentation of blacks in formal economy exploitation, while also leading to their overrepresentation in informal economy exploitation. Exploratory propositions based on the suggested relationships are presented for future research. Also presented and discussed are research questions that remain unanswered in the literature on black entrepreneurship. Finally, a research model for black entrepreneurship is also proposed and discussed.

INTRODUCTION

The informal economy has been labeled a variety of names: the “murky sector,” “urban-traditional sector,” “services sector,” “informal sector” (Gang & Gangopadhyay, 1990), “shadow economy” (Kuznetsova, 1998), and “unregistered economy.” It has been described as a dynamic actor in the process of economic development, frequently outpacing the growth of the formal modern sector (Gang & Gangopadhyay, 1990). The informal economy refers to “economic activity that is not statistically recorded, and includes: 1) lawful activity that is concealed or played down by producers in the interest of evading taxes or fulfilling other lawful obligations; 2) unofficial but lawful activity (family enterprises working for their own needs and temporary teams of builders), and 3) legal types of activity that the population engages in illegally, for example, without licenses” (Kuznetsova, 1998, p. 21).

The informal economy is estimated to account for the following proportions of the following countries' national accounts: 2 to 7.5 percent for Great Britain, 10 percent for France, 15 percent for Italy, 25 percent for Russia (Kuznetsova, 1998), and 3 to 8 percent for the U.S. (Smith, 1981; Weiler S., Silverstein, J., Chalmers, K., & Lacey, E., 2003). At an even more extreme level, more than half of Peru's population conducts its personal and commercial affairs in the informal sector, owing to excessive bureaucracy and government regulation (Schuck & Litan, 1987).

Antecedents of the informal economy include excessive bureaucracy and regulation (Schuck & Litan, 1987), and formal market incapacity to satisfy the basic needs of the impoverished masses (De Soto, 1989). This economy may also be substantially sustained by purchases from people in the formal economy who need not retain receipts for purchases. This type of purchasing is in contrast to corporate purchases for example that are required to be documented and accompanied by purchase receipts.

Consequences of the informal economy include: understated income (Weiler et al., 2003), negative impacts on effectiveness of monetary policies, unexplained growth in currency, and overstated unemployment rate because many of the statistically unemployed might actually be employed in the informal market (Smith, 1981). De Soto (1989) argued that the informal economy is erroneously thought of as a problem where companies and industries compete unfairly with formal economy companies and industries that obey regulations and pay taxes. Instead, he argued that the informal economy serves as a regulating mechanism providing impoverished masses with a means to obtain, not only economic, but social freedom as well.

A broad range of activities are increasingly provided informally. These services include household, communal, and underground activities (Gershuny, 1979). Given the range of activities in various sectors of the informal economy, along with the economic, technological, and cultural forces encouraging them, any view of the formal economy which does not take account of these developments will be a distorted one (Gershuny, 1979).

The purpose of this study is to examine the role and prevalence of informal economy, particularly, as it relates to black entrepreneurship. Research questions pertinent to this investigation are: Are black entrepreneurs more likely than non-black entrepreneurs to operate either totally or in part in the informal economy? Does the informal economy understate the observed rates of black entrepreneurship more so than it understates other (non-black) groups in the U.S.? And, does the informal economy lead a substantial portion of black entrepreneurs to forego critical opportunity costs associated with operating in the formal economy?

WHAT IS KNOWN ABOUT BLACK ENTREPRENEURSHIP

Blacks Score High on Entrepreneurial Propensity

The literature examining the state of black entrepreneurship in the U.S. paints a very gloomy picture. Yet, strong support exists for the idea that blacks score higher on *entrepreneurial propensity* than whites (Butler, 1991; Herring, 2004; Köllinger & Minniti, 2006; Walstad & Kourilsky, 1998). That is, they possess a strong tendency towards entrepreneurship engagement, marked by a high degree of motivation, interest, and intentions. This phenomena helps to explain why the number of African American firms, along with Hispanic, Asian and Native American firms, grew four times faster than the rate of all firms between 1992 and 1997 (Wellner, 2002). In fact, the literature supporting differences in entrepreneurial propensity measures as far back as the post-slavery era (see Galbraith & Stiles, 1999).

Black youth are more interested in entrepreneurship than white youth (Walstad & Kourilsky, 1998; Wilson, Marlino, & Kickul, 2004), and they score high on motivations that lead to self-employment (Singh & McDonald, 2004). In addition, many people including blacks view entrepreneurship as a key venue to ending poverty and unemployment in black slums (Herring, 2004). Moreover, a significant percentage of blacks have always been grounded in a tradition of self-help, education, and entrepreneurship, and is responsible for the creation of black businesses, educational institutions, and organizations within the black community (Butler, 1991). Herring (2004) notes that labor market discrimination and a large degree of aspiration for business ownership among black Americans is a push factor for black entrepreneurship and self-employment.

The initiation rates of black men and women are nearly three times those of white men and women, and twice those of white women (Butler, 1991). In fact, blacks have been found to exude the highest levels of propensity to start a business among blacks, whites and Asians (Köllinger & Minniti, 2006). Reynolds, Carter, Gartner, and Greene (2004) found that black adults (ages 18 to 64 years) are 50 percent more likely than white adults to attempt to start a business. And, that black women are more likely than white and Hispanic women to attempt to start a business. But, there is conflicting data in the literature. For example, Crosa, Aldrich, and Keister (2002) found that once human capital and education controls are factored in, blacks become only about 60 percent as likely as whites to become nascent entrepreneurs. Nonetheless, the literature seems to suggest that blacks are highly engaged in the process of entrepreneurship.

But, as firmly established in the entrepreneurship literature, blacks are highly underrepresented in entrepreneurship. The reason why the apparent contradiction exists is because blacks are highly engaged in *nascent entrepreneurship* (Köllinger & Minniti, 2006; Reynolds et al., 2004), and underrepresented in established business ownership (Fairlie, 2004; 1999; Köllinger & Minniti, 2006). Nascent entrepreneurship refers to a stage where an entrepreneur is in the process of starting his/her venture. Hence, the venture has not yet been established. The key difference among blacks is that although they are more likely to attempt to start new ventures, they are less likely to actually found the venture than other groups in the U.S.

An additional apparent problem is that black entrepreneurs who do establish businesses experience less success than white established business owners. Fairlie and Robb (2007) found that black-owned businesses lagged behind white-owned businesses in profits, sales, number of employees, and survival. Robb (2002) also found that black businesses have the lowest survival rate when compared to Asians, Hispanics, Native Americans, and whites. In fact, Robb (2002) found that black-owned businesses are 43 percent more likely to close than white-owned businesses. This paper will now discuss some of the reasons why blacks experience less entrepreneurial success.

Blacks are Under-Resourced: Capital, Community and Network Support, Education

Over the past 50 years, the unemployment rate of black Americans has remained about twice that of white Americans (Badgett, 1994; Spriggs & Williams, 2000). Blacks are also less wealthy than whites and other ethnic groups (Bradford, 2003; Fairlie, 2005; 1999; Singh & McDonald, 2004; Portes & Zhou, 1996). The lower levels of financial resources among blacks result in financial resource constraints that may prevent successful entrepreneurship among blacks. The entrepreneurship literature explains that lower net worth, fewer assets, and less access to capital are reasons why fewer blacks become successful entrepreneurs (Bates, 1996; Fraser, 2003; Singh & McDonald, 2004). The literature also shows that blacks have fewer community lending institutions and persons who can provide financial aid to new businesses (Bates & Bradford, 2004; 1992; Herring, 2004; Rhodes & Butler, 2004; Squires & O'Connor, 2001). Rasheed (2004) explains some of the antecedents and outcomes of the undercapitalization of blacks in business,

> The disparity in access to capital based on social factors has been a recurring theme in small business finance literature and corroborated by government statistics. According to the U.S. Small Business of Administration (SBA) Office of Advocacy, 63.3% of African-Americans use some form of credit compared to the 75.7% for all small firms. Reflecting a greater disparity, only 36.5% of African American firms use traditional loans other than personal credit cards, compared to 54.8% for all small firms (www.sba.gov/advo, 2000). Empirical research supports these statistics. For example, Bates and Grown (1992) found that commercial banks treat African-American owned construction companies differently from Caucasian-owned firms. As a result of this disparity, African-American owned construction companies are typically less capitalized, and are more likely to fail than Caucasian-owned construction companies. Bates (1997) also found that African-American entrepreneurs receive smaller loans and rely more on consumer credit such as credit cards than Caucasian entrepreneurs with identical personal characteristics. Consequently, they are more likely to discontinue operations over time due to poor capitalization. Ethnicity has also been found to be a factor in mortgage lending which is often a source of initial funding for small firms (Squires & Velez, 1996). (p. 114)

Thus, restricted access to capital is a noted contributor of impediments to successful black entrepreneurship (Bates & Bradford, 2004; 1992; Herring, 2004; Squires & O’Connor, 2001).

The frequency of start-up and existing business loan amounts for blacks are materially lower than white-owned firms, with white owners bringing 2.3 times more personal capital to their start-ups than minority owners (Rogers, Gent, Palumbo, & Wall, 2001). Rogers et al. (2001) also found that firms with less access to loans from traditional sources and minority-owned firms are significantly smaller than their white-owned counterparts. The parents of black entrepreneurs own and control fewer resources than whites (Fairlie, 1999), and their family members exert greater restraining influence on the amounts of capital they can use to invest in their businesses (Fraser, 2003). Rasheed (2004) observed that ethnicity, gender, and education impact the amounts of capital that owners/managers can access through generating revenue from services, and from securing government procurements. With lower revenue, black firms have less operating capital generated by sales.

Making matters worse is Rhodes and Butler’s (2004) finding that the socioeconomic conditions of the black community are not conducive to creating successful entrepreneurial role models for blacks. These researchers explain that higher educated black parents instill achievement motivation in their children in general. However, for these parents, whether the children choose wage work or self-employment is of no consequence. They just want their children to be successful. The researchers suggest that in resource-constrained black communities, blacks are more likely to opt into wage positions over self-employment when jobs are in abundance, and will default into entrepreneurship only when jobs are in decline. Thus, commitment to entrepreneurship as a career is not treated as the highest priority. So there tends not to be any social push toward entrepreneurship within the black community.

Black entrepreneurs also have fewer informal and formal network contacts for securing key resources and information (Fraser, 2003; Young, 1998). In addition to fewer community lending institutions and fewer persons who can provide financial aid to new businesses, Rhodes and Butler (2004) also found the institutional structures of the black community to be comprised of an underdeveloped Black American Chamber of Commerce, and weak resourced business organizations.

Black businesses are often dependent on local customer support. Yet, Herring (2004) attributes consumer refusal to engage in exchange with black businesses as an impediment to the equal representation of blacks in entrepreneurship. Rogers et al. (2001) studied central city entrepreneurs and found that 92 percent of minority owners' customer bases are within the boundaries of the city, compared to slightly less than half of white owners'. So, although Nijkamp (2003) found urban incubators to be desirable for new venture startups, he cautioned that the condition may also lead to a social trap that prevents real entrepreneurial creativeness. Similarly, Werber (2001) cautions that while ethnic enclave economies enhance opportunities, they also make ethnic entrepreneurial groups highly vulnerable to within group macro-economic and demographic changes. For example, if an entrepreneur is solely dependent on an ethnic enclave, and a shift in the enclave's preference suppresses customer demand, the entrepreneur has no other established customer base to hedge against loss of sales.

Black youth are less likely to know a small business owner than white youth (Fraser, 2003; Walstad & Kourilsky, 1998), and less likely to have a parent who is a small business owner (Walstad & Kourilsky, 1998). Black entrepreneurs also have fewer available successful business persons who can provide business mentoring and financial aid to them (Rhodes & Butler, 2004). Perhaps this partially explains why Martin, Welch, Sandefur, and Pan (2006) found that established black business owners rate the importance of training in each of 23 business areas much more highly than white business owners. It is possible that whites rated the training as less important because they had more often received the training through informal mentoring.

Blacks are less likely than whites to have fathers who were self-employed, making men from these groups less likely to become successful entrepreneurs (Hout & Rosen, 2000; Fairlie, 1999). Among men whose fathers were self-employed, blacks are significantly less likely to follow their fathers into business ownership than white men. Further, black men whose fathers were self-employed have lower rates of business ownership than black men whose fathers were not self-employed (Hout & Rosen, 2000). Singh, Crump, and Zu (2009) found that black men *and* women differ from whites in that having an entrepreneurial mother is more likely among black entrepreneurs than white entrepreneurs. However, unlike white men and women, having an entrepreneurial father is not a predictor of entrepreneurship for black men and women.

White business owners are more likely to possess a college degree and are substantially more likely to have prepared a business plan: factors that directly relate to levels of sales (Rogers *et al*., 2001). Blacks generally are significantly less educated than whites (Singh & Crump, 2008; Singh & McDonald, 2004; Fairlie, 1999). However, there is no difference between the education levels of black and white nascent entrepreneurs, and in fact, both groups are highly educated (Singh & Crump, 2008; Singh & McDonald, 2004). Further, Singh and Crump (2008) and Crosa *et al*. (2002) also found that education is more important than access to capital in increasing entrepreneurship prevalence rates among nascent entrepreneurs. Black entrepreneurs have fewer years of hands-on experience and business experience (Fraser, 2003). And, white nascent entrepreneurs have been found to be more than three years older than black nascent entrepreneurs (Singh & McDonald, 2004).

Up to this point, this paper has attempted to summarize the knowledge available on black entrepreneurship. These findings provide meaningful information about black entrepreneurship with respect to both nascent entrepreneurship and established entrepreneurship. The information provided primarily concerns factors that hinder or facilitate black participation in established business owner entrepreneurship. The information also provides clues on critical areas and research questions about black entrepreneurship that are not yet addressed, or are under-addressed, in the literature.

Two questions that resonate as a result are: 1) If blacks score high on entrepreneurial propensity, then what factors suppress the actual rate of entrepreneurship?; and, 2) Do peculiarities exist among blacks (relative to other groups) that make their entrepreneurial processes unique, therefore making the findings in the literature not as specifically relevant to them as other groups? So, while many factors, other than simply education and access to capital, exert restraining forces on the founding rates of black entrepreneurs, the factors relate to larger issues. These issues are not well addressed in the entrepreneurship literature, and they are presented next.

UNADDRESSED RESEARCH QUESTIONS ABOUT BLACK ENTREPRENEURSHIP

This section of the paper proposes an exploratory model of black entrepreneurship. The discussion that follows is segmented into three overarching research areas that are proposed for further investigation. The areas are: 1) black venture capital financing, trust, and serial experience; 2) black urban entrepreneurship; and, 3) black entrepreneurship and informal economy. Based on the discussion, a model is proposed that presents six push factors that may result in an inordinate amount black entrepreneurs operating in the informal economy.

Factors that Impact Rates of Black Entrepreneurship Exploitation

Black Opportunity Recognition and Lower Lucrative Value. To reiterate, given that Singh, Knox, and Crump (2008) found that differences still exist between the numbers of blacks and whites exploiting new business ventures after controlling for capital and education, the overarching question that remains is, *What other factors beyond education and capital drive those differences?* Singh, Knox, and Crump (2008) found that black entrepreneurs more often than white entrepreneurs recognize entrepreneurial opportunities through externally-stimulated processes, while their white counterparts recognize opportunities through internally-stimulated processes more often than black entrepreneurs. Interestingly, Singh and Hills' (2003) finding that opportunities recognized through internally-stimulated processes are more lucrative than those recognized through externally-stimulated processes. In combining the above two findings, it seems that blacks may more often recognize opportunities that are not as lucrative as those recognized by whites.

Challenges Related to Securing Venture Capital. This paper now explores whether or not any antecedent differences exist among black and white entrepreneurs leading to their venture financing, and whether any of these differences drive the disparity in the founding rates of black versus white entrepreneurs. Black business ownership and viability are unfavorably influenced by lower levels of access to capital (Bates, 1996; Christopher, 1998; Singh & McDonald, 2004). Considering the possibility that blacks may be more likely than whites to recognize opportunities of lower lucrative value, it is plausible that would-be contributors of capital withhold support based on lower attractiveness levels of opportunities more so than because of racial reasons.

Bates and Bradford (2004) found that minority-oriented venture capital (VC) firms do make considerable investments into minority business enterprises (MBEs) and that these firms are earning high yields for doing so. However, minority-oriented VC firms still represent a small segment of the VC industry (Bates & Bradford, 1992). These researchers also observe an upward trend in the amount of funds these firms are investing into minority firms. They state that minority-oriented VC funds attract much more capital from institutional investors who anticipate yields broadly comparable to those of majority VC funds. Bates and Bradford (2004) also explain that the minority VC industry was a tiny sector in the early 1990s consisting of only a handful of pioneers. By the end of the decade, the sector passed the billion dollar threshold for funds raised; and by 2001, the industry passed the $2 billion threshold. Yet, as the researchers note, the current absolute size of the industry remains small.

Bates and Bradford (2004) assert that open access to capital markets helps MBEs thrive and grow. The researchers also imply that closed and restricted access to capital markets cause MBEs to deteriorate and die. They further proclaim that “Whether or not VC is available to MBEs will depend in part on a greater understanding of how such funding support works.” (p. 37).

Squires and O’Connor (2001) similarly question whether patterns of widespread disparities among lenders in the distribution of small business loans reflect,

> legitimate differences in marketing strategies among lenders, illegal discrimination against low-income areas and minority communities, business opportunities overlooked by some institutions, or a combination of these and other factors. (p. 42)

These researchers (Bates & Bradford, 2004; and Squires & O’Connor, 2001) acknowledge the necessity of more research in order to fully understand the underlying causes for the existing disparities. Certainly any new knowledge derived from research related to whether blacks are more likely to recognize opportunities of lower lucrative value, as discussed above, could help to increase the incidence of successful black entrepreneurship. Such research may help to explain one factor, beyond discrimination, for why black entrepreneurs experience less access to capital markets. This discussion highlights three phenomena that likely constrain the amount of VC funding available to black entrepreneurs. The phenomena are, opportunities of lower lucractiveness, less knowledge of VC processes, and fewer numbers of black VC firms.

***Low Trust and Network Structural Differences Among Black Entrepreneurs*.** In addition to the possibility that differences in opportunity recognition explain a substantial portion of the differences in VC access for black versus white entrepreneurs, it may be that differences in the social network configurations of black relative to white entrepreneurs also explain some of the portion. For example, *trust* refers to one's willingness to rely on another's actions in a situation involving the risk of opportunism (Williams, 2001). In general, blacks are less trusting of others than whites (Howell & Fagan, 1988; Sussman, Robins, & Earls, 1987; Terrell & Terrell, 1993; Whaley, 2004; Whaley, 2001). Blacks in New York City routinely withhold information from public assistance authorities to protect illicit or irregular sources of income (Bourgois 1990, as cited in Duany, 1992). The U.S. Census Bureau estimates that it missed 4.8 percent of the black population in 1990 compared to missing only 1.6 percent of the population as a whole (U.S. Census 1991). The undercount is even higher for several subgroups such as black men in their twenties (Hainer *et al*. 1990, as cited in Duany, 1992). If a sizable portion of blacks are less trusting of whites and others in the U.S., they may not participate in surveys on a belief that the information will somehow be used to their detriment.

Terrell and Terrell (1993) found that black youth have a tendency to mistrust whites. The researchers believe that some black children and adolescents may not perform to their potential on standardized mental ability and achievement tests because they do not trust that whites will evaluate them fairly. These researchers also found that black adolescents who expect to enter less prestigious, lower paying occupations tend to be more mistrustful of whites, and therefore opt out of pursuing employment in fields they view as controlled by whites. Many black entrepreneurs found their ventures because they believe they are viewed (and accordingly treated) as outsiders by the mainstream wage-employment sector (Dollinger, 2003). Also, recall that Herring (2004) noted that labor market discrimination is a push factor for black entrepreneurship and self-employment.

If black entrepreneurs are less trusting of others, then they more often view others as potentially being opportunistic against them. This belief is likely to result in blacks more often becoming *solo entrepreneurs* (those who discover their business ideas on their own) versus *network entrepreneurs* (those who discover their business ideas through the aid of others in their social networks). Then, if blacks are more likely to be solo entrepreneurs, they are also more likely to recognize fewer opportunities because, as Hills, Lumpkin, and Singh (1997) found, solo entrepreneurs recognize fewer opportunities than network entrepreneurs.

If black entrepreneurs have lower trust towards others, they may also be more likely to configure their entrepreneurial teams differently and less effectively than Greeve and Salaff (2003) observed over the *motivation*, *planning*, and *running of business* phases of entrepreneurs. Specifically, they may be less likely to interact with important network contacts beyond their *strong ties* (Granovetter, 1985). The result is likely that their network or team configurations lack sufficient links to key contacts that would otherwise provide them access to capital, information, or other resources. Young (1998) found that many black entrepreneurs do in fact configure their networks by assembling a small core of strong tie contacts who aid them both in acquiring entrepreneurial resources, and in making important social and economic decisions. He encourages black entrepreneurs to increase the sizes and diversity structures of their networks in order to increase the amount of beneficial information and support that becomes available to them.

Similarly, black entrepreneurs' friendship configurations may more resemble Francis and Sandberg's (2001) *lower performers* as they proceed through the various stages of venture formation. Perhaps even the team members in their personal network dyads convert differently and less effectively than do more effective entrepreneurs' dyads to Larson and Starr's (1993) third stage. In this third stage, dyad members become layered with additional business functions, activities, and levels of exchange to the point where they could be rendered less effective and less positioned to secure favorable ratings from VC firms. Finally, black entrepreneurial teams may comprise a less than optimal degree of embeddedness within their social networks with other firms (Uzzi, 1996; Hansen, 1995).

Black Urban Entrepreneurship

Urban Retail Scarcity. Relative to other groups, the proportion of the black population living in inner cities is high (Sampson & Wilson, 2005). At the same time, poverty is most highly concentrated in urban areas. In 2000, 16.1 percent of central city residents lived under the federal poverty line, compared to 11.5 percent for the nation as a whole, and 78 percent of the nation's poor lived in metropolitan areas, over half in central cities (Dalaker 2001). Hence, there is a need to examine black entrepreneurship taking into account inner city issues. This section will first present findings that show the inner city as a very unique market that offers robust opportunities for any entrepreneurs who reside there. Then, findings and discussion are presented that explain how black entrepreneurs, in particular, may be predisposed to unique opportunity exploitation within this inner city market setting.

Porter (1997) hypothesized that companies based in inner cities could achieve a distinct competitive advantage over suburban and other rivals because of certain characteristics in inner city communities. The characteristics are: centrality and proximity to transportation nodes, availability of labor, and unmet local market demand (Porter, 2005). Being transportation dependent, inner city residents more often use available retailers such as drug stores or smaller grocery stores to fulfill shopping needs (BCC and ICIC 1998, as cited in Weiler et al., 2003); Porter, 2004).

Porter also noted that the national inner city population is equal to that of the state of Texas, and its retail market is worth $90 billion a year (Porter, 2005). Although median household income may be low in inner city areas, because of high population density, inner city areas concentrate more buying power into a square mile than do many affluent suburbs (Porter & Blaxhill, 1997). Average resident retail spending is $36 million per square mile, compared to $3 million per square mile for the rest of the metropolitan area (Porter, 2005). A 3.5-square-mile area of inner city Memphis, Tennessee has the same retail spending as the 700 square miles of a nearby urbanized Kentucky county (REDC, 1998, as cited in Weiler, Silverstein, Chalmers, & Lacey, 2003).

Further, inner city households have under-appreciated buying power. Despite typical lower incomes of inner-city residents in marginalized communities, purchasing power is high.

According to Weiler et al. (2003), low average household incomes are misleading because households with low income spend more than they apparently earn: The researchers explain,

> This ratio of household expenditures to reported income is very large (around 4) for the poorest households, then declines as income increases to a ratio of approximately .6 for the most affluent households. (p. 1077)

For example, firms consistently report underestimating food demand in inner city markets by 20 to 25 percent (Porter, 2004; Weiler et al., 2003). Weiler et al. (2003) explain how inner city households and markets are often underestimated,

> Inner city spending on retail is greatly underestimated if only comparative household average incomes are considered rather than expenditures. Common methods of reporting income –medians or averages- thus distort the market potential of a community and create misleading information about inner city neighborhoods, particularly given their relative density. The informal economy tends to be particularly important in struggling rural and urban populations, which can lead to significant undercounting of actual household income. (p. 1077)

Weiler et al. (2003) also found that lower income communities in the inner-city feature denser housing patterns and limited transportation options to distant suburban malls, which further concentrate spending power. Thus, Porter and Blaxill (1997) estimated that households in America's inner cities represented over $85 billion in annual retail spending power (excluding unrecorded income from legal activities). These researchers pointed out that the $85 billion is equivalent to nearly seven percent of total U.S. retail spending, and far more than Mexico's entire formal retail market.

Weiler et al. (2003) observed that the informal economy tends to be particularly important in struggling rural and urban populations, and leads to significant undercounting of actual household income. An estimated $1 trillion goes unrecorded in today's economy through legal activities such as gardening, childcare, housekeeping, tips, and street vending representing most of this income (BCC and ICIC, 1998, as cited in Weiler et al., 2003).

Retail scarcity describes the market environment in inner city markets. In spite of the purchasing power of inner-city markets, they are highly underserved by retailers and by financial services providers (Lee, 1999; Porter, 2005; Porter & Blaxill, 1997; Weiler et al., 2003). Porter and Blaxhill (1997) noted that these markets often lack the types of stores that inundate suburban areas, such as supermarkets, department stores, apparel retailers, and pharmacies, leaving an estimated excess of $25 billion of inner-city retail demand (30 percent) unmet. In some communities, such as Harlem, this proportion is as high as 60 percent (Porter & Blaxill, 1997).

Porter and Blaxill (1997) emphasized that because of limited resident transportation options and limited local competition, inner city stores frequently offer less selection, higher prices, lower quality, inferior customer service and unappealing ambiance. The researchers estimated that inner city consumers often pay up to 40 percent more than other urban and suburban shoppers pay for basic grocery items. They also observed that certain indignities that inner city consumers endure spending their hard-earned income contribute to the alienation from mainstream America that many feel (Porter & Blaxill, 1997).

Porter attributes outsider reluctance to exploit inner city market opportunities to myths of bad workers, crime, and non-viable markets (2005). Similarly, Weiler et al. (2003) noted crime, government, and weak worker skills as deterrents. Both researchers concluded that these common perceptions are misleading and lead to failure of outsiders to exploit lucrative business and profit opportunities.

> Our research suggests that retailers' failure to respond to this market opportunity is a matter less of prejudice than of the absence of a strategy. We uncovered a number of challenges in inner cities that can deter market entry. Retailers are concerned about theft and other crime. They also often struggle with regulatory complications, community resistance and a neglected business infrastructure. Many inner-city neighborhoods are ethnically diverse, each group with its own preferences….These challenges have led many retailers to conclude that they can't make a profit in the inner city. Yet others have surmounted the challenges. They earn solid profits by simply bringing good retail practices to inner-city neighborhoods. (Porter, 2005, p. 1)

Weiler et al. (2003) explained that inner city niche markets are hard for outsiders to analyze, and that they need to be analyzed as unique market areas. They contain informational gaps that obscure the profit potential of inner city areas to outsiders. Further, because of those gaps, in order to capitalize on entrepreneurial profits, outsiders must risk substantial slack resources (sunk costs) that may only yield social costs to society in general, while never yielding private returns to the investors. The result of these conditions is untapped profit potential of which local entrepreneurs are better positioned to take advantage of because of their information asymmetry (Weiler et al., 2003). The researchers also noted the following:

> Many communities rely on federal subsidies, grants, and loans, where they must emphasize their negative attributes instead of their assets if they are to be funded. According to researchers for the Brookings Institution, '[t]his one-sided picture, in addition to contributing to the isolation and demoralization of inner-city neighborhoods and their residents, heavily contributes to the business sector's failure to look at inner-city neighborhoods as market opportunities' (HUD 1999). (Weiler et al., 2003, p. 1078)

As presented earlier, Weiler et al. (2003) and Porter (2005) emphasized that the profit potential of inner city markets is too big for outsiders to ignore. This study offers an alternative perspective: It is unlikely that the significantly large profit potential of inner city markets has gone unnoticed by insiders of those inner city communities. Instead, as the next two sections explain, black entrepreneurs may be exploiting the opportunities in such a way that is difficult for outsiders to observe and measure.

How Urban Market Characteristics Affect Black Entrepreneurship. The section explores how varying levels of black population density among differing urban marketplaces may impact black entrepreneurship and opportunity exploitation. The section also explores varying levels of *retail scarcity* as if the variable is an estimate of a type of urbanism whereby unique opportunity exploitation among black entrepreneurs is likely prevalent.

Cities and metropolitan regions vary in the proportion of their overall black populations that are concentrated in the inner city (i.e., *black population density*). Further, as black population density increases, the densest areas are likely to be located in inner cities. The literature above suggests that black population density and retail scarcity are positively correlated.

If Porter and Blaxill's (1997; Porter, 2005) estimates are correct, then as much as $25 - $27 billion dollars are floating around in urban areas, where blacks are overrepresented, in search of retail goods. If Weiler et al.'s (2003) conjecture is accurate, then local black residents in those communities are best armed with information on where those floating dollars are, and for which goods and services the dollars are seeking. Additionally, given their high levels of entrepreneurial propensity (Butler, 1991; Herring, 2004; Walstad & Kourilsky, 1998), a high portion of black community residents are likely to be actively exploring how they might best exploit some of the resulting lucrative opportunities. Indeed, Reynolds et al. (2004) showed that among blacks, whites, and Hispanics, the positive relationship between urban residence and nascent entrepreneurship prevalence is strongest for black men and women. Moreover, Reynolds et al. (2004) found that population density, indirectly through population growth, has a positive and significant impact on prevalence rates for entrepreneurial activity. And, since black population density should positively relate to the proportion of blacks exploiting opportunities (from above), the relationship between retail scarcity, and the proportion of blacks exploiting opportunities should also be positive.

Black Entrepreneurship and Informal Economy

Given the following: 1) that researchers perceive inner city retail demand as being grossly unmet; 2) that black nascent entrepreneurs are more likely to engage in active search for opportunity exploitation; and, 3) that the initiation rates of black men and women are nearly three times those of white men and women, and twice those of white women, then inner city black entrepreneurs are most likely recognizing and working to exploit opportunities within their communities. But, since the literature indicates that their business founding rates are lower than the national average, then some significant portion of their exploitation may be escaping research measurement. One plausible explanation is that a large percentage of those black entrepreneurs who are escaping measurement are exploiting opportunities in the informal economy.

White and Reynolds (1997) found that blacks in Wisconsin show no differences in entrepreneurship rates compared to other groups. Comparison of this finding to Reynolds et al.*'s* (2004) finding to the contrary (that blacks have the strongest positive relationship between urban residence and nascent entrepreneurship prevalence) suggests that as blacks live in more rural areas, or in more mainstream areas, they are less likely to operate outside of the formal economy. Moreover, if, as previously postulated, black entrepreneurs operating in the formal economy consider themselves as being treated unfavorably as outsiders, they may remain in entrepreneurship, but may more so than other groups feel compelled to leave the formal economy (at least in part) and to operate in an alternative one. As a consequence, this paper now explores whether forces that push or pull entrepreneurs to found ventures in some other economy other than the formal economy (i.e., in the informal economy) operate more strongly on black entrepreneurs than other groups.

Relative Experience and Serial Entrepreneurship. This section relates to the experience levels of entrepreneurs. As discussed earlier, Butler (1991) explains that the initiation rates of black men and women are nearly three times those of white men and women, and twice those of white women. Also, if blacks are more likely to recognize opportunities through externally-stimulated processes (Singh, Knox, & Crump, 2008), then it follows that they more often search for opportunities to exploit. The literature does not yet address nor measure how much success these entrepreneurs have in identifying plausible opportunities. Nor does the literature address if black entrepreneurs take the same process paths that other entrepreneurs take in exploiting their opportunities. The literature only addresses the lower rate of black venture founding, and the higher rate of exit (or death) of these ventures. What is missing is all that happens in between the higher rate of searching for entrepreneurial opportunities, and the lower rate of founding and/or venture viability. So, while researchers and scholars cannot say exactly what is happening in between, it is clear that something is happening that prevents blacks from founding new ventures. It may be that black entrepreneurs may in fact be more likely to embrace entirely different entrepreneurial pathways than the literature indicates.

Serial entrepreneurs are those who repeat the process of starting new ventures, thereby engaging in multiple start-ups (Wright, Robbie, & Ennew, 1997). So, although in Brush, Monti, Gannon, and Ryan’s (2006) investigation, only 40 percent of blacks were running a business other than their first startup, compared to 77 percent of whites, their findings relate to established ventures only. It may be that black entrepreneurs are highly likely to be serial nascent entrepreneurs.

One reason that supports the suggestion of high serial entrepreneurship rates among black entrepreneurs is that given the established high exit rates of black entrepreneurs, and their rates of firm deaths, each death must have been preceded by a founding. However, we do not know whether the reasons for firm deaths were more or less assigned to poor opportunities, poor exploitation, undercapitalization, or some other circumstance such as transferring the venture into the informal (unregistered) economy. In addition, from similar lines of reasoning, particularly given their increased incidences of opportunity searching and subsequent activities, we may conclude that black entrepreneurs may have a substantial degree of expertise in terms of Ronstadt’s (1988) *corridor principle*. According to this concept, once an entrepreneur exploits one venture, the entrepreneur finds him/herself traveling in a metaphorical corridor where windows of new opportunities constantly present themselves to the entrepreneur for exploitation. Based on the above arguments, what we may also reasonably conclude is that a substantial portion of black entrepreneurs, relative to white entrepreneurs, may be categorized as serial entrepreneurs.

Black Population Density, Retail Scarcity, and Informal Economy Exploitation. The arguments presented herein suggest that as black population density increases, the percentage of blacks exploiting opportunities in a region is likely to be overrepresented in the informal economy. Hence, relative to areas of low black population density, the proportion of blacks exploiting opportunities in the formal economy may be lower. And, since retail scarcity and black population density are most likely positively related (from above), as retail scarcity increases, the proportion of blacks exploiting opportunities in the formal economy is likely to decrease. Whereas, as retail scarcity decreases, the proportion of blacks exploiting opportunities in the informal economy is likely to increase.

Black Distrust. So, as black population density increases, levels of low trust (or *distrust*) may become increasingly concentrated into smaller geographic areas. The process of increased concentration in and of itself is likely to further accentuate levels of black distrust in an exponential manner. In turn, as black distrust increases, a large portion of black entrepreneurs may similarly exit large portions of their entrepreneurial activities from the formal economy, opting to trade significantly more so in the informal economy (Note that the activities of all individual entrepreneurs exist on a continuum marked by *fully informal* on one extreme, and *fully formal* on the other. Hence, any given entrepreneur's activities may be more or less formal or informal than any other entrepreneur's). This dynamic would likewise help to explain a substantial portion of the underrepresentation of black entrepreneurship in the formal economy.

If, as the literature indicates, blacks are more likely to possess low trust tendencies than other groups, they may also be more likely to understate or overstate their information as survey respondents. Blacks in the formal economy may also be more likely to understate "good" information, and overstate "bad" information. For example, they may be more likely to understate earnings, and overstate amount of taxation placed on them. Then, it also follows that blacks in the informal economy may be particularly more likely than others (non-blacks) in the informal economy to evade capturing of relevant economic information.

Disparity in Perceptions of Corruption. Acemoglu and Verdier (2000) argued that because governments try to tax some activities while subsidizing others in order to prevent market failures, that the intervention inadvertently creates corruption opportunities, rents for public employees, and misallocation of resources. These actions in turn increase the size of government and public sector wages. However, as Choi and Thum (2005) illustrated, the informal economy helps to regulate corruption, and it contributes to market success:

> The entrepreneurs' option to flee to the underground economy constrains a corrupt official's ability to introduce distortions to the economy for private gains. The unofficial economy thus mitigates government-induced distortions and, as a result, leads to enhanced economic activities in the official sector. In this sense, the presence of the unofficial sector acts as a complement to the official economy instead of as a substitute. (p. 832)

As Porter and Blaxill (1997) observed, as the incidence of retail scarcity increases, local residents are more likely to feel alienated from mainstream America. In turn, this alienation is likely to contribute to increased perceptions by blacks of the prevalence of corruption.

Therefore, this study proposes that as perceptions of corruption and alienation increase among blacks, that blacks are more likely to opt out of trading in the formal economy.

Perceptions of Firm Performance. This study now explores whether any variation exists in how the construct *firm performance* is perceived among black entrepreneurs relative to other groups of entrepreneurs. Firm performance is typically conceptualized in terms of financial profitability results (Post, Preston, & Sachs, 2002). Large, publicly traded corporations in particular measure firm performance from an *Income Statement* and *Balance Sheet* perspective, producing periodic financial statements that can be used to measure and track growth, profit margins, and productivity. In contrast, small and privately owned organizations are less likely to publish their financial information in formats that are available for comparison (Rhodes & Butler, 2004) because they lack the same incentives for showing profit on paper as their counterparts. Hence, small, privately owned businesses are associated with actions characteristic of entrepreneurial behaviors (Gyoshev, Manev, & Manolova, 2005; Hornaday & Wheatley, 2001). Owners of these firms are likely to manipulate firm resources in ways that minimize income statement profit and growth potential (Fishman, 1995a; Hornaday & Wheatley, 2001; Rhodes & Butler, 2004).

Small business owners endeavor to generate profits like most other owners; however, this study suggests that they differ by engaging in more intuitive gauges of firm performance. Performance indicators salient to these owners are likely to be more subjective and different than some of the more objective financial ratio indicators used more often by their counterparts. Small business owners may view firm performance in terms of growth in: number (or type) of customers, number of employees hired, degree of amicable relations with various constituents or stakeholders, reputation, and degree of leadership provided to community organizations (Fishman, 1995a; 1995b; Hornaday & Wheatley, 2001; Rhodes & Butler, 2004; Robinson, Blockson, & Robinson, 2005).

Rhodes and Butler (2004) proposed that for black entrepreneurs, perceptions of business performance include a wide range of expectations, and are a function of both socioeconomic environments and managerial skill. These researchers posit that socioeconomic resources in the community affect entrepreneurs' self-perceptions of business success and lucrativeness through influences on their business decisions. In studying successful black entrepreneurs, Adams and Sykes (2003) found that both financial and non-financial measures are integral parts of the management strategies employed by successful black entrepreneurs. Among the financial measures, cash flow was perceived to be most important, followed by net income and the ability to obtain financing. Among the non-financial measures, customer complaints was perceived as most important, followed by employee loyalty, lost customers, and new customers. These researchers also found that black entrepreneurs include family and religion in their top 10 factors for success.

Similarly, Singh and McDonald (2004) found that black nascent entrepreneurs differ from white nascent entrepreneurs in that they are more likely to report choosing entrepreneurship to: gain a higher position for themselves, lead and motivate others, have power to influence organizations, and help their families. These researchers also observed that blacks are less likely to enter into entrepreneurship strictly for economic reasons than whites. Singh and McDonald's (2004) findings suggest that black entrepreneurs may: score high on perceptions of control and self-efficacy; have low-trust or confidence in placing their income security into another person's control; and be mismatched working within the confines of any structure other than their own.

This discussion highlights the importance of considering what the perceived and/or actual firm performance implications are for whether a black entrepreneur operates in the formal or informal economy. It may be that people vary in their views on whether operating in one economy is more likely to outperform operating in the other. If people do vary in this perception, and if, in reality, operating in one of the two economies does in fact outperform operating in the other, then those who operate based on the perception mismatched with reality will experience unfavorable entrepreneurial outcomes. Consider, for example, if an entrepreneur acts on the perception that he can more optimally exploit a business venture by operating in the informal economy, and if in reality the opposite is more accurate, then the entrepreneur foregoes an optimal level of venture exploitation. Moreover, people vary in how they compute the moral value of a business decision. For example, if the entrepreneur is an *egoist*, a *utilitarianist*, or a *consequentialist*, (and not a Kantian *deontologist*) his ethical lenses may justify his exploiting entrepreneurship in the informal economy based on his *instrumental* perceptions concerning the outcomes for his actions.

What this discussion highlights is that some entrepreneurs may not find it morally *wrong* to exploit ventures in the informal economy. Instead, they may view this decision strictly from a cost-benefits analysis perspective, or may in fact even view the decision as possessing high moral value based on its perceived outcomes. However, right or wrong aside, helping entrepreneurs to increase the accuracy of their perceptions and their reasoning should help to minimize cases where entrepreneurs erroneously conclude that operating in the informal economy proves to be an optimal choice, if the opposite proves true. Moreover, if black entrepreneurs are more likely than other entrepreneurs to operate in the informal economy, then because of this higher percentage, they may also be more likely than others to make such errors.

Accordingly, some of these entrepreneurs may not be aware of certain positive future benefits and impacts that operating in the formal economy has on securing sufficient financing for future business growth and maintenance needs that will likely arise. And some may not be aware of benefits that operating in the formal economy affords in terms of securing more solid assets for long-term growth and viability, such as land, plant, and equipment. Instead, they may view as more beneficial keeping the majority of one's business assets comprised of primarily liquid assets mainly for the purposes of averting detection of informal operations. The position of the current study is not to advance any normative claims by choosing a moral *side* of either choice. Instead, the aim of the current research is to emphasize the instrumental aspects of both choices.

Alternative Trade Processes. Much of the discussion so far suggests plausibility to the notion that a significant portion of black entrepreneurs operate in an altered type of economic trade system where the function of the construct *money* is altered. Such a system likely comprises a dual economy where the traditional mechanism of trade (products and services being exchanged for printed money) is complemented by trade processes that are not dependent on printed money. In that system, loose, verbal agreements and trade may take an equal place alongside cash as a medium of exchange.

For example, one member in a two-party trade transaction might say to the other, "I'll do this for you, but you owe me!" In that agreement, the former member grants credit to the latter, who in turn agrees that a future (unstated) reciprocated product or action will serve as payment. Note that both actions, the "I'll do this for you…" and the reciprocated action, involve transference of a product and/or service which in the formal economy would be traded in exchange for money, recorded, and taxed. However, in the unregistered (informal) economy, no money in the traditional sense has been exchanged, no recording of the transaction has occurred, and no tax payments have accrued. Thus, at face value, transactions in the informal economy appear to have become cheaper; thereby increasing the purchasing power of trade members' disposable income while at the same time making the act of transacting more dependent on perceptions of mutual trust and equitable intentions. Additionally, traditional demands for working capital become less relevant, helping to negate the undercapitalization and underresourced state of black entrepreneurs that is well-established in the literature.

Some research has found no difference in the types of businesses that black entrepreneurs exploit relative to other groups (for example, Köllinger & Minniti, 2006). However, other research has identified differences. Lee (1999), for example, found that black merchants dominate in the hair-care services, music, and restaurant industries. Of these industries, the restaurant industry contains the greatest restraining forces to informal economy exploitation. The reason is because restaurants are heavily regulated by state health agencies, and because merchants' trade locations (including mobile food providers) are highly visible. The remaining two industries, hair-care services and music, provide trade environments that are conducive to providing entrepreneurs choice of operating in either the formal or informal economy, or in both. Other industries that provide similar choices are automotive repair (e.g., body and fender), home improvement contractors (e.g., drywall, plumbing, carpentry), residential maintenance services (e.g., lawn care maintenance, chimney service), retail outlets (e.g., clothing, eye wear, jewelry, accessories, compact discs) and, transportation *hacking* and other transportation services, among others.

Based on the above discussion, this study offers, for future research inquiry, a unique model of black entrepreneurship exploitation particularly in inner city markets (see Figure 1). The model suggests that six factors provide push forces that lead blacks, more so than other groups, to operate at least in part in an informal economy. The factors are intense levels of: black population density, retail scarcity, black distrust, and perceptions of corruption in others; and differences in trade behaviors, and perceptions of firm performance. This study also suggests that these forces act more strongly on black entrepreneurs than most other major ethnic or racial groups in the U.S.

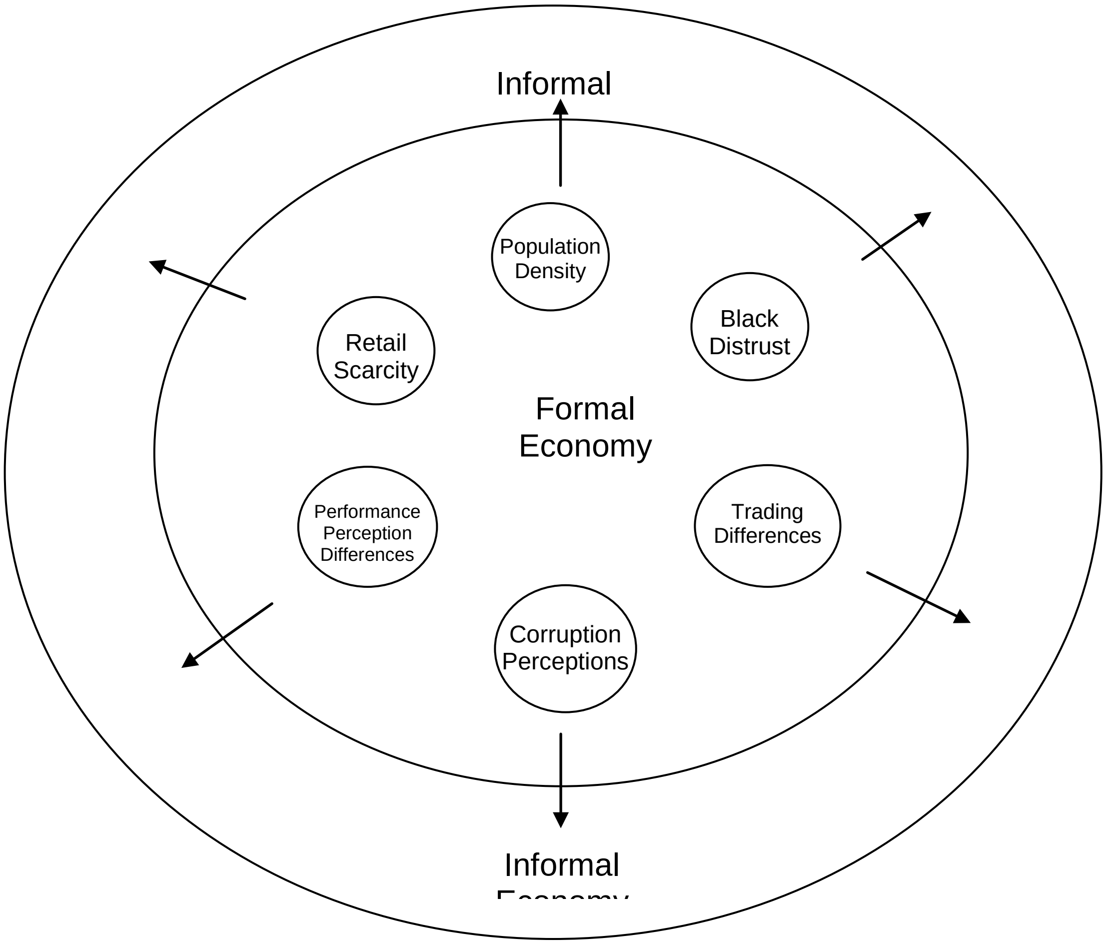

Figure 1: Model of Black Entrepreneurship:
Six Push Factors Toward Entrepreneurship in the Informal Economy

CONCLUSION

The discussion above suggests that a discrepancy exists within the entrepreneurship literature and the actual business landscape as they relate to black entrepreneurship. The literature shows that blacks are underrepresented in successful entrepreneurship, they control fewer assets, and they have less access to capital. Yet, the literature also shows that blacks score high on entrepreneurial propensity, and that their spending power tends to be underestimated and ignored. Finally, the literature suggests that blacks are in fact contributing substantially to the U.S. national account. However, that they are doing so, and the comprehensive picture of how and to what degree they are doing so, remains largely non-captured by the extant entrepreneurship literature. What is firmly established is that successful, established black entrepreneurship is largely lacking in the U.S. formal economy. Relatively few studies in the major entrepreneurship research outlets, or elsewhere, address issues and problems that shed substantive light on this underrepresentation of blacks in entrepreneurship.

In as much as what little we do know about black entrepreneurship comes from empirical studies of entrepreneurs who operate mainly registered businesses, most of the existing knowledge pertains to predominately non-informal-economy entrepreneurs. Perhaps, because the informal economy remains out of sight to many researchers and academics, it also remains out of mind. Moreover, because of difficulties in measuring the informal economy, many academics may shun its existence as insubstantial or insignificant. Nonetheless, such largely stealth activities are likely to be quite salient to community members, policing officials, state comptrollers' taxation, licensing, and regulating agencies, prosecuting state's attorneys, competing businesses, and religious institutions, among other similar groups.

In keeping with Ireland, Reutzel, and Webb's (2005) proclamation, "…we think that future entrepreneurship scholarship may also be influenced by researchers' desire to examine a question Rumelt (1987) (among others) raised: Where do new businesses come from?" (p. 562), this study suggests that a potentially large portion of these new businesses come from either: 1) businesses existing in the informal economy; or, 2) from entrepreneurs that are measured as nascent or first-time entrepreneurs in the formal economy, but who are actually serial entrepreneurs when the informal economy is factored into consideration. Thus, discussion in this study proposes that black entrepreneurship may be thriving in the informal economic sector.

However, in light of the dearth of research existing on these *under the radar* entrepreneurs, these conjectures remain speculative at best. The problem with all of the questions raised in this research inquiry is, we simply do not know whether, and if so how, any of the related differences impact the black entrepreneurship founding rates because of the lack of research focusing on black entrepreneurship. We also do not know whether there are any other differences between black and white entrepreneurs in terms of some of the other entrepreneurship constructs (e.g., cognitive processes) that drive differences in the founding rates of black relative to white entrepreneurs. This dearth of research effort addressing the problem exists in spite of obvious societal and economic benefits derived from spurring new black businesses. Thus, this paper emphasizes the need for increased scholarship on black business and entrepreneurship issues, particularly as a means to eliminating the underrepresentation of blacks in formal entrepreneurship, and to eliminating the accompanying perils resulting from that underrepresentation.

The suggested theoretical relationships in this section (outlined in Appendix A) should lead future research to identifying some of the drivers for the substantial differences between the entrepreneurial processes of blacks in the U.S. relative to other groups of Americans. A plausible discovery may be, whether or not opportunity recognition processes of blacks who trade predominately in the informal economy differ from those who trade (predominately) in the formal economy. Or, this work may inspire researchers to inform policy on how to aid black entrepreneurs who may operate in the informal economy but wish to switch over into the formal economy; yet fail to do so because they perceive themselves as having insufficient resources to make the conversion. Finally, a plausible outcome resulting from this work would be further understanding of the role that population density and retail scarcity play in the underrepresentation of black entrepreneurship.

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APPENDIX A

Suggested Exploratory Research Propositions

1. Proposition 1: Blacks are more likely to recognize opportunities of lower lucrative value than those recognized by whites.

2. Proposition 2: Black entrepreneurs are less likely than other groups to secure VC funding for their ventures.

3. Proposition 3a: Black entrepreneurs are less likely than other groups to receive VC funding because their opportunities are considered less lucrative.

4. Proposition 3b: Black entrepreneurs are less likely than other groups to receive VC funding because there are fewer numbers of black VCs.

5. Proposition 3c: Black entrepreneurs are less likely to be familiar with VC financing processes than other groups.

6. Proposition 3d: Black entrepreneurs are less likely than other groups to receive VC funding, given their lower knowledge of VC processes,.

7. Proposition 4: Black entrepreneurs will report lower levels of trust than white entrepreneurs.

8. Proposition 5: Blacks are more likely to be solo entrepreneurs than network entrepreneurs.

9. Proposition 6a: The relationship between black population density in a region and retail scarcity within that region is positive.

10. Proposition 6b: The relationship between black population density in a region and the proportion of blacks exploiting opportunities within that region is positive.

11. Proposition 6c: The relationship between retail scarcity in a region and the proportion of blacks exploiting opportunities within that region is positive.

12. Proposition 7: When factoring in informal economy entrepreneurship, there is no difference in the rates of serial entrepreneurship between black and white entrepreneurs.

13. Proposition 8a: The relationship between black population density in a region and the proportion of blacks within that region exploiting opportunities in the formal economy is negative.

14. Proposition 8b: The relationship between black population density in a region and the proportion of blacks within that region exploiting opportunities in the informal economy is positive.

15. Proposition 9a: The relationship between retail scarcity in a region and the proportion of blacks within that region exploiting opportunities in the formal economy is negative.

16. Proposition 9b: The relationship between retail scarcity in a region and the proportion of blacks within that region exploiting opportunities in the informal economy is positive.

17. Proposition 10a: The relationship between black population density in a region and black distrust of others within that region is positive.

18. Proposition 10b: The relationship between black distrust of others in a region and the proportion of blacks within that region trading in the informal economy is positive.

19. Proposition 11a: The relationship between retail scarcity in a region and blacks within that region perceiving the existence of marketplace corruption is positive.

20. Proposition 11b: The relationship between blacks in a region perceiving the existence of marketplace corruption and the proportion of blacks within that region trading in the formal economy is negative.

21. Proposition 11c: The relationship between blacks in a region perceiving the existence of marketplace corruption and the proportion of blacks within that region trading in the informal economy is positive.

22. Proposition 12a: The relationship between population density in a region and disparity of perceptions of firm performance between black and white entrepreneurs within that region is positive.

23. Proposition 12b: The relationship between retail scarcity in a region and disparity of perceptions of firm performance between black and white entrepreneurs within that region is positive.

24. Proposition 13: The relationship between retail scarcity, and disparity of trade processes between black and white entrepreneurs is positive.

The WBRJ Style Guidelines

(For the Final Version of the Paper)

Required Word Processing Software & Font: Both the initial and final versions of the paper have to be in the latest version of Microsoft WORD that you have access to. The paper must utilize Times New Roman font for the entire paper.

The First Page: The title of the paper should be centered, typed in capital letters, and should not exceed three lines. Font size for the paper title should be 16-point (Times New Roman). The authors' names followed by affiliations (centered, single-spaced in 12-point font) should be typed beginning on the second line below the paper title.

Abstract: The abstract heading (centered and italicized in 12-point bold font) should appear one line below author names and affiliations. The text for the abstract (italicized and in 10-point font) should appear one-line below the abstract heading. The text for the abstract should be indented 0.5 inches from the left and right margins. The abstract length should not exceed 150 words.

Body of the Paper: Use the following parameters for the main body of the paper:

(1) The main body of the paper must be typed in 12-point font, single-spaced, on regular 8.5" x 11" paper, and fully justified.

(2) Margins should be set to 1-inch from top, bottom, left, and right. Page numbers should be centered at the bottom of each page.

(3) Indent all paragraphs 0.5 inches and do not skip lines between paragraphs.

(4) All major headings should be in 12-point bold font, centered, and capitalized. Headings should be preceded and followed by a blank line.

(5) All sub-headings should be in 12-point bold, left justified, and should utilize title case (first letter of each major word is capitalized). Leave one blank line above each sub-heading, but **not** below.

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Mathematical Notations and Equations: Where possible, use common language rather than mathematical notations in the body of the text. All notations and symbols used in paragraphs or equations must be explained. All equations must be numbered. Equation numbers should be in parentheses and flush with the right margin.

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